FOI 3396
Document 1

Australian Government
The Treasury

Meeting Brief

MB23-000047

FOR INFORMATION - Treasurer meeting with Minerals Council of Australia CEO, Tania Constable, on Thursday 16 February 2023

TO: Treasurer - The Hon Jim Chalmers MP
CC:

PURPOSE OF MEETING

- The Minerals Councils of Australia (MCA) is expected to raise its opposition to the Fuel Tax Credit (FTC) proposal released by the Grattan Institute in its paper 'Fuelling Budget Repair – How to Reform Fuel Taxes for Business.'
- The MCA has stated in its Pre-Budget Submission 2023-24 that it wants the Government to retain FTCs in their current form.

KEY MESSAGES

- The FTC scheme is available for eligible businesses to remove the tax burden on fuel used as an input when producing goods and services.
  - FTCs are available for light vehicles travelling off public roads or on private roads, heavy vehicles, and certain non-vehicle settings (machinery, plant and equipment). Examples of FTC recipients include farmers, miners, and heavy vehicle operators (where the credit is reduced by the road user charge).
  - The heavy vehicle industry relies on FTCs as a cash flow source to pay other taxes as part of their BAS lodgements. In addition, many transport contracts would need to be renegotiated if the FTC regime were to change significantly, thus a long lead time would be needed.
- The Grattan Institute's paper recommends the full removal of FTCs for heavy on-road vehicles and auxiliary equipment. The paper also recommends the partial removal of FTCs for off-road vehicles.
  - Grattan's rationale is to address the environmental impacts of burning diesel, contribute to budget repair, reduce the preferential tax treatment of heavy vehicles, contribute to the upkeep of roads and provide deregulation savings.

  - Grattan considers that its recommendations will only have a small impact on households' cost of living. Grattan estimates the average increase in prices would be around 0.35 per cent, or 35 cents on a $100 grocery shop.
  - Treasury has not examined the modelling in the paper.

- Following the release of the Grattan Report, the MCA issued a media release disagreeing with the paper's claim that FTCs are a subsidy and argues that removing FTCs will lead to higher grocery and travel costs. The MCA does however acknowledge that those who use roads and bridges should contribute to the cost of their repair. It also notes the contribution that the mining sector makes through taxes and royalties paid to the Government.
  - The MCA is expected to ask the Treasurer to rule out abolishing the FTCs to provide businesses certainty.
    - The Prime Minister ruled out any changes to FTCs during question time on 8 February.

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[redacted]

- The MCA recommended in its 2023-24 pre-budget submission that the Government should retain the FTC in its current form, noting that a range of industries including mining, agriculture, tourism and fishing rely on FTCs. The MCA also argues that FTCs are not a subsidy and are needed to ensure that business inputs are not taxed.

BACKGROUND

Fuel Tax Credits and Road User Charge

- FTCs provide businesses with a credit for the excise that is included in the price of fuel if the fuel is used in light vehicles travelling off public roads or on private roads, heavy vehicles, or certain non-vehicle settings (machinery, plant and equipment).
  - The FTC is in effect a rebate of the excise included in the price of fuel.
- The rate of FTC depends on the size of the vehicle and where it is used.
  - Those businesses operating vehicles on private roads such as miners and farmers receive a full FTC. This equates to the rate of fuel excise, which is 47.7 cents per litre.

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The Grattan Report

- The Grattan Institute paper 'Fuelling Budget Repair – How to Reform Fuel Taxes for Business' was released earlier this month.
- It makes three recommendations:
  - Remove FTCs for heavy on-road vehicles, increasing the effective fuel tax rate to 47.7 cents per litre, indexed to CPI.
  - Reduce FTCs to 25.6 cents per litre for fuel used off-road. This will increase the effective fuel tax rate to 22.1 cents per litre, indexed to CPI.
  - The on-road fuel tax rate should apply to all fuel used on-road, including fuel used for powering auxiliary equipment.
- Grattan claims these changes could save the budget $4 billion per year and cites a number of justifications including:
  - the environmental and health impacts of burning diesel;
  - the budgetary cost of FTCs;
  - the preferential tax treatment of heavy vehicles which receive FTCs, while light vehicles on public roads do not;
  - the regulatory burden of claiming FTCs; and
  - the need for heavy vehicles to contribute more to road repair.
- Regarding the environmental impacts, Grattan notes the benefits of FTCs go towards sectors which contribute significantly to Australia's emissions such as mining, transport and agriculture.
  - Grattan has noted Mineral Council members which receive large FTCs include BHP, Rio Tinto and Glencore Holdings.
- The paper claims that the recommendations will only have a small impact on household budgets.
- The mining, farming and heavy vehicle industry associations are universally opposed to the recommendations in the paper.

MCA Pre-Budget Submission

- The MCA's pre-budget submission focusses on 8 key areas:
  - tax settings, including the preference to retain FTCs in their current form;
  - workplace relations rules;

- the transition to net zero emissions;
- environmental and heritage protection;
- beneficial Aboriginal and Torres Strait Islander partnerships;
- industry-led skills, training and apprenticeships;
- trade, investment and exploration opportunities; and
- innovation and productivity gains.

SENSITIVITIES

s 22

Clearance Officer
s 22
Director
Industry and Indirect Tax Policy Unit
13 February 2023

Contact Officer
s 22
Assistant Director
Ph: s 22

CONSULTATION

Tax Analysis Division, Labour Market, Environment, Industry and Infrastructure Division

ATTACHMENTS

A: Attendee

ATTACHMENT A: ATTENDEE

Tania Constable PSM, Chief Executive Officer, Minerals Council of Australia

Brief work history: Tania Constable PSM joined the Minerals Council of Australia in July 2018. Prior to joining the MCA, Tania was Chief Executive Officer of the CO2CRC (Collaborative Research Centre for Greenhouse Gas Technologies) a leading global research organisation testing carbon capture and storage low emission technologies in Australia.

Tania previously worked as chief adviser in the Personal and Retirement Income Division of Treasury, working on tax-related matters, and has had a long association with resources and energy, holding various senior executive roles in the Australian Government. Tania had responsibility for policy advice to the Minister for Industry on oil and gas regulation, exploration and development, and sustainable mining activities.

During this time Ms Constable was also the Australian Joint Commissioner and Sunrise Commissioner for Australia and Timor Leste, leading joint activities on the development of the Joint Petroleum Development Area and Greater Sunrise Project.

Personal details (if known): She was awarded the Public Service Medal in 2014 for outstanding public service in the development of Australia's liquefied natural gas and other resource and energy industries.

Source: MCA homepage, minerals.org.au

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The Treasury

Ministerial Submission

MS23-001070

FOR INFORMATION - s 22 [redacted]

TO: Treasurer - The Hon Jim Chalmers MP

KEY POINTS

s 22 [redacted]

s 22

Clearance Officer
Geoff Francis
Assistant Secretary
Tax Framework, Indirect, Industry and State Tax Branch
25 May 2023

Contact Officer
s 22
Analyst
Ph: s 22

CONSULTATION

Tax Analysis Division, Labour Market, Environment, Industry and Infrastructure Division, and Law Division

ATTACHMENTS

A. Additional Information

ATTACHMENT A – ADDITIONAL INFORMATION

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[redacted]

s 22 [redacted]

SENSITIVITIES

The Grattan Institute Report – Fuel Tax Credits

- The Grattan Institute's paper 'Fuelling Budget Repair – How to Reform Fuel Taxes for Business' recommends the full removal of FTCs for heavy on-road vehicles and auxiliary equipment. The paper also recommends the partial removal of FTCs for off-road vehicles.
  - The Prime Minister ruled out any changes to FTCs during question time on 8 February.
- In a media release published on 6 February 2023, the ATA criticised the recommendation from the Grattan Institute to remove FTCs for trucks, stating that it would increase the effective fuel paid by trucking businesses, ultimately leading to many trucking businesses either needing to pass on the cost of additional fuel prices or closing.

s 22 [redacted]

s 22

From: s 22
Sent: Friday, 16 December 2022 6:20 PM
To: s 22
Cc: s 47E(d)
Subject: RE: For input COB Tomorrow - Draft Grattan FTC report ~~[SEC=OFFICIAL:Sensitive]~~

Hi s 22 (and others for interest / comment),

Here are my WIP comments on the Grattan report from earlier.

As a macro comment, I agree with s 22 this is a very bottom-up report which takes the premise of removing FTCs for revenue reasons and then works out whether other justifications stack up, or whether FTCs "support" carbon abatement.

More detailed comments:

- Clangers:
  - Not all excisable fuels are levied at 46 cents (Box 1, page 8). The rate varies depending on the type of fuel.
  - The report argues there is no clear link between fuel excise and road infrastructure funding (Box 4, p 20). This overlooks the hypothecation of fuel indexation to road funding.
- Carbon abatement
  - There is an apparent reference upfront to the inherent technical difficulties in transitioning away from fuels in the transport sector, and indicates that this can't be done for diesel and other fuel users (p 9). This significantly undercuts the argument that removing FTCs could have a meaningful impact on transition. The report talks a lot about sending signals, accountabilities, and consistency with general carbon abatement goals, without actually analysing how removing FTCs would actually make a meaningful contribution to carbon emissions. This seems to be a big issue – it starts from the idea that cutting FTCs would be good for carbon abatement but doesn't actually model how that would happen.
  - Indeed, if the issue is how much transport contributes to emissions, that's more limited than is implied - [this CSIRO article]() puts transport emissions at 17.6% of Australia's total, although components of other categories, probably mainly stationary energy, are probably also attributable to fuel. But this means that we'd be removing FTCs possibly with no effect on transition to cleaner fuels and only to target maybe a 5th of emissions (I've been out of some of the discussions about transport emissions though, so could be wrong).
  - There's definite fudging of arguments about the carbon impacts of FTCs by references to how carbon-intensive are the industries receiving FTCs, e.g. box on page 15. This is along the lines of "the most carbon-intensive industries receive the most FTCs". But in only one place is it pointed out that only 1/5th of these industries' emissions is actually due to diesel combustion (pp 14-5), and again it's not clear how removing these industries' FTCs would affect that 1/5th.
- Health
  - Health externalities from fuel (i.e. fuel exhaust makes people sick) make more sense, and aren't presently accounted for in the system except inasmuch as health expenditure comes out of consolidated revenue. Unclear if this has been considered further, and would justify reducing FTCs (possibly for fuel use closer to residential or high-population-density areas, which the report says was done before and removed in the late 90s/2000s). Other recommendations relating to the quality of trucks (emissions standards, particulate standards) seem sensible, but we'd probably need more guidance from TACU.
- Roads
  - It's true that including heavy but not light vehicles from FTCs undermines the argument about the excise and the RUC recovering for damage to roads, this could just as easily justify extending FTCs to light vehicles too, provided the RUC appropriately recovered these costs. Currently, fuel as a business input for light vehicles is passed on in higher prices for consumers, which creates a distortion vis-à-vis heavy vehicles and off-road use.
  - Otherwise, fuel excise being a poor proxy for road infrastructure funding is better dealt with in, e.g., the Henry Review.
- Effect on business inputs
  - It's not particularly clear where the claim comes from that "so many businesses don't claim the credit, particularly small and medium businesses" (p 26). FTCs are very important where they are claimed, particularly in industries like trucking with very small margins. These businesses report significant

impacts from the recent fuel excise cuts, which also had the effect of removing FTCs, and face power imbalance in negotiating contracts with key distributors. The report seems to conflate small businesses not claiming the credits with small businesses not being *eligible* for the credits (they certainly seem to claim it when they're eligible, and it's important for them, or so they say).

- Impacts on cost of living
    - Many assumptions behind the analysis (chapter 3) about the impacts to customers aren't visible, so can't comment on correctness of modelling that it would only increase the costs of a standard $100 shop by $0.35. Would be worth checking with fuel companies whether it's defensible - back-of-the-envelope, removing FTCs, inc. RUC, would increase fuel costs by about 17% (assuming excise-inclusive fuel price $2.00).

Look forward to seeing where we land as interim comments and discuss further next year!

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s 22

From: s 22
Sent: Wednesday, 21 December 2022 10:16 AM
To: s 47F
Cc: s 22; s 47F Francis, Geoff; Mullaly, Damian; s 22 s 22
Subject: FW: Fuel tax credit report [SEC=OFFICIAL]
Attachments: 20221201 Review draft - not for circulation or citation.pdf

Categories: Fuel + Transport - FTCs - Grattan 2022 FTC report, Fuel + Transport

OFFICIAL

Hi Marion,

Apologies for the delay in sending our initial comments on the draft Fuel tax credit report. Please find our initial comments below:

- Figures that are rounded should be prefaced with 'approximately' (such as references to the FTC rate for heavy vehicle being 19c);

- The example in Box 2 on p 14 overlooks that the business currently pays $1.46 for the fuel (not $1.272). The business then claims the FTC via their BAS. A tax deduction is then claimed separately on the business's tax return. This difference is important because it affects the business's cash flows;

- Following on from the point above, the paper could include a discussion on how businesses in the heavy vehicle and farming industries have structured their operations around the benefits provided by the receipt of regular FTCs and how this will be affected by the report's recommendations;

- There are also a couple of things that are covered off in footnotes, consideration could be given to highlighting these in the actual main text:
    - The report argues there is no clear link between fuel excise and road infrastructure funding (Box 4, p 20). This overlooks the hypothecation of fuel indexation to road funding. This one in particular might be best covered in the actual text.
    - Not all excisable fuels are levied at 46 cents (Box 1, page 8). The rate varies depending on the type of fuel (we note this is covered in the footnotes).

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Kind regards,

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s 22 — **Director, Canberra**
Industry Tax Policy Unit | Indirect, Industry and State Taxes Branch
P +s 22 M s 22

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s 22 [redacted]

From: s 22 [redacted]
Sent: Thursday, 9 February 2023 5:11 PM
To: s 22 [redacted]
Cc: s 47E(d) [redacted] s 22 [redacted]
Francis, Geoff
Subject: RE: Request for input relating to fuel tax credits by COB 9 February 2023 ~~[SEC=OFFICIAL:Sensitive]~~

Follow Up Flag: Follow up
Flag Status: Flagged

Categories: Fuel + Transport, Fuel + Transport - FTCs - "Subsidy" language (Misc), Fuel + Transport - FTCs

~~**OFFICIAL:Sensitive**~~

Hi s 22 [redacted]

s 22 [redacted]

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In relation to the Grattan report, we suggest the below points:

- The Grattan Institute's paper recommends the full removal of FTCs for heavy on-road vehicles and auxiliary equipment. The paper also recommends the partial removal of FTCs for off-road vehicles.
  - The paper makes these recommendations to: address the environmental impact of burning diesel, contribute to budget repair, reduce the preferential tax treatment of heavy vehicles, contribute to the upkeep of roads and provide deregulation savings.
  - Grattan notes that its recommendations will have only a small impact on households' cost of living.

- The mining, farming and heavy vehicle industry associations have been universally opposed to the recommendations in the paper.

Hope this helps.

s 22 [redacted]

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s 22 [redacted] — **Assistant Director**
Indirect and Industry Tax Policy Unit
P s 22 [redacted] **M** s 22 [redacted]

s 22 [redacted]

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ISSUE – FUEL TAX CREDITS

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Grattan Report

- The Grattan Institute recently released a report *Fuelling budget repair: How to reform fuel taxes for business: https://grattan.edu.au/report/fuelling-budget-repair/*

- The Grattan Institute's paper recommends the full removal of FTCs for heavy on-road vehicles and auxiliary equipment. The paper also recommends the partial removal of FTCs for off-road vehicles.

  - Grattan's rationale is to address the environmental impacts of burning diesel, contribute to budget repair, reduce the preferential tax treatment of heavy vehicles, contribute to the upkeep of roads and provide deregulation savings.

  - Grattan considers that its recommendations will only have a small impact on households' cost of living. Grattan estimates the average increase in prices would be around 0.35 per cent, or 35 cents on a $100 grocery shop.

  - Treasury has not examined the modelling in the paper.

- The Prime Minister ruled out any changes to FTCs during question time on 8 February.

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DRAFT GRATTAN BUDGET REPAIR REPORT – MARCH 2023

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Wind back Fuel Tax Credits

- We note that the Grattan Institute has a previous paper on fuel tax credits titled ‘Fuelling Budget Repair: How to Reform Fuel Taxes for Business’.
- Treasury does not have any comments on this recommendation other than to note that the Prime Minister has already ruled out any changes to fuel tax credits.

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[redacted]