



Peter Hallahan  
Committee Secretary  
State Economics Legislation Committee,  
Suite SG.64, Parliament House  
CANBERRA ACT 2600

17 Francis Street  
Goondiwindi Qld 4390  
Ph 0746713780

14 August, 2006

Dear Mr Hallahan,

**Re:- Inquiry into the Price of Petrol in Australia**

Please accept this submission into the above inquiry as a view from a rural fuel distributorship.

Lowes Petroleum is a major fuel distributor servicing over 9,000 customers from Toowoomba west to Birdsville in Queensland: south to Newcastle and Forbes in western New South Wales.

We service a large rural area through a network of 24 local depots and service stations.

We would like to direct our submission at:-

1. Metropolitan V's Rural Distributorships.
2. Fuel Excise and GST.
3. Alternative Fuels – Compliance and Consumer Protection.
4. Compliance Burden – Fuel Claims and Subsidies.
5. Fuel Sales Grant Scheme & "Off Road" Fuel Subsidies
6. Recommendations.

**1. Metropolitan V's Rural Distributors**

Rural Distributors are required to pay fuel excise of 38.143 cpl in the price of fuel at the time of purchase ex terminal gate.

Oil company majors and some independent distributors who sell or supply ex their major storage facilities termed "underbond" warehouses, only pay the fuel excise to the government once a week, based on sales.

This is a huge cost saving advantage over rural distributors as in most cases they (underbond warehouse suppliers), have charged for and received the excise back prior to paying for it. The collection of excise could actually be cash flow positive for them. ie most sales being for cash into retail customers.

Rural distributors have the added costs of:-

- a. Freight
- b. Depot facilities / infrastructure
- c. Stock holdings.
- d. Greater percentage of account customers, ie.primary producers, compared to metropolitan distributors who have more cash customers, ie.service stations.
- e. Lower retail volumes.

Rural customers pay for these added costs in their fuel price.

There are currently only approximately 120 Fuel Distributors throughout Australia with the number expected to decline further and more depots closing through rationalization. This leads to higher costs in servicing smaller communities in regional and remote areas and therefore higher fuel prices.

## **2. Fuel Excise and GST**

As a result of the way excise is collected rural fuel distributors carry the debt for customers and the government. Lowes Petroleum collected over \$65 million in excise in the last 12 months at a finance cost of \$621,000 which required working capital of approximately \$8.9 million.

Distributors receive funds back for excise paid only when the customer pays for their fuel, (up to 60 days). If the customer fails to pay their account the distributor cannot claim the excise back. (different to GST).

Fuel excise represents approximately 31% of a distributors cost of goods. No business should be expected to provide over 30% of its working capital to cover the cost of collecting government revenue. Gst is on top of these figures / costs.

The finance cost of fuel excise collection is passed on in the price of fuel to customers. This is particularly high for rural fuel distributors and therefore rural customers.

## **3. Alternative Fuels – Compliance and Consumer Protection**

Whilst we actively support the use of ethanol and biodiesel as alternative fuels, we are concerned about the lack of government legislated controls on the distribution and blending of biodiesel.

There are currently no invoicing requirements for biodiesel blends eg. B20 (20% biodiesel – 80% diesel) can be invoiced as diesel. Consumers are entitled to know what they are buying.

Consumers could unknowingly be sold biodiesel blends as diesel which may or may not meet the diesel fuel standard.

If the consumer is unaware of the product, the price advantage would not need to be passed on to be competitive.

The end user may lodge a false claim for excise refund in the case of the product not meeting diesel fuel standards. eg. the biodiesel portion is not eligible for the “off road” diesel claim of 38.143 cpl in that case.

We believe ATO Compliance urgently require the legislation and tools to protect consumers, fuel distributors and the government in product quality, pricing and revenue. The biodiesel manufacturer and industry also require protection to ensure their success. Without protection the industry may follow the initial uncontrolled introduction of ethanol which lead to higher percentage blends for greater profit, resulting in loss of consumer confidence in the product.

#### **4. Compliance Burden – Fuel Claims and Subsidies**

Various Federal and State Government fuel subsidies and claims are available at different levels. Those in Queensland and New South Wales only include:-

##### Queensland

Distributor claims:-

1. Retail Sales (on road) – petrol and diesel – 8.4 cpl (Qld Fuel Subsidy Scheme – State)
2. Burner Fuels – sales to non-business customers – 38.143 cpl (Fuel tax credit via BAS – Federal).

End User Claims:-

1. Bulk fuel – “on road” petrol and diesel – 8.4 cpl (Bulk End User Claim – State)
2. Bulk fuel – “off road” diesel – 38.143 cpl ( Fuel tax credit via BAS – Federal)
3. Retail & Bulk fuel – “on road” diesel, vehicle > 4.5 tonnes – 18.51 cpl (Fuel tax credit via BAS – Federal)
4. Biodiesel blends that do not meet diesel fuel standards – vehicle > 4.5 tonnes – 14.808 cpl (Energy Grants Credit Scheme - Federal)

##### New South Wales

Distributor claims:-

1. Retail & Bulk fuel – “on road” petrol and diesel – 5 zones – 1.67 cpl to 8.35 cpl, higher subsidy closest to Queensland border tiered to decrease to zero. (Petroleum Products Subsidy Scheme – State)
2. Burner Fuels – sales to non-business customers – 38.143 cpl (Fuel tax credit via BAS – Federal).

End User Claims:-

1. Bulk fuel – “off road” diesel – 38.143 cpl ( Fuel tax credit via BAS – Federal)
2. Biodiesel blends that do not meet diesel fuel standards – vehicle > 4.5 tonnes – 14.808 cpl (Energy Grants Credit Scheme - Federal)

An example of the ‘red tape’ is a typical primary producer in Queensland. Claims for an average bulk fuel delivery of 600 litres of Unleaded, 10000 litres of Diesel and a 200 litre drum of kero consist of:-

1. Unleaded petrol – for motor bike & car – Bulk End User Claim – 8.4 cpl
2. Diesel – for tractor – “off road” use – Fuel tax credit via BAS – 38.143 cpl
3. Diesel – for truck – “off road” use – Fuel tax credit via BAS – 38.143 cpl
4. Diesel – for truck – “on road” use - Fuel tax credit via BAS – 18.51 cpl
5. Diesel – for truck – “on road” use – Bulk End User Claim – 8.4 cpl
6. 200 litre Drum Kero – for home heating – Fuel tax credit via BAS – 38.143 cpl

Plus GST Credits.

As you can see from the above the fuel industry compliance and claim requirements are confusing and add costs to distributors and end users. It therefore increases prices across the board.

The price of fuel to most primary producers actually ends up being higher with claims not being lodged due to:-

- a. Untidy record keeping, lost paperwork
- b. Lack of knowledge
- c. Just cannot be bothered, not worth the time involved
- d. Concerned about compliance issues

## **5. Fuel Sales Grant Scheme (FSGS) & "Off Road" Fuel Subsidies**

The abolition of the FSGS, (1 & 2 cpl rebate for regional and remote areas) as from 1/07/2006 automatically increased the cost of all fuels for customers in these areas. The scheme was introduced on 1/07/2000 to alleviate the effect of tax on tax (gst on gst) for regional and remote areas due to freight etc.

As from 1/07/2008, end users of all fuel (petrol & diesel) used "off road" will be eligible to claim 50% of excise back. The claim amount will increase to 100% (38.143 cpl) as from 1/07/2012. Government figures expect the "off road" claimants to increase from 185,000 to 1.2 million. With all "off road" diesel users in regional and remote areas now registered, the figures would suggest that the major beneficiaries of the change will be metropolitan and urban consumers.

It is hard not to draw a parallel between the removal of the FSGS costing \$270 million pa and the extension of the "off road" fuels rebate, which government estimate to cost \$1.5 billion to 2013 (ie \$214million pa). The policy change has certainly added to the cost of fuel in regional and remote areas.

## **6. Recommendations**

- (i) Fuel Distributors to claim direct from government for "off road" diesel sold. Distributors to receive payment in advance for the excise refund due on projected eligible "off road" diesel sales, or distributor to claim back weekly. End user still required to lodge claim details on their BAS.
- (ii) Distributors to supply ATO with ABN and fuel purchase details for all bulk purchases of "off road" diesel.
- (iii) Distributors to supply ATO with ABN and fuel purchase details for all biodiesel sales, especially where the product fails to meet the diesel fuel standard.
- (iv) Invoices for biodiesel to show proportion of blend, (ie. B5, B10, B20 etc.) including if the end product meets the diesel fuel standard.
- (v) Reduce 'red tape' due to the existing fuel claims and subsidies. Federal and State government departments require cooperation and coordination to meet this common agenda.

These Recommendations would:-

- a. Reduce invoice price and up front cost to "off road" diesel customer by 38.143 cpl plus gst. (\$1.40 to \$0.98)
- b. Assist cash flow and finance costs for customer and distributor thereby helping reduce the price of all fuels. This is especially relevant to rural customers and distributors.

- c. Offer ATO a means to reconcile and audit "off road" fuel claims against sales. ie. BAS details against distributor sales information. Particularly relevant when claimants increase from 185,000 to 1.2 million.
- d. Offer ATO a means to reconcile and audit biodiesel blends and claims.
- e. Protect the rights of the consumer to know what they are purchasing, straight diesel or a biodiesel blend and the quality of the product.
- f. Ensure the consumer using a biodiesel blend receives a potential price benefit, according to the quality and blend percentage. ie. Low quality biodiesel may only allow a blend proportion of 5% (B5) to meet diesel fuel standards. High quality biodiesel may allow a blend proportion of 20% (B20) and still meet the diesel fuel standard.

Thank you for allowing us this submission on the inquiry into the price of petrol in Australia.

Yours sincerely,

Alan Welsh  
Logistics Manager  
Lowes Petroleum Service