Advocate for the Consumer, Cosmetic, Hygiene and Specialty Products Industry

The Secretary
Senate Economics Legislation Committee
Suite SC.64, Parliament House
Canberra ACT 2600

Inquiry into the provisions of the Fuel Tax Bill 2006 & a related bill
Negative financial and operational impacts of this bill on Australia's chemical industries

ACCORD Australasia is the peak national industry association for the manufacturers and suppliers of formulated consumer, cosmetic, hygiene and specialty products - a key segment of Australia's chemical products industry. Representing approximately ten percent of total nationwide manufacturing activity, Australia's chemical and plastics industries are a vital part of a healthy Australian economy. Chemicals and plastics industry products play a vital role in other key sectors of Australian manufacturing and commerce.

While the Australian chemicals industry is a relatively large and important sector for the national economy, most businesses in the sector operate in a highly competitive environment characterised by relatively low margins and increasing competition from emerging, low-cost and large-scale industries in nations such as China and India.

ACCORD member companies manufacture and/or supply formulated products that play an essential role in:

- Keeping Australia's households, workplaces, schools and institutions clean and hygienic
- Personal hygiene, grooming and beauty treatments
- Specialised uses that assist other industries and manufacturing
- Maintaining the hygienic and sanitary conditions essential for the nation's hospitals and food/hospitality industries

Our members include companies which manufacture and supply hydrocarbon solvent-based raw material products to industry customers as well companies which use these as essential ingredients in their product formulations.

On behalf of our members we welcome this opportunity to submit our concerns regarding the specific negative impacts of this bill on many companies in the chemicals' industry.

While we support the overall philosophy of simplification that is behind the bill and welcome its goal of removing the burden of fuel tax from many businesses, as it currently stands, the bill introduces changes that will negatively impact on the fundamental business operating model of many of the companies in our sector which use hydrocarbon solvents in either their finished products or as processing aids in their production and manufacturing operations. Many of these companies have, under current excise arrangements, purchased these hydrocarbon solvents free of excise. Their business operating model and their financial and cash management systems have been built on this system.

ACCORD Australasia Limited (formerly ACSPA) ACN 117 659 168 ABN 83 205 141 267
Fusion Building, Suite 4.02 (Level 4), 22-36 Mountain Street, Ultimo NSW 2007
Postal Address – PO BOX 290, Broadway NSW 2007
Tel: 61 2 9281 2322 **Fax:** 61 2 9281 0366 **Website:** www.accord.asn.au

Products for healthy living and a quality lifestyle

The changes proposed in the bill will have a substantial negative impact on cash flow and working capital for these companies.

While it is acknowledged that these companies will receive an eventual fuel tax credit for the levy excised at acquisition of hydrocarbon solvents, via the BAS system, their cash flows will be disrupted due to the time lag inherent in the BAS return. Should the bill be passed as currently written, these companies will also face a significant upfront increase in the acquisition price of essential raw materials that they need for product manufacture – ie. 38.143 cents per litre more. Again, while this will be credited back to them in a future BAS return, it means they must increase the working capital needed to fund their business operations. This comes at a time when other cost pressures – such as high fuel/petrol prices and high costs of many chemical commodity raw materials due to high global demand – are biting hard into the profitability of many chemical manufacturing firms.

This issue and its impact on the Australian paint industry was recently highlighted in the Australian Financial Review (23 May 2006, pg 47). A copy is provided in support of ACCORD's submission.

The financial impacts facing affected companies are tangible and serious.

One of ACCORD's member companies, the Queensland-based operation of Recochem Inc, estimates that the monthly excise it would be required to pay should the bill be passed in its present form will be approximately $380,000 (ie. $4.56 million per annum). The company estimates that this will mean it has to increase its average working capital by about $700,000.

The Recochem example also raises another concern with the bill. That is, mandating that companies receiving more than $3 million in fuel tax credits be required to join the Greenhouse Challenge Plus. ACCORD supports the role of Greenhouse Challenge Plus in Australia's efforts to reduce greenhouse gas emissions. However, this provision of the bill needs to be amended to ensure it is targeted only at those companies receiving more than $3 million in fuel tax credits who actually burn the fuel and thereby release combustion gases, not those that are using hydrocarbon solvents as ingredients in their product formulations. Requiring companies to join Greenhouse Challenge Plus purely on the size of their fuel tax credit and not on their actual emissions is a poorly targeted policy measure.

There hopefully also remains some scope to better target the bill in terms of its overall goal of protecting fuel tax revenue. For example, the inclusion of certain high-priced specialty hydrocarbon solvents commonly used in the chemicals formulation industry such as Solvesso 150 as excisable 'fuels'. These solvents are all derived from oil and their prices fluctuate with world oil prices. Because of their high value on the specialty products market, the possibility of these being diverted for lower value use as fuel in internal combustion engines is unlikely. In this case the costs of making these solvents excisable would clearly appear to outweigh the benefits.

The assessment of non-excisable hydrocarbon blends must also reflect the reality that many of these blends are entirely unsuitable for use as fuel substitutes because they contain ingredients that would cause damage to engine components. Examples are blends that contain either acetone or methyl ethyl ketone.

Our members are also concerned with the bill's implications in circumstances where a customer becomes bankrupt. Take the case of a customer who buys about $100,000 – roughly 100,000L – a month. Credit exposure if they pay at 45 days would be about $250,000. If they declare bankrupt the supplier would lose an estimated $250,000, plus another $100,000 in excise they have remitted, but not received from the customer. ACCORD understands that under these circumstances the GST is currently refundable. Is this going to be the case for the fuel excise?

Our members also have concerns about the compliance burden arising from the new system. While we note that goal of reducing this burden it is likely that many companies will move from a quarterly BAS to more frequent paperwork under a monthly BAS.

ACCORD asks that the Committee consider options for mitigating the negative impacts of this bill on those chemical manufacturers and formulators who will be adversely affected.

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ACCORD Contact:
Mr Craig Brock, Director, Industry & Strategy
Phone – 02 9281 2322
Mobile – 0422 363 646
Email – cbrock@accord.asn.au
Website – www.accord.asn.au