

From: John Downie [mailto:JOHN@catalystchemicals.com.au]
Sent: Friday, 26 May 2006 3:51 PM
To: Economics, Committee (SEN)
Subject: Fuel excise reform - Catalyst Chemicals submission

To Mr P Hallahan

We have been made aware of proposed changes to the way certain solvents will be treated with respect to excise.

These proposed changes raise a number of concerns for us and will have an adverse impact on us and our business.

We are a chemical importing Company, selling solvents to the major paint manufacturers and printing ink manufacturers. These Companies use hydrocarbon solvents, and the introduction of a scheme that requires excise to be applied to these materials and subsequently claimed back via credits claimed on our BAS will have a huge impact on our cash flow and working capital in the business because of the time lag that is part of the BAS lodgement process.

We will also undoubtedly be faced with higher costs because the time taken to prepare the BAS in compliance with the proposed changes will increase. This surely goes against the Government's intent of reducing the cost of doing business in this Country. The cost of compliance will be significantly greater than present.

We request that considerably more time be spent in consultation with the major manufacturers and importers of hydrocarbon solvents to ensure the appropriate products are assessed as non-excisable. There are many chemical solvents & blends of solvents (e.g. Spray paint gun washes) which are unsuitable for use in combustion engines and this need to be appropriately defined before any scheme is introduced. Most spray paint gun washes are based on hydrocarbons which could probably be used as a fuel, but other solvents such as MIBK and butyl acetate are then added to improve performance with particular paint systems. These are powerful solvents which attack plastics, rubber and sealants commonly used in fuel delivery systems. The addition of these solvents would render such blends unsuitable for use in combustion engines.

We believe that there are many products that have already been assessed as products that can be used as fuels. However, the cost price of these products is higher than fuels on which excise is paid. This would preclude their use as fuels.

Many oil refinery products e.g. petrol, diesel, aviation gasoline, fuel oil, heating oil, greases, oils and lubricants are currently subject to excise. But there are many refinery products that are more costly, and while possibly suitable as a fuel, need not be subject to excise revenue. We currently operate under a Continuing Permission and import and purchase our products excise free. Customers are supplied with bulk solvents (or products in Intermediate Bulk Containers) either under an appropriate Remission Certificate or via a Continuing Permission. The products are also chemically marked when required and excise is currently only applied to these transactions where the end use may be as burner fuels. We do not apply excise when the solvents are supplied to manufacturers as ingredients in their manufacturing process.

Under the proposed changes, we understand that we will be required pay excise on all incoming hydrocarbons at 38.143 cents per litre. With an average sales volume of X litres a month the excise will be approximately \$Y per month. Some of this solvent is packed into small packs and although the excise may be claimed back via our BAS monthly statement, the time lag will be financially difficult for us.

About X% of our solvent sales is in bulk and IBC's and we understand that the proposed arrangements will see this volume subject to the full excise which Catalyst Chemicals would collect and pass on to the ATO each month. Although our customers trade with us on 30 day

terms, many do not pay in less than 45 days and some well in excess of this. Thus we will have remitted a substantial amount of money to the Government well before this is recovered from our customers.

The current system of Permissions, Certificates & Marker has a significant cost of compliance, even though it only affects a relatively small number of customers (since it only applies to bulk & IBCs). Extending the coverage down to pack sizes above 20 Litre packs will involve many more customers. In our case, all of our customers will be affected.

We would appreciate acknowledgement of this letter and your response to our concerns.

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