

20 October 2005

File: T31

The Hon. Mal Brough MP
Minister for Revenue and Assistant Treasurer
House of Representatives
Parliament House
Canberra ACT 2600

Dear Minister,

Re: Fuel Excise Reform

As you may be aware the Treasury is proposing the removal of the present fuel excise concessions system. This system currently provides an up front exemption from the excise for companies such as paint manufacturers, on the basis that the petroleum products they purchase are being used not as fuels but as components of manufactured products, eg: paints.

The Government is proposing that from 1 July 2006 manufacturers will have to pay the 38 cents per litre levy on invoice from their supplier and claim a refund through their monthly, quarterly or annual BAS statement.

A survey of our members indicates that this change of administrative arrangements would add significant compliance costs to their manufacturing operations. These costs would derive from higher prices charged by suppliers who would have to "carry" the excise amount from the moment the product is taken out of bond to the time of payment by the purchaser (paint manufacturer). The paint manufacturer would then also be out of pocket to the extent of the duty from the date of payment of the suppliers invoice to the date a refund is received under the BAS system. For some companies this could be three of even 12 months.

Some smaller companies would be forced to move from annual to quarterly or monthly BAS statements. For these companies the compliance and administrative cost of more frequent BAS statements would be significant.

On our calculations the changes will mean that Australia's sixty paint manufacturers will have to fund, for periods ranging up to 120 days, a fuel excise of up to \$16 million a year. This, at a time when the paint industry in Australia is suffering poor economic returns in a competitive, mature market

and is likely to do so into the foreseeable future. Price increases are difficult to pass on while massive increases in metal packaging and hydrocarbon solvents themselves have compounded the industry's financial problems.

A summary of our survey is attached. This also contains comments made by individual companies which verify the concerns we have expressed above.

The APMF has written various letters and has had numerous discussions with Treasury officials in an effort to preserve the present system or to find some other way of providing relief to the Australian paint manufacturing industry. All efforts so far have been unsuccessful. I am therefore writing to you as the Minister to seek your assistance in this matter.

Our arguments are:

- Australian paint manufacturers should not have to absorb extra costs as a result of administrative changes to the fuels tax collection procedures.
- Australian revenue collection procedures should not disadvantage local manufacturers to the benefit of imported product – especially at a time when imports are rising at an annual rate of 7% (2004/2005).
- Australian revenue collection procedures should not add to inflation – which is what they will do if no solution is found to this problem and the paint companies have to pass on the additional costs flowing from this administrative review.
- Government policy should be to reduce red tape and compliance costs. These proposals however will only increase then for the coatings industry. Various solutions have been mooted for the agricultural industry and charities. Relief for the coatings industry must therefore be possible.

I would conclude by pointing out that the Australian paint industry is probably one of the most responsible in Australia. Over the past few years we have voluntarily phased out the anti-fouling agent tri-butyl tin oxide, are currently phasing out the biocide CMIT/MIT and in conjunction with the Commonwealth Department of Health, those remaining lead salts used in industrial coatings.

If there is any further information you require please let me know.

Yours sincerely
AUSTRALIAN PAINT MANUFACTURERS' FEDERATION

Michael H. R. Hambrook
EXECUTIVE DIRECTOR
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