Background Brief – Fossil Fuel Subsidies

Objective and Australian Position

This brief provides a state of play on the G20's work to implement the commitment to phase out inefficient fossil fuel subsidies that cause wasteful consumption. Australia has met its obligations since we had no measures within scope of the G20 commitment

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The OECD is due to release the report *Estimates of Fossil Fuel Subsidies in OECD countries* in early October which will identify Fuel Tax Credits, among other tax expenditures, as Australian government policies that support the production or consumption of fossil fuels. However, measures aimed at avoiding the application of ~~consumption~~ taxes to business inputs (such as Fuel Tax Credits) are not within the scope of the G20 commitment.

Australia's responses to the G20 commitment on fossil fuel subsidies will continue to resonate domestically. Fossil fuel subsidies will also remain a sensitive issue beyond the G20, such as in other international forums including APEC Section 33

[This briefing may require updating to reflect outcomes from the G20 Fossil Fuel Subsidy Working Group meeting on 14 September]

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Key Issues

- Australia has met its obligations under the G20 commitment to remove inefficient fossil fuel subsidies that cause wasteful consumption.
- Australia submitted its response to the G20 concluding that we had no measures within scope of the commitment.
  - Six other countries – Japan, France, Brazil, UK, Saudi Arabia and South Africa, also concluded they had no measures within the scope. Given Australia does not have measures within scope we do not need to provide a report on progress to G20 Leaders in November.
- Beyond the G20, a number of other initiatives are under way to progress fossil fuel subsidy reform. These will continue to generate international momentum for fossil fuel subsidy reform, and may require Australia to undertake a similar exercise to that recently completed in the G20 to identify policies that support fossil fuels.

BACKGROUND

The G20's commitment on fossil fuel subsidies

- 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 Leaders re-affirmed their commitment at the Toronto and Seoul Leaders' Summits in 2010, and member countries presented submissions, concerning strategies and timeframes for implementing national-level policies to rationalise and phase out inefficient fossil fuel subsides at the June 2010 Toronto Summit.
- 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. No further action is required from Australia.

Australia's response to the G20 commitment

- Australia submitted its response to the G20 at the June 2010 Toronto Summit, concluding we had no measures related to the consumption of fossil fuels that fall within the scope of the G20 commitment.
- Direct Australian Government budgetary support for fossil fuel production is limited to measures supporting the production of clean energy, particularly in relation to carbon pollution reduction. These measures are out of scope of the G20 commitment.
- Japan, France, Brazil, UK, Saudi Arabia and South Africa also concluded they had no measures within scope of the commitment.

Work on fossil fuel subsidies beyond the G20

- The **OECD** has produced two papers on fossil fuel supports, providing estimates of direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in selected OECD countries.
  - One paper estimates Australian support for fossil-fuels at around AUD 7.2 billion annually, predominately on the consumer support for petroleum, in particular, ~~f~~Fuel ~~t~~Tax ~~c~~Credits (AUD 5 billion) which is the highest among the assessed OECD countries. The paper is expected to be published on a joint OECD-IEA website during the week of 5 to 9 ~~in early September~~October.
  - In its submission to the G20 in 2010, Australia reported that measures aimed at avoiding the application of ~~consumption~~ taxes to business inputs (such as Fuel Tax Credits) are not within the scope of the G20 commitment.

- Fuel Tax Credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by businesses off road or in heavy on-road vehicles. The incidence of fuel tax is intended to fall on fuel use in private vehicles or for other private purposes and in light on-road vehicles used by business.

- Similar to goods and services tax input tax credits, fuel tax credits remove taxation from business inputs. Their purpose is to avoid distorting business investment decisions and behaviour that would occur through taxing business inputs. ~~Under Australia's tax system, consumption taxes are intended to apply to final consumption (rather than business inputs). Therefore businesses that purchase fuel on which fuel excise has been levied are generally entitled to a fuel tax credit to offset the incidence of the tax, similar to GST input tax credits.~~

• In November 2009 **APEC** Leaders made a commitment to rationalise and phase out over the medium term fossil fuel subsidies that encourage wasteful consumption — modelled closely on the language used in the G20 Leaders' Statement.

  - At the May APEC meeting in Montana, Ministers Responsible for trade reaffirmed the APEC Leaders' commitment and instructed officials to establish a work program on this issue in APEC, including the development of a voluntary reporting mechanism, consistent with approaches in the G20.

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Domestic policy measures

- The Greens and a number of non-government organisations have previously been critical of Australia's response to the G20 commitment on fossil fuel subsidies. For example, Senator Milne has previously identified measures 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.

- The Australian Government announced in its 2011-12 Budget a reform of the 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). The changes 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 legislation received royal assent on 29 June 2011; and

  - capped annual claims under the Liquefied Petroleum Gas Vehicle Scheme at 25,000 claims to help fund rebuilding in flood affected areas. This will provide savings of $96 million over three years.

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