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The Hon John Anderson MP

Deputy Prime Minister
Minister for Transport and Regional Services
Leader of The Nationals



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Joint Media Statement

The Hon John Anderson MP
Deputy Prime Minister
Minister for Transport and Regional Services
Leader of The Nationals

Senator The Hon Ian Campbell
Minister for Local Government,
Territories and Roads

MAJOR DOWNPAYMENT ON AUSTRALIA'S TRANSPORT FUTURE

The Australian Government will extend its highly successful Roads to Recovery programme for a further four years as part of a \$2 billion funding boost for transport infrastructure, particularly in regional and outer metropolitan Australia.

The funding, announced by the Acting Prime Minister and Minister for Transport and Regional Services, John Anderson, and the Minister for Local Government, Territories and Roads, Senator Ian Campbell, comprises:

- extending the highly successful Roads to Recovery programme,
- redirecting Fuel Sales Grants Scheme funding to land transport infrastructure improvements in regional and outer metropolitan areas.

Mr Anderson said the package was a clear signal of the Governments determination to continue direct payments to local governments and to support the innovative AusLink land transport plan with the necessary resources to make it a reality.

"It is a \$2 billion downpayment on AusLink," he said.

"Since its introduction on 1 January 2001, the Roads to Recovery programme has helped local councils tackle the serious backlog of essential improvements to local roads.

"A recent review highlighted the critical importance of this programme, but clearly demonstrated that the job is not yet complete."

Under the extended Roads to Recovery arrangements, the Government will provide local councils with \$1.2 billion over four years -- \$300 million a year. \$200 million a year will be allocated by formula, as at present, for local roads. The remaining \$100 million a year will be available direct to councils to undertake local land transport infrastructure projects of strategic regional importance, particularly those that support emerging and expanding industries.

"Developing new industries often depends on the ability to provide good infrastructure and many country local councils are not in a position to generate the necessary capital," Mr Anderson said.

"A typical example of where this funding could be used would be upgrading a tourist route through several councils, or upgrading local infrastructure to service developing industries such as timber plantations, which put extra loads on local roads.

"The new strategic component of Roads to Recovery will, for the first time, position councils to respond pro-actively to long-term, emerging demands, and I emphasise that the funding will continue to be provided direct to councils," Mr Anderson said.

Mr Anderson said he would work with the Australian Local Government Association and other stakeholders in the coming months to refine the new arrangements for Roads to Recovery.

Senator Campbell said that in designing the new arrangements, equitable funding distribution across the states and territories would be examined.

"Minimising the exposure of local government and the Australian Government to cost shifting by state governments will also be of critical importance," he said.

"In addition to our Roads to Recovery funding, the Australian Government also provides about \$1.5 billion in grants to the states and territories for local government each year. About \$460 million a year is identified for spending on roads," he said.

The package also includes the Governments decision to wind up the Fuel Sales Grants Scheme (FSGS) from 1 July 2006. The FSGS was introduced on 1 July 2000 and provides grants to fuel retailers of between 1 and 3 cents per litre on fuel sold outside metropolitan areas.

The FSGS played a role in preventing the immediate increase of the city-country fuel price differential after the introduction of the GST.

However, the Fuel Taxation Inquiry in 2002 concluded that there was difficulty in ensuring the benefits were passed on to regional consumers and that significant boundary anomalies were encountered under the scheme.

"The savings from winding up the Fuel Sales Grants Scheme, some \$265 million in the first year, will be committed to improving our transport infrastructure in outer metropolitan, rural and remote areas. The ACCC will continue its current practice of informally monitoring fuel prices, including in rural and remote areas," Mr Anderson said.

"The funding commitments announced today are in addition to the core funding for the first five-year AusLink National Land Transport Plan proper, commencing in 2004-05, which will be announced in the 2004-05 Budget context. The AusLink White Paper will also be released around that time.

"Today's funding is also in addition to the \$872 million joint investment package for the interstate rail track network, which I confirmed in December," Mr Anderson said.

Today's downpayment will comprise:

	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m
Roads to Recovery	300	300	300	300
AusLink funding from		265	270	275

wind up of Fuel Sales Grants Scheme*				
Total	300	565	570	575

* Figures based on current forward estimates

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URL: http://www.ministers.dotars.gov.au/ja/releases/2004/January/APM_4_2004.htm

Table 2: Budget impact of Inquiry recommendations^(a)

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
REVENUE MEASURES				
<i>Additional revenue</i>				
Twice yearly indexation from 1 August 2003	0	215	560	910
Excise rates based on energy content from 1 July 2004	0	0	490	520
<i>Reduction in revenue</i>				
Reduction in revenue from removal of ULSD excise differential	-30	-65	-70	-35
Revenue from ULSD excise supplement(b)	20	65	130	90
Total change in revenue	-10	215	1 115	1 490
EXPENSE MEASURES				
<i>Additional expenses</i>				
Off-road fuel credits from 1 July 2004	0	-30(c)	-435	-585
Full credit for off-road business use of other fuels (excluding LPG)	0	0	-135	-165
Full credit for off-road business and residential use of LPG	0	0	-350	-435
Residential fuel credit – diesel and heating oil	0	0	-15	-15
Removal of DAFGS boundaries	0	-10(c)	-195	-240
Ultra low sulphur diesel subsidy(b)	-20	-65	-130	-90
Studies (road pricing and externalities)(d)	-1	-1	0	0
Improving air quality	-1	0	(e)	(e)
<i>Reduction in expenses</i>				
Abolish Fuel Sales Grants Scheme	0	0	230	230
Abolish Petroleum Product Freight Subsidy Scheme	0	0	5	5
Total change in expenses	-20	-105	-1 030	-1 300
NET IMPACT ON BUDGET	-30	110	90	190

(a) Totals may not add due to rounding.

(b) These two components represent additional revenue and expenditure in relation to the ULSD subsidy, which will be overall budget neutral – the excise supplement collected will be offset by payments to ULSD producers and importers.

(c) The increase in expenditure in 2003-04 is due to the effect of the re-introduction of indexation on DFRS and DAFGS claims.

(d) Externality study undertaken in 2002-03 and road pricing study in 2003-04.

(e) Funding to be determined in 2003-04 Budget context.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: Fuel taxation design principles

The Australian Taxation Office, in consultation with relevant parties, should design new arrangements for the application of Commonwealth fuel excise and customs duty to apply from 1 July 2004 incorporating the following features.

- Excise and customs duty should apply to all liquid fuels, irrespective of their derivation and liquefied and/or compressed natural and petroleum gases.
- The rates to apply should be based on the relative energy content of each fuel, except for aviation fuels and lubricants and greases. In determining relative rates, the rate of excise applying to diesel at the time of implementation will not change.
- Aviation fuels and lubricants and greases should retain their current excise and customs duty status — that is, in relation to cost recovery for airline service provision and the Product Stewardship (Oil) Scheme respectively.
- The full rate of excise and customs duty applying to fuels under the new arrangements should be imposed and collected at an early point in the production and distribution chain, with offsets to the excise burden being delivered through the Business Fuel Credit Scheme as part of the Energy Grants (Credits) Scheme and the Residential Fuel Credit Scheme.

Twice yearly Consumer Price Index indexation of all fuel excise and customs duty rates should be reintroduced from 1 August 2003.

Recommendation 2: Energy Grants (Credits) Scheme design principles

That the Government's Energy Grants (Credits) Scheme commitment should be implemented through:

- the introduction of a Business Fuel Credit Scheme with the sole purpose of lowering the effective level of fuel excise for business; and
- Commonwealth support for programmes aimed specifically at improving urban air quality.

Summary of Recommendations

Recommendation 3: Business Fuel Credit Scheme

That the Business Fuel Credit Scheme should:

- commence on 1 July 2004;
- cover both on-road and off-road fuel use and therefore replace the Diesel Fuel Rebate Scheme, the Diesel and Alternative Fuels Grants Scheme as well as the current concession and remission systems within the excise system; and
- be administered by the Australian Taxation Office.

Recommendation 4: Off-road fuel credits to be extended to all businesses

That off-road fuel credits should be paid to all businesses using any excised fuels, except petrol or petrol blends.

- The magnitude of these fuel credits to be equal to a full rebate of the fuel excise levied on these fuels.

Recommendation 5: On-road fuel credits to be extended to all heavy vehicles

That on-road fuel credits should be paid to all businesses using any excised fuel on-road in vehicles over 4.5 tonnes.

- Fuel credits should be paid to businesses using any excised fuel, except petrol or petrol blends.

Recommendation 6: On-road fuel credits based on the current diesel grant rate

That the on-road credit for diesel should be based on the current rate under the Diesel and Alternative Fuels Grants Scheme. On-road credits for other eligible excised fuels should be based solely on the current level of diesel credit adjusted for differences in energy content:

- with no adjustment for environmental impacts; and
- all credit rates indexed on the same basis as fuel excise.

Recommendation 7: Cost effective administration procedures

That the administration of the Business Fuel Credit Scheme should seek to minimise compliance costs for businesses and the Australian Taxation Office by:

- minimising differences in claiming on-road and off-road credits; and
- utilising cost effective processing techniques.

Recommendation 8: Air quality assessment

That Environment Australia should undertake a study to determine whether national ambient air quality standards will be achieved in all States and Territories by 2008 using current air quality management policies.

Recommendation 9: Energy Grants (Credits) Scheme — environment component

That the environmental component of the Energy Grants (Credits) Scheme should be developed as follows:

- Environment Australia, in consultation with relevant Commonwealth and State and Territory agencies, conduct studies to determine what additional air quality management measures, if any, will be required and can be cost effectively implemented to ensure attainment of, and ongoing compliance, with national ambient air quality standards
 - the studies should include consideration of those measures suggested to the Inquiry, such as grants which differ by fuel and vehicle type;
- Environment Australia report to Government in early 2003 to provide a funding outline of likely necessary and effective air quality measures. The Government make provision in the 2003-04 Budget for the commencement of an environmental component of the Energy Grants (Credits) Scheme on 1 July 2004; and
- Environment Australia propose to Government by end 2003 final proposals for additional air quality measures deemed under the processes above to be cost effective in improving air quality and to form the environmental component of the Energy Grants (Credits) Scheme to be implemented on 1 July 2004.

Summary of Recommendations

Recommendation 10: Mandated fuel standards — early introduction

That by the end of 2005, Environment Australia should assess:

- the success and cost effectiveness of the ultra low sulphur diesel subsidy; and
- the costs and benefits of implementing incentives for the early introduction of fuels complying with fuel standards that may be introduced after 2006.

Recommendation 11: Fuels policy

If direct government subsidies are considered justified for alternative fuel production in Australia, this should occur under a comprehensive policy framework that applies equally to all fuels.

Recommendation 12: Fuel Sales Grants Scheme

The Fuel Sales Grants Scheme should be discontinued from 1 July 2004.

Recommendation 13: Petroleum Products Freight Subsidy Scheme

The Petroleum Products Freight Subsidy Scheme should be discontinued from 1 July 2004.

Recommendation 14: Residential Fuel Credit Scheme

A full credit of fuel excise should be provided for residential use of diesel, heating oil and LPG used for residential heating, cooking and domestic electricity generation from 1 July 2004.

Recommendation 15: Single fuel tax administration

There should be a single administering organisation for fuel tax collection:

- the administration of customs duty collection on all imported fuel products should be transferred to the ATO; and
- there should be full consultation with Customs to ensure Customs' objective of border integrity is maintained.

Recommendation 16: Supply subsidy for early introduction of ultra low sulphur (50 ppm) diesel

The Commonwealth Government should agree to implement its proposal for the early introduction of ultra low sulphur diesel (ULSD) in the form of a supply subsidy to fuel producers and importers.

The ATO, in consultation with relevant parties, should finalise implementation details according to the following principles.

- From 1 January 2003, a supply subsidy of one cent per litre — and from 1 January 2004, a subsidy of two cents per litre — should be provided to offset the additional cost (capital and production cost) of ULSD.
- The subsidy should be funded by an increase in the excise on diesel determined by the ATO for both regular diesel and ULSD.
- Diesel Fuel Rebate Scheme recipients should continue to receive a full or partial rebate on the same basis under the higher excise rates.
- Rates of Diesel and Alternative Fuels Grants Scheme grants should remain unchanged.

Recommendation 17: Externality study

Environment Australia should conduct a study to determine the external costs of fuel use in Australia using methodologies that are agreed and accepted by Commonwealth and State Governments.

Recommendation 18: Electronic road pricing benefits assessment

A detailed cost benefit analysis should be undertaken of the use of electronic road pricing for the following purposes:

- reducing congestion and air pollution in major urban areas; and
- charging for the costs of road maintenance and infrastructure.

Recommendation 19: Road pricing trial

A trial of an advanced electronic road pricing application, deemed to be the most cost beneficial by the study proposed in Recommendation 18 be undertaken, funded by Commonwealth and State Governments, with a view to promoting and assessing public acceptance of the application.