Fuel Tax Bill 2006
Submission to the Senate Economics Committee

The proposed "simplification" of the Fuel Excise System that is incorporated in the Fuel Tax Bill 2006 should not be accepted by the Senate in the current form. The legislation is not in fact a simplification bill – it actually adds complexity to the current system, has wide ranging cash flow ramifications to business through incorporating fuel excise rebates to the BAS System, has negative consequences to the production and use of renewable fuels, and is detrimental to regional development. It is hard to imagine in the current global environment a more regressive piece of legislation.

Our interests are in promoting the development of renewable fuels in regional Australia and so our submission will concentrate on the impact of the Bill to this group and our markets for the fuel.

Changes to the legislation ought to have regard to some guiding principles

In today's global environment fuel is a topic of considerable concern. There is concern over supply and the lack of transparency by major oil producing nations as to their oil reserves, demand from emerging Asian economies is impacting on supply, and the linkage between CO^2 emissions and global warming has been generally accepted by the scientific community (and some governments). It is our government's obligation to legislate responsibly and to that end this legislation is seriously defective in its current form as it encourages the use of fossil fuels over renewable fuels by shifting the rebate system and expands the rebate scheme for fossil fuels, by extending the reach of the excise rebate system.

For a simplification bill it adds lots of complexity

The legislation is supposedly a simplification bill. It is promoted as making it easier for users of fuel to claim their entitlements and receive the benefits. This is not actually the case. For instance if we look at a road transport operator that is currently using a 51% (i.e. a permissible biodiesel blend under the present EGCS) the position is as follows:

BioWorks Australia Pty Ltd
ABN: 23 116 632 136

admin@bioworks.com.au

bioworks.com.au

PO Box 839
Nedlands
WA 6009

p: 1300 769 569
f: 08 9384 7650
e:
w:

Example: Joe's *Transport Company ("JTC") is using a mainly biodiesel blend of 51% biodiesel. JTC bulk fills a tank in their depot - the petroleum diesel retailing at approximately $1.50 per litre and biodiesel at around $1.20 per litre. In the month they received and used 8,000 litres from the bulk tank and 2,000 litres of petroleum diesel was purchased off site during the month.*

Current System

JTC will submit an online form based on their diesel usage for their Excise Rebate. As both the biodiesel blend and diesel are permissible fuels under the current regime the excise rebate is calculated as:

10,000 litres @19cents = $1,900

Proposed System

The proposed system requires users to calculate the underlying tax that has been paid on the fuel for which they receive a proportional rebate for the effective excise. There is then an Alternative Fuel Grant that is paid on the renewable fuel component of the fuel. So the calculation becomes:

		Petro-diesel	Biodiesel	Combined
8,000 litres of biodiesel blend				
% of biodiesel	51%			
% in blend		49%	51%	
Net tax per litre		0.38	0.00	
Average Tax per litre				0.19
Proportional EGCS (to % of tax paid on fuel)				0.09
Less: Alternative Fuels Grant - rate depending on the year and paid in proportion to the renewable fuel used				
	2006	0.14808		
	2007	0.11106		
	2008	0.07404		
	2009	0.03702		
	2010	0.00000		
so for this fuel if it were used in 2007 the AFG on the biodiesel component of the fuel would be				0.06
Net rebate per litre				0.15
Rebate on 8,000 litres of biodiesel blend				$ 1,198
Add rebate on 2,000 litres of petroleum diesel purcahsed off site				
	2000 litres	rebate	0.19	$ 372
			Amount claimed on BAS	$ 1,570

Observations:

1) *The amount of rebate for a road transport users using biodiesel has reduced under this scheme*

2) *The onus for tracing the tax paid on the fuel is on the user – the individual who files the BAS;*
3) *The calculation of the rebates has become much more complex – it has gone from submitting a form based on litres of consumption to tracing tax paid on fuel and claiming rebates based on how that fuel is to be used.*

Impact on the proposed legislation on Biodiesel

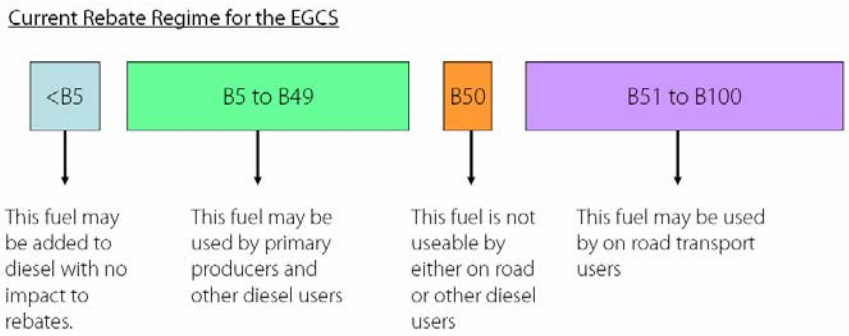
There are currently two systems in place in Australia that provide assistance to biodiesel producers and biodiesel users, the Cleaner Fuels Grant Scheme (CFGS) and the Energy Grant Credit Scheme (EGCS).

Cleaner Fuels Grant Scheme (CFGS)

- Is a grant for **producers** of cleaner fuels such as ethanol and biodiesel. The grant is equivalent to approximately 38c/L, the same rate of excise applicable on fuels and was introduced to facilitate and encourage the establishment of manufacturing facilities.
- This grant is for the manufacturer of cleaner renewable fuels.
- Is available until 2011. From 2011 to 2015 the grant decreases gradually to 19.1c/L for biodiesel or ½ of the fuel excise which was based on the energy value of the fuel.
- Was regarded as essential to stimulate the biofuels industry and was initially run in conjunction with a capital grants scheme (which was wound back to provide limited benefits in 2004).
- Is a "grant" and therefore is classed as revenue by the ATO – the grant is treated as assessable income for producers.
- In 2015 the fuel excise on Biodiesel will be 19c/L compared to Ethanol and LPG which will be 12.5c/L.
- CFGS rates are currently determined by the "energy content" of the fuel. CFGS does not account for the "energy expenditure" for the production of the fuels.

Energy Grants Credit Scheme (EGCS)

- Is a grant for **consumers** of fuels to alleviate the fuel burden on their business and is a per litre payment to users of fuels in certain industries.
- The EGCS is complex, with differential treatment between "on-road" and "off-road" fuel users. The regime for biodiesel is shown below:



Overview for use of biodiesel

The current system advocates the use of biodiesel, however there are some inconsistencies and unfairness on certain industries. The current system facilitates the subsidised manufacture of biodiesel through the CFGS (which was provided as a manufacturers incentive) and allows the consumer to still claim the EGCS when using the biodiesel (so as not to disadvantage users of the fuel) in certain circumstances.

The current system gives biodiesel a competitive balance for producers to manufacture a cleaner, superior fuel and for consumers to purchase and use a cleaner fuel. The EGCS and CFGS were revised in 2004 to put in place a long term framework (through to 2015) that would encourage the establishment of an industry.

The Proposed Changes

- Broaden the base of diesel users that may apply for the excise rebate by removing the distinction between regional and metropolitan users of fuel;
- Places a cut off for road users based on vehicle size;
- Simplifies the claim and payment system by incorporating it within the BAS administration;
- Encourages fleet replacement and places maintenance obligations on older equipment;
- Reclassifies the CFGS payment to the manufacturers of biofuels as an excise rebate;
- Only provides for payments of EGCS for fuel that is subject to excise and for fuel blends, proportionately to the percentage of excise applicable in the fuel except for “approved standard fuel blends”; and
- Provides a transitional phase out of the existing system

Example: *In today's terms if the petroleum diesel retailing at approximately $1.50 per litre and biodiesel at around $1.20 per litre the most price effective blend for agricultural, forestry, mining and other users that are entitled to the EGCS is a blended fuel comprising "mainly diesel".*

	Petro diesel 0%	B5 5%	B20 20%	B49 49%	B51 51%	B100 100%
Average price	1.50	1.49	1.44	1.35	1.35	1.20
Less GST	(0.14)	(0.14)	(0.13)	(0.12)	(0.12)	(0.11)
Energy Grant Credit Scheme	(0.38)	(0.38)	(0.38)	(0.38)	0.00	0.00
Net Price	0.98	0.97	0.93	0.85	1.22	1.09

The proposed changes to the fuel excise system reclassifies the CFGS payment to the manufacturers of biofuels as an excise rebate and only provides for payments of EGCS for fuel that is subject to excise and for fuel blends, proportionately to the percentage of excise applicable in the fuel except for "approved standard fuel blends". So following on with the example above the changes will now price the fuels above at the following levels:

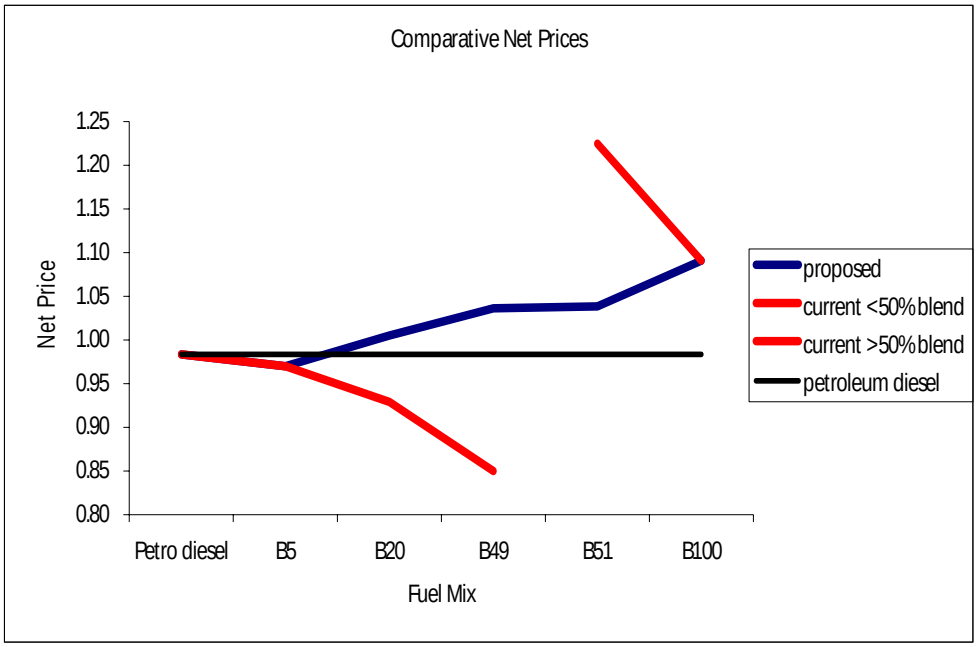
	Petro diesel 0%	B5 5%	B20 20%	B49 49%	B51 51%	B100 100%
Average price	1.50	1.49	1.44	1.35	1.35	1.20
Less GST	(0.14)	(0.14)	(0.13)	(0.12)	(0.12)	(0.11)
Energy Grant Credit Scheme	(0.38)	(0.38)	(0.30)	(0.19)	(0.19)	0.00
Net Price	0.98	0.97	1.01	1.04	1.04	1.09

So the lowest priced fuel will now be a 5% biodiesel blend that will cost 97 cents per litre as against the 49% biodiesel blend under the current regime that cost 85 cents per litre.

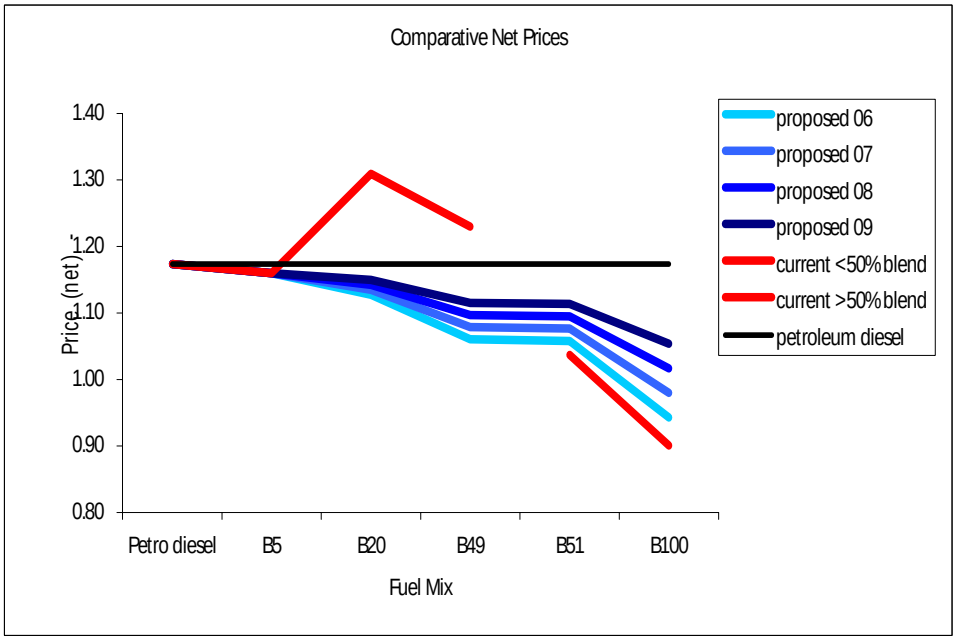
The direct effect of this legislation is to increase the price to farmers of biodiesel by 12 cents per litre and this is attributable to the change in treatment of the EGCS on biodiesel blends.

Continuing the example above the changes to the regime to various pricing mixes is shown below:

The primary producer, mining, forestry & marine transport group



And for the road transport group the pricing structure becomes:



The indirect effect of the changes in the legislation is to provide a benefit to what is defined as "standard biodiesel". This is the level of blending permissible under fuel standards system that biodiesel may be blended with petroleum diesel without having any impact on the excise regime. It is a purely arbitrary number determined by government. The effect of this is to favour those manufacturers who supply to the 5% blend and they will be able to pay more for their inputs than those who don't. This will distort the market for raw materials and other processing inputs. The manufacturers to the 5% blend have an unfair advantage.

Summary of the Impact of the Changes

Under the proposed Fuel Tax Bill 2006, the biodiesel industry will be uncompetitive with petroleum products, when sold to recipients entitled to a fuel tax credit (this group has been broadened under the Bill). This narrows the available market for the sale of biodiesel.

Furthermore, the proposed simplification is now riddled with complexity requiring claimants to calculate the excise applicable to the fuel and apply this to the usage, adjusting for discretionary changes that are to be made by the Minister.

More importantly, the consequences of the changes are dire for the regional development of biodiesel facilities. Effectively the changes:

- Will direct existing biodiesel production to be consumed as a biodiesel blend that is defined as "standard diesel" – this is currently set at a 5% biodiesel, 95% petroleum diesel mix.
- Will favour micro-independent biofuels producers that are subject to full excise on their fuels – (i.e. Hobbyists manufacturing for domestic use) a part of the industry that has limited long-term commercial production capacity.
- Will take away all incentives available for agricultural users – i.e. those who can actually be fuel self sufficient and be encouraged to build infrastructure leading to biofuels production.
- Will promote future biofuels production facilities to be co-located with fuel distribution hubs (i.e. in Metropolitan regions) and drive centralised production.

Recommendations (essential for the sustainability of the industry)

1. Biodiesel and other Cleaner Fuels should be treated equally with petroleum diesel.
2. Biodiesel and other Cleaner Fuels should be able to be claimed under the Fuel Tax Credit Scheme at the maximum rate, regardless of amount of excise paid.
3. Petroleum and other environmentally damaging fuels should have their fuel tax credit availability reduced to subsidise the purchase of cleaner fuels.
4. Fuel Tax Bill 2006 should be rejected unless it can provide the same benefits for Cleaner Fuels as is currently available.
5. Excise to be charged on cleaner fuels from 2015 onward should also reflect the amount of energy required to produce the fuel, not just the energy content of the fuel. For example 6 energy units are required to produce 1 energy unit of ethanol, in contrast 1 energy unit is required to produce 1 energy unit of biodiesel. The fuel excise should reflect the energy savings and disparity between biodiesel and ethanol production.

Recommendations (desirable for the ongoing development of the industry)

6. The Cleaner Fuels Grant under the Fuel Tax Scheme should be extended indefinitely beyond 2015 to encourage industry development and reduce Australia's reliance on petroleum products.
7. The phasing out of the EGCS on Cleaner fuels form 2011-2015 should be abolished and the full rebate should remain unchanged.

ABOUT BIOWORKS

Bioworks™ Australia Pty Ltd is a private company based in WA founded by Marty Aldridge, Jonathon Thwaites, Dr Stuart Gunzburg, Craig Lovelady and Claude Morrissey. The Company is building a decentralised production and distribution system for biodiesel that puts value back into small communities through those communities having ownership of the manufacture and production of their fuel supplies. The Company has projects under construction in Gingin and Corrigin and has been addressing significant community interest across regional Western Australia and Australia generally in the manufacture of biodiesel and other renewable fuel projects in regional communities.

ABOUT BIODIESEL

Today's diesel engines require a clean-burning, stable fuel that performs well under a variety of operating conditions. Biodiesel is the only alternative fuel that can be used directly in any existing, unmodified diesel engine. Because it has similar properties to petroleum diesel fuel, biodiesel can be blended in any ratio with petroleum diesel fuel. The advantages of biodiesel are:

- Renewable - vegetable oil or animal fat derived fuel
- Carbon Neutral
- Simple to make
- Non-toxic
- Free from sulphur (< 0,001 %)
- The only alternative fuel that can be used in any engine without any prior modification
- Less noxious fuel & exhaust emissions
- Can be used neat or blended in any ratio with petroleum diesel
- Biodegradable and unobjectionable as sugar
- Higher Lubricity - can prolong engine life
- Dramatically reduced emissions
- High flashpoint
- Technology is open and not owned by multinational corporations

BIODIESEL INDUSTRY

The Australian biodiesel industry is still very much in its infancy. The Australian federal government has provided two initiatives (a capital grant scheme that is now closed, and an excise rebate scheme) with the objective to grow the production of biodiesel to 350ML by the year 2010.

Comparatively, the largest biodiesel producer is Europe and globally is Germany which in 2004 produced over 1 billion litres and is forecast to produce around double that amount in 2006. The bulk of Europe's biodiesel is made from canola oil because of the cold weather capabilities of a canola-based biodiesel and the abundance of the raw material in Europe.

Australia's adoption of renewable fuels and biodiesel has been slow. The government sponsored capital grant scheme and excise rebate has favoured larger biodiesel producers located in major population centres, rather than those regional areas where higher diesel fuel prices have a greater economic impact.

In the last 12 months a plethora of projects have come forward as renewable fuels become more economic and the expectation for petroleum diesel become increasingly uncertain.

BIODIESEL AND REGIONAL AUSTRALIA

Biodiesel offers regional communities the ability to establish their own production facility, increase their regions capacity, reduce their reliance upon the multi-national oil companies and add value to their local economies. Apart from the benefits of providing cheaper fuel, by making their own oil a current impost on a community turns into a value added product that will have significant flow on benefits in the community.

Communities can manufacture their own biodiesel at a price significantly lower and at a quality that is superior to that of petroleum based diesel (based on the current tax regime). It is these same regional communities that are struggling at the moment with the increase of fuel prices and pressure that it is placing on their business and industry. In Australia our regional communities have an abundance of resources available for the manufacture of renewable fuels – we lack the capital, infrastructure and supportive government to facilitate the establishment of the industry in regional areas and as such their have been limited projects to date in regional areas.

Renewable fuels are positive projects for communities to embrace. There are numerous case studies and examples in Europe and USA where renewable fuels are more widely accepted and embraced that demonstrate the benefits to regional communities through adoption of these projects.

They give rural communities the ability to be self sufficient for their fuel and energy requirements that is currently a significant impost on their business and livelihoods. Renewable fuels also have the capacity to create other benefits for the community, directly through creating employment opportunities and indirectly through providing community dividends.

Biodiesel has the potential to stabilise local economies and by reducing their reliance upon the oil companies reverse the current cash flow cycle with fuel distribution profits coming back into regional communities. For grain growers, biodiesel offers them the ability to convert a variable cost to a fixed allocation of their crop to oil based and thus control their fuel costs.

CONTACT DETAILS

Please contact for comments from Bioworks Australia Pty Ltd:

Mr Martin Aldridge
Director
0427 972 028
email: maldridge@bioworks.com.au