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The Secretary
Select Committee on Fuel and Energy
PO Box 6100
Parliament House
CANBERRA ACT 2600

SENT VIA EMAIL: fuelenergy.sen@aph.gov.au

Dear Secretary,

Submission re Fuel and Energy

In response to the letter from the Chair of the Select Committee dates 10 July, CFMEU Mining & Energy wishes to make a number of points, primarily concerning the applicability and merit of the fuel tax credit system in the context of the shift to the pricing of greenhouse gas emissions under the impending Carbon Pollution Reduction Scheme.

The union will therefore not be seeking to address much of the Terms of Reference of the Committee.

The key point made is that the concessional rate of fuel tax credit for the mining industry should be phased out as it is a subsidy that a highly profitable internationally competitive industry should live without.

CFMEU Mining & Energy

The union is a division of the Construction, Forestry, Mining & Energy Union, one of Australia's largest unions. CFMEU Mining and Energy is the largest union in the Australian mining industry, with the bulk of its members in the coal industry where we represent the vast majority of all production and maintenance workers. We also have significant membership in the power generation industry. There are approximately 20,000 members of the CFMEU within the Mining & Energy Division.

CFMEU Mining and Energy therefore has a very large stake in the economic performance of, and prospects for, Australia's mining and energy industries.

The multiplier effect of coal and power jobs

While the mining and power generation industries have fairly normal multiplier effect within the national economy as a whole (1 to 2 more jobs for each mining and power job) the multiplier effect is far higher at the regional level, as mining and power jobs are located in regions where they are the dominant or a major industry and provide the basis for much other employment and economic activity in those regions. The multiplier effect of coal and power jobs at a regional level is around 4-5 further jobs for every core job.

CFMEU Mining & Energy is therefore very much aware that changes in the cost structures of the mining industry will have significant flow-on effect in mining-dependent regions.

Exports and international competitiveness

The vast bulk of Australian mineral production is exported and is therefore highly exposed to international competitive pressures. This includes coal mining where the bulk of the CFMEU mining membership is based. Around 80% of coal production is exported, and in the current financial year the revenue from coal exports is expected to exceed A$55 billion. It is easily the most valuable export industry Australia has.

The union is acutely aware that the mining industry is not a "cost-plus" industry and is not able to automatically pass on cost increases to its customers. That said, the experience over the last decade is that Australian mining is extremely competitive internationally, and the major mining companies have been able to achieve large increases in mineral prices due to rising demand and the capacity to supply that demand.

The Carbon Pollution Reduction Scheme (CPRS)

After more than a decade of public debate, the new Australian Government is moving towards the deployment of an emissions trading system (ETS) by 2010. The move in general enjoys widespread support as the introduction of an ETS was also proposed by the previous Coalition Government.

CFMEU Mining & Energy is a vigorous supporter of the introduction of an ETS. It is a central component of shifting the economy and society of Australia (and the world) onto the low carbon path that is essential to mitigate global warming.

The union also supports an increased Mandatory Renewable Energy Target (MRET) and further development of the Kyoto Protocol. Importantly, we also support an accelerated program for Carbon Capture and Storage (CCS), and have called on the Australian Government to commit to at least 10,000 GWh per year of CCS power by 2020 as part of a global effort to have CCS commercially available from 2020.[1]

Commercialising CCS is critical to enabling the use of fossil fuels while reducing greenhouse gas emissions to the atmosphere, and will be central to the future of Australia's coal and LNG exports.

Conflicting policy signals in the fuel tax regime

The Australian Government levies excise on the use of most liquid fossil fuel, mostly at 38.143 cents per litre. This tax was introduced to encourage reductions in the use of such fuel in light of dwindling Australian and global oil reserves.

That rationale now dovetails with the need to reduce emissions from the use of fossil fuels.

However, the Australian Government also chooses to rebate this levy for certain kinds of business activity – notably heavy road transport, mining and agriculture. These industries therefore do not receive the same signal to reduce oil use that the rest of the community and other businesses face.

Even before the proposed introduction of the CPRS, the use of fuel tax credits was hard to justify. The original rationale for the excise to fund road transport (and therefore that "off-road" use was entitled to an exemption) disappeared a long time ago.

[1] Joint letter from the Australian Coal Association, WWF, The Climate Institute and CFMEU Mining & Energy to the Prime Minister, 20 March 2008

It has been especially glaring that the mining industry, one of the most profitable industries in Australia, has received the highest rate of fuel tax credit. It is rebated the full 38.143¢ per litre, and so effectively receives its fuel free of excise.

This has provided the mining industry with an incentive, in relative terms, to use liquid fossil fuels, and it has taken up that incentive with gusto.

The Australian Taxation Office has stated that for the 2006-07 year, the mining industry was easily the heaviest user of the fuel tax credit schemes, claiming $1.47 billion of the $4.9 billion claimed. The next highest claim by an industry was transport and warehousing with $1.28 billion.

The latter industry made 171,085 claims for the credits, while the mining industry made just 6,735. This vast difference demonstrates that mining industry claims are made by a relatively small number of very large companies, while the transport claims often come from small businesses.

The mining industry's claims on the public purse have grown rapidly over the last decade, from $754 million in 1999-2000 to $1.47 billion for the most recently-reported year. It has virtually doubled over the course of 8 years.

A subsidy that brings discredit on the industry

That the mining industry receives such extensive fuel tax credits while claiming to be internationally competitive and unsubsidised has attracted significant criticism from an environmental perspective.[2]

The continuing level of significant subsidy weakens the substantial argument that the industry is otherwise able to make that is it one of Australia's great success stories. Industries that rely on subsidies or other forms of protection are not generally able to be portrayed as a success story.

Further, the mining industry is not a deserving case. There are no grounds in terms of equity, social justice or industry development to justify a significant subsidy to the mining industry. Even in

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[2] See, for example, Riedy, C. & Diesendorf, M., 2003, 'Financial subsidies and incentives to the Australian fossil fuel industry', *Energy Policy* 31 (2) 125-137

respect to regional development it would not appear that there are significant grounds. There does not appear to be an argument that significant operations would not proceed, or would close, if the fuel tax credit for mining were abolished.

The Australian mining industry is hugely profitable. The Australian Bureau of Statistics has the industry achieving an average before-tax profit rate of 36.5% in 2006-07 – a rate that would be the envy of most other industries. The operating profit before tax was $42. 1 billion.[3]

In this context the fuel tax credit cost to the Federal Government in respect of the mining industry - $1.47 billion – is a scandalous misdirection of taxpayer funds.

Even if the profit rate and quantum were not so high, there would still be no rationale for the mining industry receiving a higher rate of fuel tax credit than most other Australian industry.

CFMEU Mining & Energy Findings and Recommendations

1. The entire regime of fossil fuel excises and fuel tax credits needs to be restructured to reflect the twin imperatives of increasing oil scarcity and the need to reduce greenhouse gas emissions. We need to be reducing reliance on oil, not encouraging it.

2. The fossil fuel excise and fuel tax credit schemes need to be made consistent with the objectives of the Carbon Pollution Reduction Scheme. The Australian Government has proposed some initial steps in this direction with its CPRS Green Paper.

3. Ideally, the mining industry should not receive fuel tax credits at all. The industry should not receive benefits greater than those pertaining to households and most Australian business in their use of liquid fossil fuels.

4. Recognising that a significant section of Australian business activity now receives a lower level of fuel tax credit – 19.0715¢ per litre – the move to entirely abolish the fuel tax credit for mining would leave it disadvantaged relative to

[3] ABS (2008), *Mining Operations, Australia, 2006-07*. Cat. no. 8415.0, released 22 July.

other industry. Therefore, in the absence of more substantial reform of the fuel tax credit scheme, the mining industry credit rate should be reduced from 38.143¢ per litre to 19.0715¢.