

TREASURY EXECUTIVE MINUTE

Minute No.

14 September 2010

Secretary to the Treasury

cc: Executive Director, Fiscal Group

MEETING WITH AUSTRALIAN CONSERVATION FOUNDATION (ACF)

Timing: You are meeting Mr Don Henry of the ACF at 10am on Wednesday 15 September 2010.

Recommendation/Issue:

- that you note this briefing.

Noted

Signature:

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KEY POINTS

- Mr Henry has requested discussion on the following topics:
 - Section 22 fossil fuel subsidies (Attachment A);

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: Australia's commitment to the G20 to phase out fossil fuel subsidies.

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- The following areas have been consulted in the preparation of this minute: Infrastructure, Competition and Consumer Division, Budget Policy Division, Commonwealth State Relations Division, Macroeconomic Policy Division, International and G20 Division, Tax System Division.

Team Leader
Climate Change and Environment Unit

Contact Officer:

Ext:

Section 22**FOSSIL FUEL SUBSIDIES****Talking points**

- At the Toronto G20 Leaders' Summit, Leaders considered members' implementation plans to remove or rationalise inefficient fossil fuel subsidies. In their declaration following the Summit, Leaders called for the continued implementation of these plans.
- Australia concluded that it did not have measures within the scope of the G20 commitment. In Australia, consumers pay market rates for fuel and producers benefit only from economy wide or sector-wide concessions. No further work is expected in relation to the commitment by Australia.

Key points

- At the September 2009 G20 Pittsburgh Summit, the G20 committed to rationalise or remove inefficient fossil fuel subsidies that cause wasteful consumption. Measures supporting clean energy initiatives and the poor are out of scope.
- Australia concluded that it does not have measures that fall within scope of the commitment.
- G20 countries submitted implementation plans in response to the commitment for consideration by Leaders at the Toronto Summit. Australia made a submission to the G20 explaining why it considered it did not have measures within scope. The implementation plans and Australia's submission are available on the G20 website.
- Australia's position was based on defining a subsidy as a measure that reduces local prices below the market price (the price-gap approach). Australia's submission excluded assistance measures that are available across the economy or across the entire resources and energy sector as well as State and Territory measures.

- Australia does not subsidise fossil fuel consumption below the price of production. It is subject to different tax treatment depending on the type of fuel and the user (through excise exemptions for LPG, LNG/CNG and aviation fuel and the Fuel Tax Credits Scheme).
- Australia does not provide significant assistance to fossil fuel producers (although producers can benefit from economy-wide or sector-wide tax concessions, including some accelerated depreciation allowances).
- Australia’s approach to identifying subsidies within scope of the G20 commitment was similar to other G20 members. Section 33

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- Domestically, the Greens and environmental groups have been critical of the Government’s approach, arguing that Fuel Tax Credits and the FBT arrangements for vehicles fall within the scope of the G20 commitment.
 - The purpose of the Fuel Tax Credits Scheme is to avoid the incidence of a consumption tax on certain business inputs. Such measures are not within the scope of the G20 commitment.
 - The Fringe Benefit Tax arrangements for vehicles are designed to provide a simple way of determining the balance between business and private use. In addition, it applies to all costs associated with the acquisition and operation of a motor vehicle, not only fuel, and applies equally to all types of fuel (including renewables).

Background

- In its pre-budget submission, the ACF identified a number of Australian tax measures it considered would fall within the scope of the G20 fossil fuel commitment. These measures are Fuel Tax Credits, tax rates on aviation fuel, statutory effective life caps, FBT for vehicles and the 150 per cent deduction for petroleum exploration (which only provides a deduction in relation to the PRRT for exploration permits issued from 2004 to 2009).
- An article by Charles Berger from the ACF, published in *The Age* and the *Sydney Morning Herald* on 11 May 2010, claims that the mining industry receives over \$4 billion per annum in subsidies, including Fuel Tax Credits (\$1.7 billion), tax breaks on exploration (\$1 billion), no carbon price on greenhouse gas emissions (\$1.3 billion), and Geoscience Australia expenditure on exploration (\$130 million).

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