

TREASURY EXECUTIVE MINUTE

Minute No.

13 September 2010

Secretary to the Treasury

MEETING WITH AUSTRALIAN CONSERVATION FOUNDATION (ACF)

Timing: You are meeting Mr Don Henry and Mr Chuck Berger 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

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- Mr Henry has also written to you and the Treasurer proposing reforms in the following areas (several of which are touched upon in the *Better than Growth* paper):

– **Section 22** fossil fuel subsidies;

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- Briefing on these issues is provided at **Section 22** .
- The following areas have been consulted in the preparation of this minute: International and G20 Division, Macroeconomic Policy Division, Infrastructure, Competition and Consumer Division, Budget Policy Division, Commonwealth State Relations Division, Social Policy Division, Sustainable Population Strategy Taskforce, Tax System Division, Corporations and Financial Services Division.

Contact Officer:

Ext:

Team Leader
Climate Change and Environment Unit

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Theme 7: Better Taxation

The ACF's recommended tax policy directions include:

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- Increasing taxation on fossil fuels to reflect their full externality cost; and

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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. Despite not having measures within scope, Australia made a submission to the G20 explaining why 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 identify subsidies within scope of the G20 commitment was similar to other G20 members.

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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 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 acquisition and operation of a motor vehicle, not only fuel. Also, it applies equally to all types of fuel (including renewables).

Background

- In its pre-budget submission, the Australian Conservation Foundation (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 PRRT for exploration permits issued from 2004 to 2009).
- An article by Charles Berger from the Australian Conservation Foundation (ACF), published in *The Age* and the *Sydney Morning Herald* on 11 May 2010, claims that the mining industry is 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), Geoscience Australia expenditure on exploration (\$130 million).

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