25 May 2006

The Secretary
Senate Economics Legislation Committee
Suite SG 64
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

Dear Secretary

The NSW Farmers' Association (the 'Association') would like to provide comment on the *Fuel Tax Bill 2006* and the *Fuel Tax (Consequential and Transitional Provisions) Bill 2006*.

In providing this submission, the Association would like to acknowledge and express support for the submission made by our national body, the National Farmers' Federation ('NFF'). The following comments have been provided to complement the NFF submission, based on feedback and concerns raised by our farmer members.

The Association represents the interests of the majority of commercial farm operations in NSW, including broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, egg, pork, oyster and goat industries.

Fuel represents a significant component of the average farm operating costs and changes to the current system will have implications for operating activities and farm cash flows. In NSW, the average cropping enterprise spends approximately $45,000 on fuel per year. Many larger businesses purchase in excess of 100,000 litres per year and at current prices this represents expenditure of over $140,000.or more. In these cases the off-road fuel grant represents a significant injection to the cash flow budget of the business.

The Association is concerned with a number of the proposals contained in the above mentioned Bills, particularly the cash flow implications associated with the proposal to link grants with the BAS reporting system and the implications of fuel tax on the alternative fuel industry.

Changes to the fuel tax arrangements, including the reporting requirements, has been one of the key issues raised by members in the last month. This has been reflected in the large number of motions received by the Association in the lead up to our July 2006 Annual Conference.

Implications on farm business cash flow

The proposal to link the fuel grants with the BAS reporting system has caused significant concern among members. The proposal means that farmers will potentially face significant cash flow problems given the increased time delay between payment for fuel and the time of claim through the BAS.

Farm businesses purchase and use fuel according to market prices and agronomic activities. This flexibility allows farmers to minimise their costs. Introducing a requirement that farmers can only claim their rebate in the BAS cycle will cost farmers either through the reduced flexibility to purchase fuel at lower prices or through the opportunity cost of capital and the revenue tied up in fuel grants. The Association supports a flexible system for claiming grants that accommodates the irregular demand for fuel by farmers, and the retention of the eGrants system. The following example illustrates the potential cash flow problems for the farmer.

A grain farmer must harvest their grain at a specific time. For harvest he is required to refill his fuel tanks prior to harvest by purchasing 20,000 litres of fuel during the month of November. Assuming 15,000 litres is used on farm and 6,500 litres is used in road transport, he would currently be entitled to claim $6,924 immediately after purchase and receive the grant within two weeks or in the case of the eGrant system within a few days. Under the proposed scheme if the farmer is using a quarterly return period they would not be able to submit a claim until they submit their BAS for the October quarter. With three weeks to lodge the return at a very busy time on the farm, and then allowing two weeks for any returns it could possibly mean that farmers have to wait for over two months before they receive any grant. At times where farmers appreciate the ability to access cash flow the current rebate system provided a quick turnaround. Under the proposed scheme the government will hold the benefit of the excise for up to three months before refunding the excise amount

Renewable fuels industry
The Association encourages the Government to continue to remove legislative impediments that restrict the “on farm” production and use of biofuels. It is understood that under the Fuel Tax Bill alternative fuels will incur effective fuel tax from 1 July 2011. While cognisant that fuel used in off-road business applications will be eligible for a fuel tax credit equivalent to the amount of fuel tax paid on the fuel, the Association is concerned about the implications of the excise on other transport operations and their adoption of alternative fuels.

The Association is concerned with the proposal to increase the fuel tax on diesel from 1 January 2007 to fund a cleaner fuel grant for diesel with less than 10 parts per million sulphur. As the benefit of reduced emissions will be received by the broader community the cleaner fuel grant should be funded out of consolidated funds and not by increasing the tax on diesel users. Increasing the rebate in a climate of high fuel prices will only exacerbate current concerns and cause consternation with increases in GST revenues.

Definition of Primary Production
The Association is seeking clarification on the definition of primary production vehicles in relation to the emissions standards for on-road vehicles. While complimentary of the proposal to remove primary production vehicles from the environmental criteria, the Association believes there needs to be clarification on what constitutes “vehicles used in carrying out a primary production business”. The current explanation raises questions on whether using a vehicle for agricultural related activities such as carting fertiliser from point of purchase to the farm constitutes use in a primary production business and whether primarily refers to time of use or distance covered.

If you would like any further clarification or information in regards to this submission please do not hesitate to contact me.

Yours sincerely

Jock Laurie
President