G20 COMMITMENT TO REMOVE INEFFICIENT FOSSIL FUEL SUBSIDIES

Headline Statement

- Australia has met its obligations under the G20 commitment to remove inefficient fuel subsidies that cause wasteful consumption.
- Australia had no measures that fell within the scope of the G20 commitment.

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 A).
- 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.
- The Australian Government announced in its 2011-12 Budget a reform of current statutory formula for valuing car fringe benefits by replacing current progressive rates with a flat rate of 20 per cent (over a four year period).

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Phasing out the current car fringe benefit treatment is a sensible reform from both taxation and an environmental perspective. The changes will potentially remove the tax incentive for people to travel longer distances, using more fuels, in order to obtain a larger tax concession. This reform will lead to an estimated gain to revenue of $970 million over the forward estimates.

- The Government also has:
  - introduced legislation for the taxation of gaseous fuels, which will bring in $518.5 million over four years (this figure was already included in the forward estimates from its announcement in 2003); and
  - capped annual claims under the Liquefied Petroleum Gas (LPG) Vehicle Scheme at 25,000 claims to help fund rebuilding in flood affected areas. This will provide savings of $96 million over three years.

Background

- Under an FOI request, Greenpeace received (on 24 December 2010) Treasury's advice to Government on the formation of Australia's response to the G20's fossil fuel subsidy commitment.

  The documents released under the FOI request included Treasury's comments on a 'traffic light report' of 17 fossil fuel related measures put together by DRET (See Attachment B). Treasury's executive minute to the Treasurer of 8 April 2010 identifying potential measures was also released (See Attachment C).

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- 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.
- Senator Brown has recently on numerous occasions (including an interview with Chris Uhlmann on ABC 7.30 Report on 17 May 2011) called for tax breaks, in particular, diesel fuel rebate for miners to be phased out and redirected to renewable energy research and development. Senator Brown said in the interview that "we (the Australian Government) give $11 billion of subsidies to the polluting fossil fuel industries. For example, $1.7 billion to the coal mining industry so that they pay 38 cents a litre less for their fuel than the average punter in Australia".
- In November 2009 APEC Leaders made a similar commitment to rationalise and phase out over the medium term fossil fuel subsidies that encourage wasteful consumption. At the recent APEC meeting in Montana, Ministers Responsible for Trade reaffirmed the Leaders' commitment and instructed officials to establish a work program on this issue in APEC,

including leverage capacity-building, and the development of a voluntary reporting mechanism, consistent with approaches in the G20.

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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.

ATTACHMENT A: AUSTRALIA'S SUBMISSION TO G20

See the separate document that has been provided

ATTACHMENT B: TRAFFIC LIGHT REPORT WITH TREASURY'S COMMENT

See the separate document that has been provided.

ATTACHMENT C: TREASURY'S EXECUTIVE MINUTE TO THE TREASURER

See the separate document that has been provided.

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