AUSTRALIA'S RESPONSE TO THE G20 COMMITMENT TO REMOVE INEFFICIENT FOSSIL FUEL SUBSIDIES

Headline Statement

- Australia concluded that it had no measures that fell within the scope of the G20 commitment to remove inefficient fossil fuels that cause wasteful consumption.

Key Points

- In common with other agencies, Treasury was required to identify portfolio measures relating to the G20 commitment concerning inefficient fossil fuel subsidies. The conclusion was that no measures fell within the scope of the G20 commitment.
  - Japan, France, Brazil, UK, Saudi Arabia and South Africa also concluded they had no measures within scope.
- Australia's response to the G20 is publicly available on the G20 website (See attachment).
- Specific questions on existing government measures should be directed to Revenue Group.

Policy Commitments

- At the September 2009 G20 Pittsburgh Leaders' commitment, Leaders committed to remove inefficient fossil fuel subsidies which cause wasteful consumption. The commitment did not apply to measures targeted at the poor or supporting clean energy.
- G20 Finance Ministers have been asked to report on progress in implementing country-specific plans on removing inefficient fossil fuel subsidies at the November 2011 Leaders' Summit. Given Australia does not have measures within scope we do not expect to provide a progress report.

Contact Officer:

Name: Adviser:
Division: International and G20 Division
Telephone:
Date: 15/02/2011

Background

- Senator Milne has previously been critical of Australia's response to the G20 commitment. She has identified the fuel subsidies such as the fuel tax credit arrangements for miners, tax incentives for exploration, accelerated depreciation and the Fringe Benefits Tax arrangements for vehicles as measures which should have been identified as subsidies in our response to the G20.

- Under an FOI request, Greenpeace has received Treasury's advice to Government on the formation of our response to the G20.

Summary of other country responses

Argentina	Proposes to reduce household subsidy for propane gas consumption as natural gas access is expanded.
Australia	No inefficient fossil fuel subsidies.
Brazil	No inefficient fossil fuel subsidies. Lists several government measures in the energy sector related to the production or consumption of fossil fuels
Canada	Proposes to implement recently released draft legislation to phase out the accelerated capital cost allowance for oil sands assets over the 2011-15 period. Previously phased out other tax preferences applying to fossil fuel producers.
China	Proposes to gradually reduce the urban land use tax relief for fossil fuel producers.
France	No inefficient fossil fuel subsidies. Previously reformed subsidies for hard coal mining.
Germany	Proposes to discontinue subsidized coal mining in a socially acceptable manner by the end of 2018.
India	Proposes to work out implementation strategies and timetables for rationalizing and phasing out inefficient fossil fuel subsidies based on the recommendation of the Empowered Group of Ministers that has been constituted.
Indonesia	Proposes to phase out inefficient fossil fuel subsidies in a gradual manner in parallel through managing the demand side by adopting measures that will reduce fossil fuel energy consumption and by gradually narrowing the gap between domestic and international prices.
Italy	Proposes to continue with planned expiration of subsidy for certain cogeneration plants, and negotiate on a voluntary basis with private operators of these plants on the timing of their recess from the subsidy scheme.
Japan	No inefficient fossil fuel subsidies.
Korea	Proposes to phase out subsidies to anthracite coal and briquette producers.
Mexico	By continuing current policies and based on current market conditions, subsidies to gasoline, diesel and LP gas are expected to disappear in the medium term.
Russia	Proposes to implement the commitment to rationalize and phase out inefficient fossil fuel subsidies through national economic and energy policy, within the framework of its Energy Strategy 2030 and the Concept of Long-Term Social and Economic Development, as well as in the context of its joining the WTO.
Saudi Arabia	No inefficient fossil fuel subsidies. Saudi Arabia has a long-standing energy policy to improve the utilization of economic resources with emphasis on rationalization.
South Africa	No inefficient fossil fuel subsidies. Noting recently introduced electricity tax that applies to electricity generated from non-renewables as well as other relevant tax measures and incentives to reduce wasteful consumption and encourage clean energy development.
Spain	Proposes to implement current coal industry restructuring plan until 2012 when further restructuring will be considered.
Turkey	Proposes to work on a restructuring plan to rationalize the inefficient producer subsidies transferred to a stated-owned hard coal producing enterprise.
United Kingdom	No inefficient fossil fuel subsidies. Previously reformed subsidies for hard coal mining.
United States	Proposes to pass legislation to eliminate twelve preferential tax provisions related to the production of coal, oil, and natural gas.

AUSTRALIA'S SUBMISSION TO G20 ENERGY EXPERTS GROUP

Fossil fuel production

Australia does not have measures related to the production of fossil fuels that fall within the scope of the G20 commitment.

Australia is a significant fossil fuel producer. It produces oil, liquefied petroleum gas, natural gas and coal for domestic consumption and export.

Fossil fuel production in Australia is generally determined by market forces. The Australian Government does not impose trade restrictions on the import of fossil fuels. The import of fossil fuel is subject to a customs duty which is equivalent to the excise on domestically produced fuel. The Australian government does not provide significant budgetary or other sectoral assistance to the industry.

Budget assistance

Australian Government budgetary support for fossil fuel production is limited to measures that are intended to support production of clean energy. These measures are outside the scope of the G20 commitment.

Tax expenditures

Australia does not have any sector-specific tax expenditures for fossil fuel production (although fossil fuel producers are able to access general measures that apply across the economy or across the mining and quarrying sector as a whole).

In the 2008-09 Budget, the Australian Government abolished an excise exemption that previously applied to the production of condensate.

Fossil fuel consumption

Oil, coal and natural gas are consumed for transport, electricity generation, heating and other industrial purposes.

The Australian Government does not have measures related to the consumption of fossil fuels that fall within the scope of the G20 commitment.

The Australian Government does not regulate fuel prices (although petrol prices are subject to monitoring by the Australian Competition and Consumer Commission).

Contact Officer:

Name: Adviser:

Division: International and G20 Division

Telephone:

Date: 15/02/2011

Budget assistance

The Australian Government provides means-tested income support payments to low income earners. It does not provide any payments that are tied to the consumption of fossil fuel (such as heating oil or natural gas).

Under the *Australian Fuel Tax Act 2006*, the Australian Government provides a credit that partially or fully offsets the excise on the taxable fuel used by businesses (Fuel Tax Credit Scheme). The types of business users and the use of the fuel determine the amount rebated. For example, 100 per cent of the excise less a 'road user charge' is rebated for heavy on road transport. The 'road user charge' reflects the cost of road maintenance. Because of its relationship to the tax treatment of fossil fuel consumption, it is discussed below under 'tax expenditures'.

Tax expenditures

Production or import of fossil fuel in Australia is subject to excise and the consumption of any fuel is subject to the Goods and Services Tax (GST). The GST applies at a rate of one eleventh of the final retail price. Excise is levied on a volumetric basis.

The rate of excise that applies in Australia varies between different types of fossil fuels.

- LPG, CNG and LNG are currently exempt from excise.
- Aviation fuel excise is raised for the purpose of funding the operations of the Civil Aviation Safety Authority (CASA), the agency responsible for provision of aviation services.

These measures are listed as tax expenditures in the Australian Government's Tax Expenditure Statement (as the applicable excise rate is below the relevant benchmark rate).

The excise exemption for LPG, CNG and LNG was introduced to diversify Australia's sources of transport fuels. Its main effect is to encourage the substitution of two conventional fossil fuels (petrol and diesel) for other cleaner fossil fuels (LPG, LNG and CNG).

The measure does not fall within the scope of the G20 commitment as it does not encourage wasteful consumption.

To further improve the efficiency of Australia's fuel tax arrangements, the Australian Government recently confirmed in the 2010-11 Budget that it will phase-in excise on LPG, LNG and CNG between 1 July 2011 and 1 July 2015. At the end of this transition period, these fuels will be taxed at 50 per cent of the full energy content tax rate. *[The commencement of this measure has been delayed until 1 December 2011]*

Under Australia's tax system, consumption taxes are intended to apply to final consumption (rather than business inputs). In the case of the GST, the liability for the GST falls on the supplier but the incidence of the tax is intended to fall on the final consumer. To achieve this outcome, businesses who have incurred GST on their inputs are entitled to a tax offsetting input tax credit. Similarly, although the liability for fuel tax falls on producers or importers, the incidence of fuel tax is generally intended to fall on on-road users of light vehicles (with a road user charge applying to heavy vehicles). Therefore, like the GST input tax credits, businesses who have purchased fuel on which excise has been levied (other than those using the fuel in light on-road vehicles) are generally entitled to a fuel tax credit to offset the incidence of the tax.

Measures aimed at avoiding the application of consumption taxes on business inputs are not within the scope of the G20 commitment. Similarly, collecting excise from fuel producers or importers and rebating business users on whom the tax is not intended to apply is more efficient than requiring individual fuel vendors to apply different rates of tax at the point of sale depending on the customer.

Under Australia's tax framework, employers are taxed on certain benefits they provide to employees. The Fringe Benefits Tax applies to the provision of motor vehicles. The tax liability on employers for the provision of a motor car to employees reflects the extent to which the vehicle is used for private use. One of the methods available for determining this is the statutory method that uses distance travelled as a proxy for business use. The longer the distance travelled, the lower the effective tax rate paid by the employer. The purpose of this measure is to provide a simple way of determining the balance between business and private use. In addition, it applies to all costs associated with acquisition and operation of a motor vehicle, not only fuel. Also, it applies equally to all types of fuel (including renewables).

This approach which is aimed at providing a simple approach to determining the application of the Fringe Benefit Tax to the provision of motor vehicles does not fall within the scope of the G20 commitment.