Fuel Tax Bill 2006 - Impacts Excise/Import & Market Access

RENEWABLE FUELS AUSTRALIA

Need for Transitional Arrangements

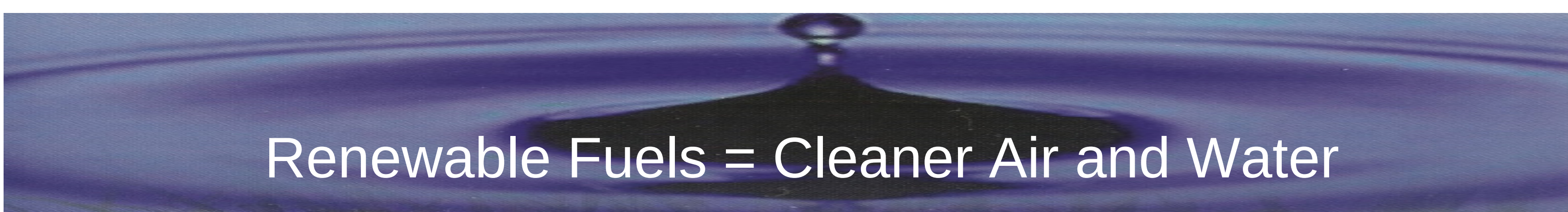
The 2004 Energy White Paper saw the need for industry transitional arrangements.

“ The phased introduction of excise recognizes the need for effective transitional arrangements to give fuels that are currently effectively untaxed an opportunity to establish their place in the market.” (Page 91)

Historic barriers to biofuels

Since 1992 new industry growth has been blocked by the refusal of the oil majors to permit entry into the mainstream Australian fuel market. In September 2005, the Prime Minister & Deputy Prime Minister secured assurances from Caltex, BP, and Shell on access for biofuels into the transport fuel market.

- The PM & DPM declared that a viable biofuels industry was in the national interest.
- December 2005 the PM announced Caltex, BP and Shell had committed to Action Plans and Timetables for the take-up and use of ethanol and biodiesel by 2010.



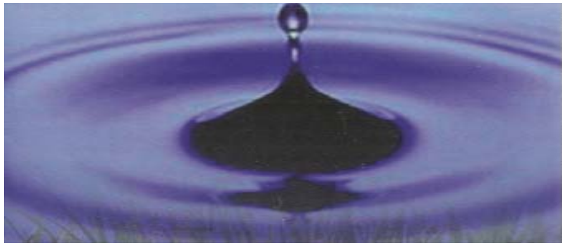
Some barriers may be removed

Caltex, BP and Shell committed to take-up and use up to 532 megalitres (ML) of ethanol and biodiesel per annum by 2010 – equal to 1.55% of 2004 automotive fuel sales (34.3 BL).* This included:

- 89 to 124 megalitres in 2006 – rising to 403 to 532 ML per annum by 2010.
- Exceeded Government target of 350 ML (1.02% of 2004 sales by 2010).
- Boosted financial institution confidence of a future for biofuels in Australia, as long as consequential adjustments were made to **Fuel Tax Bill 2006**.

* Australian Bureau of Statistics (ABS)

Government support, and policy uncertainty…..



Since 2001/02 the Government provided a range of initiatives to stimulate bio fuels growth along with fuel tax reforms

- Phase-in from 2011 to 2015 of excise/imports regimes under Treasury fuel tax reforms was such a measure.

- A Biofuels Capital Grants Scheme ($37.6m) – of some 40 potential projects, 7 received grant support.

However, while its commitment to major fuel tax reforms was declared, Treasury implementation details only emerged and evolved over time and finally revealed in **Fuel Tax Bill 2006.**

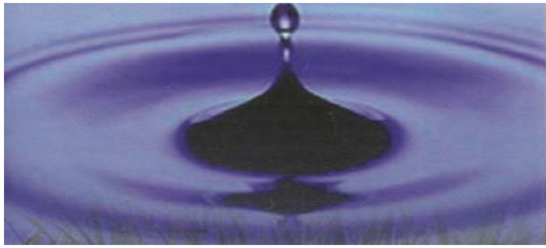
Possible Tax Bill impediments identified by Taskforce

The 2005 Biofuels Taskforce Report recognised the potential risks associated with the way Treasury framed the fuel tax reforms (P.16) and Fuel Tax Bill 2006:

Conclusion 3: Stated that due to the complexity and staged announcement of fuel tax reforms, several biofuel project proponents may not have factored in the full implications of the reforms and the commercial impact of these reforms on their project's viability.

Conclusion 4: *N*oted that the longer term commercial viability of biodiesel projects may be questionable in light of the full suite of the fuel taxation changes.

New impediments created by Fuel Tax Bill 2006



The Fuel Tax Bill 2006 poses threats to new biofuels industry growth.

Key issues relate to:

1. The phase-in timetables for biofuels entering new Excise/Import regimes

2. Policy inconsistencies in implementation of the new biofuels import regime

3. Market barriers to access to off-road diesel market for biodiesel via tax credits discriminates against biodiesel in favour of diesel

Failure to address these issues will impact negatively on new project financing, and commercial viability of both current and new projects.

Consequential changes proposed by RFA little to no policy dislocation.

Excise Phase-in timetable (Issue: 1)

Under the Treasury reforms ethanol was assigned an excise rate of 25 cents per litre (cpl), and biodiesel 38 cpl.

- A discount of 50% for domestic produced ethanol and biodiesel in recognition of their domestic benefits, provided a final fuel tax rate for ethanol of 12.5 cpl, and biodiesel 19 cpl.
- 10 year transition, including actual 5 year excise phase-in finally set for 2011 to 2015, due to ongoing oil market barriers to new projects
- Phase-in from 2011, at fuel tax rate of 2.5 cp for ethanol, and 3.8 cpl for biodiesel – increasing annually at this rate until final tax rate of 12.5 cpl for ethanol and 19 cpl for biodiesel reached in 2015.

Biofuels Denied Benefits (Issue: 1)

Big Oil market barriers have denied biofuels 4 years of intended benefit from the fuel tax reform phase-in programs. Other alternative fuels already established in the fuel market (e.g. LPG, CNG) will enjoy full 10 year transition benefit.

- Caltex, BP and Shell only committed to start to remove their market barriers in 2006. The position of Mobil remains unknown.
- In addition to loss of 4 vital years of Government phase-in benefits since 2002-03 & will lose further 2 to 3 years before new projects are completed and become operational.

Intended benefits loss due to ongoing market barriers = 6 to 7 years

RFA proposes that excise phase-in period for biofuels be extended for 5 years (from 2016 to 2020)

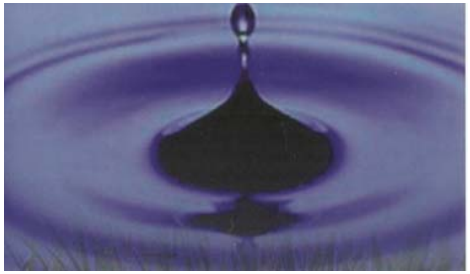
Overseas Import Barriers (Issue: 2)

Lifting Australian limits on imports comes at a time when other biofuel producer countries policies on imports is very restrictive:

- Ethanol imports to US subject to 2.5% ad valorem tariff and a second duty of US$0.54 per gallon.
- EU plans to boost biofuels production. France, Belgium and Italy, seeking high import tariffs to limit imports, & temporary quotas when imports required. Current tariff is US$0.87 per gallon equivalent, plus energy crop subsidy of 45 Euros per hectare (“carbon credit” premium).
- Countries such as Brazil, Argentina, Thailand, India impose import tariffs ranging from 20% to 186%.

Fuel Tax Bill 2006 removes Australian fuel import barriers only!

Breaks Government Promise (Issue: 2)



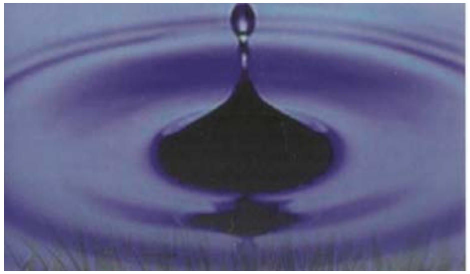
On the domestic discount of 50% the 2004 White Paper (p.91) noted:

"The government's approach to biofuels reflects the regional and other benefits that would arise from the development of a commercially viable industry in Australia while recognizing that all fuels need to be able to compete on their commercial merits in the longer term"

Fuel Tax Bill 2006 provisions on imports:

- **Breaks the Government's 2003 promise of a 50% tax discount for domestic production benefits of bio fuels, by also giving imports this benefit.**
- **Imports make no contribution to unique benefits of domestic biofuels, and**
- **Ignores the restrictive policies of other producer countries that Australia will have to compete with.**

Australian Benefits Ignored (Issue: 2)



Stated Government policy on domestic benefits was clear:

- December 2003 the Prime Minister stated (Press Release): *"The 50% discount applying to alternative fuels entering the excise net was set having regard to a range of industry, regional and other factors"*

- 28 September 2005 the Deputy Prime Minister stated (Press Release): *"The increased use of biofuels will reduce pollution in our congested cities, reduce Australia's greenhouse gas emissions and create jobs in regional Australia"*

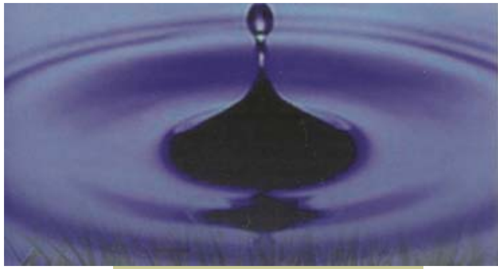
The 50% national interest discount for domestic benefits of biofuels (greenhouse, fuel security, balance of payments, industry/regional benefits) should not be extended to imports, as they make no contribution to these unique Australian benefits.

Discriminatory fuel tax credit arrangements (Issue: 3)

Deny biodiesel users tax credits that are available to users of petroleum diesel through the Road User Charges regime.

- Based in part on flawed Treasury notion that the transition production subsidy to previously untaxed biodiesel producers is actually a tax credit.
- Applies to virtually all large-scale users of diesel (off-road and heavy transport vehicles over 4.5 tonnes)
- Denial of access to these markets is a direct threat to commercial viability of biodiesel producers.
- If major diesel user purchases biodiesel above B5 directly from producer, they will lose tax credits available to petroleum diesel users. This forces sales to the major oil companies and distributors via a B5 blended diesel fuel.

Fuel Tax Bill 2006 creates a discriminatory industry & market barrier that will deny biodiesel (and ethanol in the future) access to over 75% of the potential Australian diesel market.



Discrimination Impacts
(Issue: 3)

Loss of 75%% of diesel market would force biodiesel producers to:

- Deny consumers choice of B20, B49 and B100 in off-road sector
- Limit biodiesel sales to light transport and domestic vehicles only
- Force export of biodiesel product that could be used in Australia

To maintain consumer choice and genuine competition:

RFA proposes that at a user level, all diesel and diesel like fuels that substantially meet the national diesel and biodiesel fuel quality standard, be treated the same with respect to tax credits and rebates at the end user level.

Summary of Phase-in Changes

Consequential changes proposed by RFA on excise, imports and tax credits include:

- **Little to no basic structural policy changes.**
- **The current transitional phase-in of excise and import arrangements for biofuels to be extended 5 years – from 2016 to 2020**
- **No extension of 50% domestic benefit to imports.**
- **Biodiesel producers and users not be denied tax credits available to petroleum diesel producers and users**

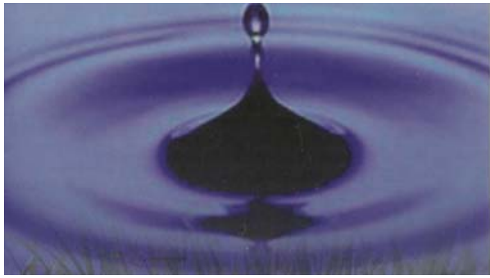
In conclusion…..

In relation to barriers to a viable biofuels market in Australia the 2005 Biofuels Taskforce Report noted (page 10) that:

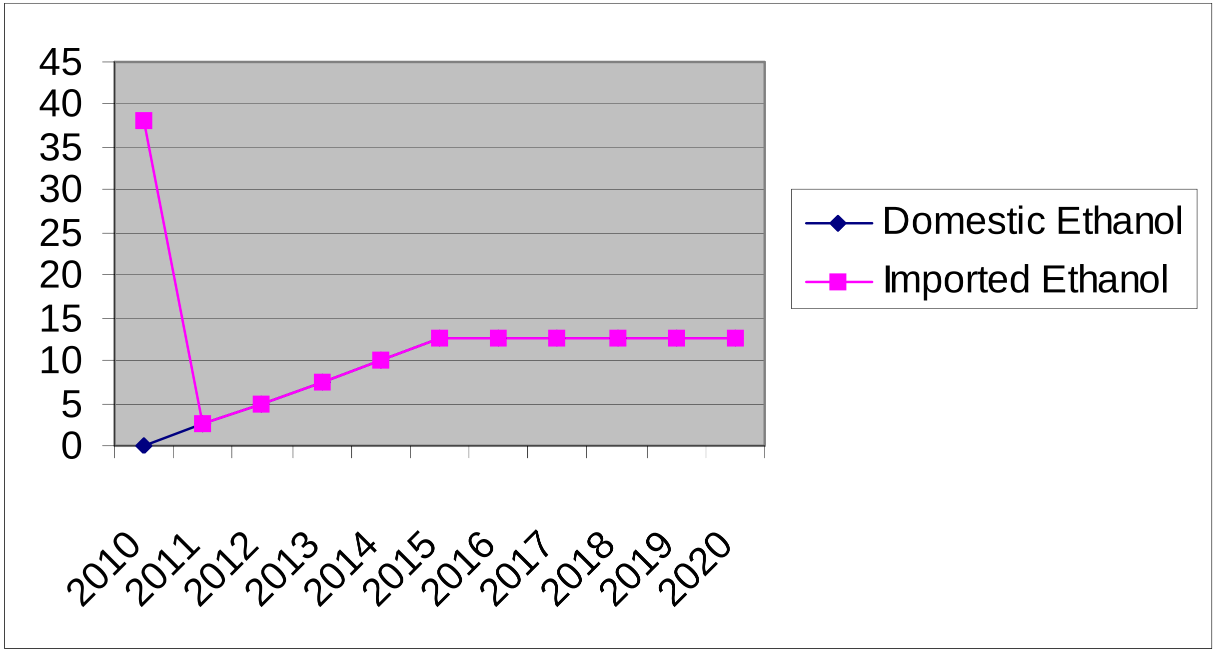
" To maximize the benefits of the programmes, it is important to ensure that existing and potential industry participants are given every fair chance of success."

<u>In its present form the Fuel Tax Bill 2006 denies biofuels a fair chance of success</u>.

Fuel Tax Bill Excise/Import Impact



- Fuel Tax Bill 2006 Plan for Phase-in of Imported Ethanol, Ethanol Rates and Combined Impact.



Government promise on Excise/Import

Reducing Our Dependence on Imported Fuels

- Industry proposal for Ethanol Excise/Import rates.