The voice of Australian farmers since 1979

National Farmers' Federation

Submission in response to the Treasury Fuel Tax Credit Reform Discussion Paper

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Contents

1. Executive Summary

The National Farmers Federation (NFF) strongly supports the policy intent of the Government's *Energy White Paper*, in particular to extend the diesel fuel excise scheme to include a rebate for 100 per cent of the tax paid on all fuels for all off road business activities. However, NFF has some serious concerns that it seeks to be addressed regarding the implementation plan for the package.

Given the extreme fuel cost pressures farmers are currently facing which are up $200 million on last year and the strong fiscal surplus of around $7.5 billion per year, NFF strongly views that 2008 is an unreasonable amount of time to wait for the off road extension to begin at a 50 per cent rebate and 2012 far too distant for the full 100 per cent rebate.

NFF also has concerns where Treasury seems to have gone beyond the policies outlined in the *Energy White Paper*, particularly where this will mitigate some of the reforms benefits to industry.

Specifically, NFF opposes the proposal to scrap the e-Grant program that allows farmers and others to purchase fuel at the pump effectively excise free. Scrapping this popular initiative will potentially create serious cash flow problems for many businesses.

NFF also considers that the requirement for those businesses with turnover of under $50,000 to be required to claim rebates on a Business Activity Statement, despite not having to be registered for GST purposes, as inconsistent with the spirit and intent current tax law.

The paper also needs to provide greater clarity regarding the policy intention for vehicles less than 4.5 tonnes as many farm vehicles used off road fall into this category.

NFF also opposes the impost of an extra (unrebatable) 0.7 cents per litre on all diesel and 0.06 cents per litre on petrol for two years from July 2006. Alternative funding mechanisms should be sourced rather than increasing the cost of already over inflated fuel prices.

Wherever possible, there should be a greater reflection in the principles of the discussion paper pertaining to the positive contribution alternative fuels such as biodiesel and ethanol have as renewable, environmentally friendly and increasingly cost effective alternative fuels.

2. Introduction

With the latest Australian Bureau of Agriculture and Resource Economics data showing that fuel costs for farmers will be up almost 15 per cent in 2004-05 from $1.588 billion to $1.812 billion and many farmers now paying over $AUD1.30 per litre for diesel, fuel reform is currently a critical issue facing Australian farming.

It is in this context that the National Farmers Federation (NFF) welcomes the fuel reform package that was announced in June 2004 as part of the Federal Government's *Energy White Paper* and awaits its implementation with anticipation.

For many years NFF has been pushing for extensions to the diesel fuel excise scheme and was pleased that Government heard NFF's call for a significant broadening of fuel excise rebates. This will directly reduce farm costs by reducing the cost of fuel and indirectly benefit farmers by the competitive effect it will have on the economy as a whole. Easing the burden of fuel costs on the economy has significant flow on benefits such as easing inflationary pressures and keeping interest rates low.

The reforms in the *Energy White Paper* will also increase simplicity, reducing the compliance and administration costs of claiming the fuel rebate.

Indeed, NFF strongly believes that given the benefits at stake and the strong fiscal position of Government, these reforms should be brought forward, rather than wait until 2012 for the full off road 100 per cent extension to come into effect.

If the Government has recognised that these reforms are important and adopted them as policy then why wait until 2012 to implement them? If the only reason is fiscal responsibility with surpluses of around 7.5 billion a year surly this reason holds little water as the cost of the reforms is only around $300 million per annum. This still leaves a surplus of over $7 billion per annum.

In addition, this submission outlines a number of concerns NFF has with the Treasury's implementation approach, particularly in areas where Treasury seems to have gone beyond the policies outlined in the *Energy White Paper* and that may mitigate some of the package's benefits to farmers.

Given the importance of fuel costs to the farm sector and economy as a whole and the current fuel price pressures on the economy, NFF expects more robust rationale and discussion of several key issues touched on in the discussion paper from Treasury. In its current form the implementation approach cannot receive full NFF support.

3. Key Statistics: Australian Farming and the Economy

Over the six years up to and including 2003-04 the farm sector, on average, contributed to 12.1 per cent of GDP or $72 billion[1]. This is greater than the often cited 3 to 4 per cent or around $30 billion[2] which does not take into account the value of the inputs that go into farming, nor the flow-on activities that farming supports.

The impact of the current drought is a good example of how important the farm sector is to the economy, with around $5 billion of the net value of farm production being wiped off the nation's books each year over the course of the drought, reducing GDP growth by almost 1 percentage point each year on average since 2001-02.[2]

Highlighting the importance of drought assistance on the economy, a recent study found that 2,500 jobs were saved nationally in regional Australia as a result of drought assistance in 2003-04. While everyone has long recognized the importance of agriculture to regional economies, this study showed that just as many people are dependant on the farm sector for their jobs in the city. [1]

Indeed, by taking both the direct and indirect effects into account, farming supports the employment of around 1.6 million Australians of 17.2 per cent of the labour force – with half of these jobs found in the six capitals.[1]

Agriculture provided 23.9 per cent ($26 bn) of our goods and services exports in 2003-04[3].

Farmers are vital custodians of the land, with agricultural activities covering 60 per cent of the Australian landmass.[4]

Productivity growth has been the key to the farm sector meeting the challenges it has faced. There is no other industry in Australia, apart from telecommunications and information technology, which has consistently delivered 3 to 4 per cent productivity improvement per annum over the last two decades.

As international competition has intensified there has been a fall of 50 per cent in the terms of trade (prices received divided by prices paid) faced by Australian farmers since 1960. Despite this, there has been a tripling in the volume of farm product produced (from an index measure of 37 in 1960-61 to 107.6 in 2003-04) and tripling real gross value of farm product from $10,557 billion in 1960-61 to $30,338 billion in 2003-04 (in 1997-98 terms)[5].

This fact in particular should dispel the myth that the agricultural sector is 'old economy'. Farmers have been adopting new technologies and improving practices with fervour.

1. Source: Australian Farm Institute, *Australia's Farm Dependant Economy Report*, 2005.
2. Source: ABARE Table 3, p. 234
3. Source: ABARE, *Australian Commodities*, tables 4 and 5.
4. Source: ABS, *Agriculture* (Cat no 7113.0), table 5.1
5. *Australian Commodities,* ABARE Table 17, index of 'prices received' used as a price deflator.

4. Improvements Needed to Implementation Plan

The following are key issues NFF would like to have addressed by Treasury regarding the implementation plan.

1. Timetable takes far too long to deliver benefits

NFF believes that there is no sound policy reason why industry must wait seven years for the full implementation of these reforms and calls on the Government to introduce them without delay.

Currently, the 50 per cent credit on all other off road fuel use is to be phased in on 1 July 2008 and the full 100 per cent credit on 2012.

In the final year of implementation these reforms will cost $310 million and will significantly reduce the cost of fuel to business and the economy.

In 2005-06 the Government will hold back from taxpayers a $7.4 billion surplus followed by surpluses of $7.5 billion, $8 billion and $9 billion in subsequent years.

Further these fuel reforms will provide a boost to the economy, reduce inflationary pressures and help keep interest rates low.

Therefore it is NFF's position that is strong policy reasons to bring the fuel reform timetable forward.

While commending the policy intent of the *Energy White Paper* reforms, NFF believes that given the strong fiscal position of the Government there is scope to bring forward the package of reforms. This is a particularly pertinent issue given the price of fuel has risen on the back of higher than expected oil prices. These prices are significantly in excess of what government and industry was expecting at the time of the development of the White Paper.

Reasons for the price of oil being driven up include: strong global demand, particularly from the United States and China; political uncertainty in the Middle East; and supply uncertainty in Nigeria, Russia and Venezuela.

NFF recognises that the international price of oil is largely outside the ability of the Australian Government to influence – however, the unexpectedly high price of fuel and its potential flow-on effect onto the economy warrant the Government's reconsideration of the fuel excise reforms to be implemented starting in 2006.

NFF also notes that it has been suggested that an extended process of implementation introduces unnecessary complexity to the reform process.

2 Cash flow complications of the proposed implementation plan

Treasury has indicated that it plans to abolish the e-Grant program, as of 1 July 2006. NFF is opposed to the abolition of this popular program, as it will mean that farmers and others in the transport and logistics sector will no longer be able to claim fuel rebates 'at the pump'.

NFF considers that this cuts across existing Government policy, which was introduced in 2002 and launched by the then Assistant Treasurer, earning the Government strong endorsement by particularly the transport sector. Therefore NFF would consider the abolition of this program contrary to the policy direction previously taken by Government.

It will mean that instead of money being held in business bank accounts, as is the option currently, it will temporarily be held in a Government account earning the Government interest rather than business. Given that is seemed to be the Government's policy intent to try to maximise the time the rebate was held in individual and business bank accounts, rather than Government coffers, when it introduced the E-Grant program, NFF is unclear as to the rationale of this policy change.

NFF frequently receives positive feedback from its members, regarding fuel grant claiming methods that cut down the time it takes to claim the grant. NFF therefore urges Treasury to keep this principle in mind when drafting the implementation plan.

3 Businesses with turnover of less than $50,000

NFF requests that the Treasury more rigorously explain why the sole method for business to claim the rebate be the Business Activity Statement and the potential impact on those not currently registered for GST purposes.

Prima face, it seems that this requirement cuts across current tax policy intent that businesses with less than $50,000 do not need to register for GST purposes. Although many with less than this figure do still register in order to claim input credits, many do not. Therefore, it would seem logical to enable there to be an alternative claiming mechanism for those not registered that fall into this category.

It is possible that such a mechanism could exist in concert with arrangements for households and not-for-profit organisations as Treasury has signalled in its discussion paper there will be alternative mechanisms for these groups. NFF considers that it is a weakness of the draft implementation plan that these mechanisms are not explained in the discussion paper.

As there are a significant number of farm enterprises with turnover lower than $50,000 NFF would like to see this issue properly addressed in the next iteration of the implementation plan.

4 Treatment of fuel tax on vehicles with a gross vehicle mass (GVM) of less than 4.5 tonnes

In the overview of the Treasury's discussion paper it is clearly stated that:

"… fuel tax will only be effectively collected from fuel consumed… in the business use of vehicles with a gross vehicle mass of less than 4.5 tonnes."

Taken in isolation, this statement is alarming and misleading as to the policy intent of the Government's reforms. It is absolutely clear from the *Energy White Paper* that a rebate can be claimed for:

" … all business use of fuel off road. This measure will be phased in with newly eligible activities, with a 50 per cent credit being provided from 1 July 2008 and a full credit from 1 July 2012. Credits will apply to all taxable fuels, including petrol."

This clear policy statement seems to be directly at odds with the statement of objectives in the overview of the discussion paper and with later paragraphs of the discussion paper itself (paragraph 16).

NFF would like to see any inconsistency in the legislation and any other material altered in favour of the policy statement in the *Energy White Paper.*

NFF assumes this issue has arisen due to a drafting error in the discussion paper, rather than any attempt to change the intent of the legislation.

5 No extra fuel tax

In paragraph 49 the Treasury state:

*"The Government announced in the 2003-04 Budget that from 1 January 2006, the fuel tax on petrol will increase for a period of two years to fund a cleaner fuel grant for the production or importation of premium unleaded petrol with less than 50 parts per million sulphur. Similarly, the fuel tax on diesel will increase for a period of two years from 1 January 2007 to fund a cleaner fuel grant for diesel with less than 10 parts per million sulphur. The initiative, including the additional fuel tax rates required to fund the proposal, will be reviewed in the period prior to implementation to ensure that it aligns with the timing of the new fuels standards and **market conditions** [emphasis added]. The indicative fuel tax increase would be 0.7 cents per litre on all diesel and 0.06 cents per litre on all petrol, to fund subsidies for the increased production costs of 1.0 cent per litre for 10 parts per million sulphur diesel and 1.1 cents per litre for 50 parts per million sulphur premium unleaded petrol.*

The fuel tax credit allowed for these fuels during the years when the grant is available will be net of the amount of the additional fuel tax imposed."

NFF is opposed to Government increasing the cost of fuel – and particularly the cost of diesel - by imposing a new tax.

NFF request that alternatives to these new levies are developed as it is clear to NFF that the unexpectedly high cost of fuel constitutes such market conditions which would warrant the review of policy's original intent as was allowed for in the policy statement above.

While cleaner fuels are an important objective, NFF suggest that given the strong fiscal position of the government and unexpectedly high fuel costs, the cleaner fuel grant should be provided from consolidated revenue, rather than through a tax on industry.

NFF also request that Treasury provide an explanation in their discussion paper of why the tax on diesel is almost 12 times the tax on petrol. This explanation should have a full economic accounting for the differential and how it relates to the relative cost of cleaner diesel, as compared to petrol. This is important information in evaluating the efficiency of the cleaner fuel grant.

6 Support for bio-fuels

NFF notes that from 1 July 2011, biodiesel and ethanol will begin to incur fuel tax. NFF considers that it is important to farmers as both produces and consumers of these new fuels that the alternative fuel sector is encouraged and fostered by positive measures, particularly in their embryonic stage, rather than having new taxes imposed upon them.

Table 2 also shows biodiesel being taxed at a rate 52 per cent higher than ethanol at 19.1 cents per litre for biodiesel compared with 12.5 cents per litre for ethanol.

NFF understands that this is based on the energy content of the fuel, however NFF requests that the Treasury demonstrate the economic case accounting for this differential based on the science underlying it.