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Document 1

Traffic Light Report on Measures Potentially Relevant to G-20 Commitment

G-20 Commitment: *Enhancing our energy efficiency can play an important, positive role in promoting energy security and fighting climate change. Inefficient fossil fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change. The Organization for Economic Cooperation and Development (OECD) and the IEA have found that eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten percent. Many countries are reducing fossil fuel subsidies while preventing adverse impact on the poorest. Building on these efforts and recognizing the challenges of populations suffering from energy poverty, we commit to:*

- *Rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption. As we do that, we recognize the importance of providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms. This reform will not apply to our support for clean energy, renewables, and technologies that dramatically reduce greenhouse gas emissions. We will have our Energy and Finance Ministers, based on their national circumstances, develop implementation strategies and timeframes, and report back to Leaders at the next Summit. We ask the international financial institutions to offer support to countries in this process. We call on all nations to adopt policies that will phase out such subsidies worldwide.*

The traffic light report below lists policy measures in descending order of relevance to the G-20 commitment in accordance with reporting template and instructions issued by the G-20 Steering Group.

=Considered to be within scope

= Considered to be possibly within scope

= Considered to be outside the scope

Production Related

Policy Measure	**Relevance to the Commitment**	**Page Number**	**Listed for G-20? (Y/N)**
Increased deduction for petroleum exploration in designated offshore frontier areas		3	
Mining and quarrying exploration and prospecting deduction		4	
Statutory caps on the effective life of certain depreciating assets		5	
Coal Sector Adjustment Scheme		6	N

Comment [a1]: Our Business tax area has advised that this should be green. It is an exploration subsidy not a production subsidy.

Comment [a2]: Our Business tax area has advised that this should be green. It is an exploration subsidy not a production subsidy.

Consumption Related

Policy Measure	Relevance to the Commitment	Page Number	Listed for G-20? (Y/N)
Fringe Benefits Tax treatment of private motor vehicle use	●	8	
Excise exemption for LPG, CNG/LNG	●	10	
Fuel tax credit scheme	●	12	N
Excise treatment of aviation gasoline and turbine fuel	●	14	N
LPG Vehicle Scheme	●	15	N
Emission Intensive Trade Exposed Industry Assistance (CPRS and RET)	●	16	N
Electricity Sector Adjustment Scheme	●	17	N
Fuel Tax Adjustment Arrangements	●	18	N
Tasmania Freight Subsidy Arrangements	●	19	N
Government pricing arrangements for major energy users	●	20	N
Electricity cross-subsidies to rural areas	●	21	N
State government electricity and gas subsidies to low income households	●	22	N
Utilities Allowance	●	23	N

Draft List of Australian Government Fossil Fuel Subsidies for G-20 Commitment

Definition of a fossil fuel subsidy: *"A fossil-fuel subsidy is any government measure or program with the objective or consequence of reducing the effective cost for fossil fuels paid by consumers or of reducing the costs or increasing the revenues of fossil-fuel producing companies."*

Production Subsidies

1. Increased deduction for petroleum exploration in designated offshore frontier areas	
Description:	For Petroleum Resource Rent Tax purposes a ~~A~~ 150% uplift applies to ~~on~~ pre-appraisal exploration expenditure conducted in the first term of an exploration permit in a designated frontier area for annual acreage releases from 2004 through 2009.
Policy Objective:	To encourage the exploration and discovery of domestic petroleum and improve Australia's energy security.
Government Intervention:	Preferential tax treatment.
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	This policy measure should be regarded as an exploration subsidy, rather than a fossil fuel production subsidy. It reduces the tax liability payable by an exploration company and is therefore not directly related to the costs or revenues of a fossil fuel producing company. ~~This measure is categorised by Treasury as a tax expenditure. Treasury may consider it a subsidy as it reduces overall tax liability.~~ Measure is not directly related to either production or consumption of fossil fuels. Not targeted at the needy or designed to encourage the use of clean energy. The measure only applies in selected areas of little or no previous exploration, and which are ~~unlikely~~ less likely to attract further investment in exploration due limited information being available and higher risk profiles. This measure only applies to acreage release from 2004 to 2009, and is not scheduled to extend beyond this date. ~~It is possible that the measure could result in additional Government revenue if exploration undertaken as a result is successful.~~

	~~The measure could result in an increase in global reserves of fossil fuels but has no direct relationship to demand and usage.~~
Estimated financial value of measure per annum:	The 2009 Tax Expenditure Statement estimates the annual tax revenue forgone due to measure as between zero and $10 million.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Within the scope of the Review of Australia's Future Tax System. Other countries are likely to have similar measures in place.
Responsible Department:	Treasury.

2. Mining and quarrying exploration and prospecting deduction	
Description:	In certain circumstances expenditure (including capital) on exploration or prospecting for mining and quarrying (including coal mining) is immediately deductible to the full value of the asset. (Normally taxpayers claim deductions for the depreciation of assets over their effective life).
Policy Objective:	To encourage mining and quarrying exploration.
Government Intervention:	Preferential tax treatment
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	This policy measure should be regarded as an exploration subsidy, rather than a fossil fuel production subsidy. It reduces the tax liability payable by an exploration company and is therefore not directly related to the costs or revenues of a fossil fuel producing company.~~This measure is categorised by Treasury as a tax expenditure. Treasury may consider it a subsidy as it reduces overall tax liability~~ Measure is not directly related to either production or consumption of fossil fuels. .This measure applies more broadly than fossil fuels alone. Not targeted at the needy or designed to encourage the use of clean energy. ~~The measure contributes to increasing Government revenue through encouraging the identification of new energy and mineral resources, which once developed will provide additional royalty and taxation revenue.~~ ~~The measure could result in an increase in global reserves of fossil fuels but has no direct relationship to demand and usage.~~
Estimated financial value of measure per annum:	The 2009 Tax Expenditure Statement estimates the annual tax revenue forgone due to measure as between $100 million and $1 billion. This applies to all exploration activity and not those specifically related to fossil fuels.

Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Within the scope of the Review of Australia's Future Tax System. Similar measures may be available at the provincial level (ie Canada) and therefore not be listed.
Responsible Department:	Treasury.

3. Statutory caps on the effective life of certain depreciating assets	
Description:	Statutory effective life caps act to override the Commissioner of Taxation's determination of the safe harbour effective life of assets in certain cases. This provides a shorter write-off period for those assets subject to a statutory cap where the cap is below the effective life determined by the Commissioner. ~~The effective life of a depreciating asset can either be calculated by the taxpayer or determined by the Commissioner of Taxation.~~ ~~For some assets there are statutory caps on the Commissioner's determined effective life. This means that in some cases an asset will have a shorter effective life than the life otherwise determined by the Commissioner of Taxation.~~ Assets with capped lives include aeroplanes; helicopters; certain buses, light commercial vehicles, trucks and trailers; and certain assets used in the oil and gas industries.
Policy Objective:	When introducing the majority of the statutory caps, the then Government stated that "the introduction of statutory effective life caps for a number of major assets of large and economically significant industries ensures that these industries remain internationally competitive and that Australia's depreciation regime does not discourage investment in large infrastructure assets."
Government Intervention:	Preferential tax treatment – accelerated depreciation.
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is	This measure is categorised by Treasury as a tax expenditure. In respect of the oil and gas industries, Treasury may consider it a subsidy as it reduces overall tax liability. Measure is not directly related to levels of either production or consumption. Not targeted at the needy or designed to encourage the use of clean energy.

the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	
Estimated financial value of measure per annum:	The available estimate ($880 million in tax revenue forgone in 2010-11) refers to costs of all statutory effective life caps across all sectors, not only ~~specifically~~ the oil and gas industries.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Within the scope of the Review of Australia's Future Tax System. Other countries are unlikely to list broad ranging measures which are not confined to fossil fuel industries. Not aware that such measures have been highlighted in international or domestic studies of energy subsidies
Responsible Department:	Treasury.

4. Coal Sector Adjustment Scheme	
Description:	The Coal Sector Adjustment Scheme (CSAS) will provide assistance to coal mines which are very emissions-intensive and will face a significant cost under the CPRS.
Policy Objective:	To ensure that emissions intensive coal mines are not unfairly disadvantaged by the introduction of the CPRS when compared to overseas competitors not facing a carbon price.
Government Intervention:	Free allocation of permits
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	CPRS assistance is policy only and is not legislated. The "net effect" of the CPRS is a cost to fossil-fuel industries, not a subsidy. Assistance is only a transitional measure and is to be phased out 5 years. Assistance is well targeted and includes mechanisms to ensure there are no windfall gains to industry. Assistance is capped at base period production levels and as such, coal mining companies will not receive additional assistance for increased production. It will cover only approximately 30 per cent of the permits required by coal mining companies under the CPRS. The measure will reduce carbon leakage arising from the displacement of industry to countries without a carbon price.
Estimated financial value of measure per annum:	
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	OECD study classifies similar measure (i.e. business exemption from German ecological tax) as a fossil fuel subsidy Other countries are most unlikely to list measures which shield their industries from carbon taxes not incurred by their international competitors
Responsible Department:	Department of Climate Change and Energy Efficiency

Potential consumption subsidies

1. Fringe Benefits Tax treatment of private motor vehicle use	
Description of Measure	Fringe Benefits Tax (FBT) applies to benefits that an employer provides to an employee. Employers are taxed at 46.5 per cent of the grossed-up value of these benefits. Employers generally pass on the FBT to employees. Where an employer provides an employee with use of a vehicle, the value of the benefit includes the cost of providing the vehicle plus associated running costs, which includes fuel costs. The value of the benefit is calculated using one of two methods (statutory formula method and he operating cost method). Under the statutory formula method for valuing car fringe benefits, the value of the benefit, and hence the employers tax liability, is calculated by reference to a fixed percentage of the cost of the vehicle. The applicable percentage declines as distance travelled by the vehicle each year increases.
	The operating cost method requires the completion of a log book and is calculated by reference to the private portion of actual vehicle operating expenses and an allowance for depreciation.
Policy objective:	FBT is intended to apply in relation to provision of motor vehicles for private rather than business use. Under the statutory formula method, distance travelled is used as a proxy indicator of business rather than personal use. It is assumed that the greater the distance travelled, the more the vehicle is being used for work rather than private purposes. This in turn reduces the FBT liability on employers. The statutory formula method is intended to reduce the high compliance costs associated with the operating cost method. The statutory formula method also embeds a concessionary element that reduces the value of car fringe benefits.

Government Intervention:	The Government provides a concession in the form of low-compliance valuation method that provides preferential tax treatment for many employees who received car fringe benefits.
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage).	The measure has the indirect effect of reducing the effective cost of fossil fuels paid by consumers. Measure is inefficient. The formula does not accurately assess the balance between private and business use of a motor vehicle nor does the formula properly reflect the actual value of a car fringe benefit being provided to employees. Measure encourages wasteful consumption. It provides employees with an incentive to drive additional kilometres to reduce the amount of FBT payable resulting in increased greenhouse gas emissions, pollution and traffic congestion. The FBT concession is regressive in nature providing a greater benefit to a high income earner. The concession also provides a greater benefit to employees receiving vehicles with high operating costs.
Estimated financial value of subsidy per annum:	Tax expenditure is estimated to be $1.12 billion in 2010-11.
Sensitivities Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Within the scope of the Review of Australia's Future Tax System.
Responsible Department	Treasury.

2. Excise exemption for LPG, CNG/LNG	
Description:	LPG, CNG/LNG is not subject to excise.
Policy objective:	The exemption from excise was introduced to provide energy security (in the context of the 1970s oil shocks). The aim of the measure is to encourage diversification of Australia's liquid fuel supplies.
Government intervention:	Preferential tax treatment — excise exemption.
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	This measure is categorised by Treasury as a tax expenditure. It could be considered a subsidy as the cost of LPG, CNG/LNG to consumers is lower than would otherwise be the case if these fuels were subject to medium energy content benchmark excise of 25 cpl (38.143 cpl in the case of CNG). The measure does not encourage increased use of fossil fuel. Rather it encourages increased use of LPG and LNG/CNG at the expense of petrol and diesel. The measure has encouraged increased use of LPG in vehicles over time. The measure avoids wasteful consumption as defined by the G-20 Steering Committee as it reduces greenhouse gas emissions and enhances energy security. The measure is not targeted at the needy. Concessional treatment of alternative transport fuels is not confined to LPG, LNG and CNG but also extends to biofuels. ~~Under existing policy settings, excise is scheduled to increase over a 5 year period to 50% of the excise level on petrol and diesel.~~
Estimated financial value of subsidy per annum:	Estimate is not available. The estimate in the Tax Expenditure Statement refers to the differential tax treatment of all alternative fuels including bio-fuels.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy	Within the scope of the Review of Australia's Future Tax System. Studies by the OECD and University of Technology Sydney (UTS) have classified this

subsidies?	measure as a fossil fuel subsidy.
Responsible Department:	Treasury
Notes:	The previous Government announced that it would gradually increase the excise on alternative fuels over a period of 5 years commencing on 1 July 2011. The final rate was to be 50% of the rate applied to petrol and diesel (reflecting lower energy content). The current Government has not announced ~~whether~~ that it will implement this policy.

3. Fuel tax credit scheme	
Description:	The Fuel Tax Credit Scheme allows taxpayers to reclaim excise paid on fuel used for businesses, machinery, plant, equipment and heavy vehicles. It does not apply to aviation fuel, alternative fuels and fuels for on-road use by vehicles weighing less than 4.5 tonnes.
Policy objective:	This measure is intended to remove or reduce the incidence of fuel tax on business inputs. Its effect is that the application of fuel tax is generally confined to private consumption. Similar to GST input tax credits, the purpose of this scheme~~s~~ is to avoid distorting business ~~investment~~production -decisions and behaviour that would occur through taxing business inputs. The main exception relates to fuel used by businesses in on-road vehicles of less than 4.5 tonnes. This cut-off was chosen because it is difficult to distinguish between private and business use of fuels in vehicles of this size. Australia's tax system does not generally tax business inputs for general revenue raising purposes.
Government Intervention:	Preferential tax treatment — tax credit (equivalent to excise exemption)
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	This measure is not classified as a tax expenditure as credits are funded from the budget. The purpose of this scheme is to ensure that the burden of consumption taxes falls only on private consumption, consistent with tax policy. ~~Treasury does not consider this~~This measure is not a ~~to be a~~ subsidy. Fuel excise is a tax on final consumption of fuel. Fuel tax credits are a structural element of the fuel tax system designed to ensure the incidence of the tax falls on the final consumer. ~~because it does not reduce the effective cost of fossil fuels paid by consumers or reduce the costs or increase the revenues of fossil fuel producing companies.~~ ~~The purpose of the scheme is to ensure that the burden of consumption taxes falls only on private~~

	~~consumption, consistent with tax theory.~~ Fuel tax credits are similar to inoput tax credits under GST/VAT systems. Inoput tax credits are a structural element of the VAT tax system designed to ensure the VAT is applied only on final consumption. The measure is a generally effective means of avoiding taxation of business inputs. It does not encourage wasteful consumption. Rational producers limit costs to production by limiting inputs and thereby maximise profits. The measure is not targeted at the needy or designed to encourage the use of clean energy.
Estimated financial value of subsidy per annum:	Estimated to be A$5.1 billion in 2010-11.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Within the scope of the Review of Australia's Future Tax System. OECD study classifies a related measure (i.e. business exemption from German ecological tax on energy) as a fossil fuel subsidy Other countries are most unlikely to list measures which avoid taxation of business inputs
Responsible Department:	Treasury.

Comment [a3]: Treasury is not aware of this measure and so cannot determine how similar (or not) it is to fuel tax credits.

4. Excise treatment of aviation gasoline and turbine fuel	
Description:	Aviation fuel is subject to excise at 2.854 cpl (rather than the benchmark rate of 38.143 cpl (based on its energy content – aviation fuel is classified as a high energy content fuel).
Policy objective:	The rate of excise levied on aviation gasoline and turbine fuel reflects the funding requirements of the Civil Aviation Safety Authority. The excise is used to recover the cost of providing services to the aviation industry rather than as an instrument to raise general revenue.
Government intervention:	Preferential tax treatment — differential excise.
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage).	This measure is categorised as a tax expenditure. However, it is not a subsidy. ~~It could be considered a subsidy as the cost of aviation fuel to consumers is lower than would otherwise be the case if the fuel was subject to high energy content benchmark excise of 38.143 cpl.~~ ~~However~~ Almost all ~~most~~ aviation fuel is used for business purposes. Australia's tax system does not generally tax business inputs (or taxes are refunded through off-setting credits). Therefore most users would not be liable to excise if it were levied at a higher amount for revenue raising purposes. The application of an excise to fund particular expenditure programs through an excise is administratively simple. However, direct methods for charging for services to aviation would be a more efficient method of cost recovery. The measure is not targeted at the needy. Neither is it intended to encourage the use of clean energy. It is simply intended to recover the cost of providing aviation services from the users of these services.
Estimated financial value of measure per annum:	Estimated to be A$750 million in 2010-11.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in	Within the scope of the Review of Australia's Future Tax System.

international or domestic studies of energy subsidies?	
Responsible Department:	Treasury.

5. LPG Vehicle Scheme	
Description:	The LPG Vehicle Scheme is designed to encourage the conversion of petrol-powered passenger vehicles to run on liquefied petroleum gas (LPG). The Scheme assists motorists by providing grants for the conversion of a registered, private-use, new or used petrol powered motor vehicles to run on LPG.
Policy Objective:	The LPG Vehicle Scheme aims to assist families facing high petrol prices. It also encourages the uptake of a lower-emission technology, thereby contributing to the Government's objective of reducing Australia's CO_2 emissions.
Government Intervention:	Grants to encourage conversion from petrol to LPG
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption?	The Scheme does not constitute a direct subsidy to the production or consumption of fossil fuels but provides an incentive for motorists to switch from a more emission-intensive fossil fuel (petrol) to a cleaner one (LPG).
– Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	The Scheme avoids wasteful consumption as defined by the G-20 Steering Committee as it reduces greenhouse gas emissions and enhances energy security.
Estimated financial value of measure per annum:	The total value of the subsidy for LPG conversions since the introduction of the Scheme in 2006 to 31 December 2009, has been A$495.7 million. The average annual expenditure on the program has been A$112.2 million per year.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in	

international or domestic studies of energy subsidies?	
Responsible Department:	Department of Innovation, Industry, Science and Research

6. Emission Intensive Trade Exposed Industry Assistance (CPRS and RET)	
Description:	Provision of support to emission-intensive trade-exposed (EITE) business to offset the full carbon cost they would otherwise incur.
Policy Objective:	Reduce the risk of EITE businesses re-locating offshore and provide incentives for these businesses to use less emission-intensive production processes or inputs
Government Intervention:	Free allocation of emission permits
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure?	CPRS assistance is policy only and is not legislated. The "net effect" of the CPRS is a cost to fossil-fuel industries, not a subsidy. Assistance is only a transitional measures and is to be phased out over time. Assistance is well targeted and includes mechanisms to ensure there are no windfall gains to industry. EITE assistance declines at 1.3 per cent annually and the maximum cap policy ensure that entities do not receive more than 100 per cent assistance for the direct and indirect emissions they create.
– Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage.	The measure will reduce carbon leakage arising from the displacement of industry to countries without a carbon price.
Estimated financial value of measure per annum:	
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	OECD study classifies similar measure (i.e. business exemption from German ecological tax) as a fossil fuel subsidy Other countries are most unlikely to list measures which shield their industries from carbon taxes not incurred by their international competitors
Responsible Department:	Department of Climate Change and Energy Efficiency

7. Electricity Sector Adjustment Scheme	
Description:	The Electricity Sector Adjustment Scheme (ESAS) will provide a fixed administrative allocation of up to 228.7 million permits (approximately 15 per cent of their permit requirements) to coal fired electricity generators over ten years
Policy Objective:	To manage a smooth transition to a lower carbon electricity generation sector while maintaining security of supply, promoting stable energy contracting markets and supporting investor confidence in our energy market
Government Intervention:	Free allocation of emission permits
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage).	CPRS assistance is policy only and is not legislated. The "net effect" of the CPRS is a cost to fossil-fuel industries, not a subsidy. Assistance is only a transitional measures and is to be phased out over time. Assistance is well targeted and includes mechanisms to ensure there are no windfall gains to industry. Assistance is not designed to reduce the effective cost for fossil fuels paid by consumers or reduce the costs or increase the revenues of fossil-fuel producing companies. Assistance is targeted to those generators that are likely to be most significantly affected. The arrangements have been carefully designed to maintain generators' incentives to reduce emissions in response to the carbon price.
Estimated financial value of measure per annum:	$7.3 billion in nominal terms.
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	OECD study classifies similar measure (i.e. business exemption from German ecological tax on energy) as a fossil fuel subsidy
Responsible Department:	Department of Climate Change and Energy Efficiency

8. Fuel Tax Adjustment Arrangements	
Description:	The Government will cut fuel taxes on a 'cent-for-cent' basis to offset the initial price impact on fuel of introducing the Carbon Pollution Reduction Scheme (CPRS). It will also provide transitional assistance to agriculture, fishing and heavy on-road transport industries. Credit arrangements will also be provided for LPG, CNG and LNG.
Policy Objective:	To give households and businesses time to adjust to the CPRS.
Government Intervention:	Reduction in fuel taxes
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy?	CPRS assistance is policy only and is not legislated. The Fuel Tax Adjustment Arrangements are short-term and will remove the initial price impact of the CPRS on fuel in the first 3 years of the scheme. Beyond the 3 years, any additional impacts of the CPRS will be reflected in the price of fuel.
– Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	The credit arrangements for LPG, CNG and LNG ensures a level playing field between substitutable fuels. By creating an incentive to consume these alternate fuels through the credit mechanism, people are provided with an incentive to consume these greenhouse friendly fuels over more emission intensive fuels.
Estimated financial value of measure per annum:	
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	
Responsible Department:	Department of Climate Change and Energy Efficiency

9. Tasmanian Freight Subsidy Arrangements

Description:	The Tasmanian Freight Equalisation Scheme subsidises the shipment of eligible Tasmanian-produced goods to mainland Australia, and the shipment from the mainland of designated inputs for use in manufacturing, mining, agriculture, forestry and fishing in Tasmania. The subsidy does not apply to the shipment of fuels, including fossil fuels.
Policy Objective:	The scheme assists in alleviating the comparative interstate sea freight cost disadvantage incurred by shippers of eligible non-bulk goods carried between Tasmania and mainland Australia by sea. Its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.
Government Intervention:	Freight subsidy
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage)	This policy measure should be regarded as a freight subsidy, rather than a fossil fuel subsidy, particularly as the subsidy does not apply to the shipment of fuels. The subsidy also avoids wasteful consumption as defined by the G-20 Steering Committee as it is likely to result in lower greenhouse gas emissions than would otherwise occur. If this subsidy was removed, increased freight activity would occur in other states of Australia, where it would be carried by more greenhouse intensive transport modes (i.e. road, rail).
Estimated financial value of measure per annum:	Expenditure for 2008-09 was $109 million.
Sensitivities: Are other countries likely to list similar measures?	It is unlikely that other G-20 members will consider such freight subsidies as falling within the scope of the commitment agreed to by

Have similar measures been identified in international or domestic studies of energy subsidies?	Leaders in Pittsburgh.
Responsible Department:	Department of Infrastructure, Transport, Regional Development and Local Government

10. Government pricing arrangements for major energy users	
Description:	Off-take agreements between major energy users (e.g. aluminium smelters) and electricity generators.
Policy Objective:	To secure investment in major electricity infrastructure and promote regional economic development and employment.
Government Intervention:	State government involvement in energy pricing.
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage).	There is debate about whether prices negotiated by industry for energy off-take agreements constitute a subsidy. Long-term off-take agreements with major energy users frequently play a major role in securing investment in energy infrastructure. It is not clear whether these off-take agreements are on concessional terms as details are generally commercial-in-confidence. One notable exception of an off-take agreement which is in the public arena, and provides concessional treatment to electricity industry under certain circumstances, was associated with the privatisation of the electricity assets in Victoria in the early 1990s. Recent media reports suggest that the government subsidy will end in 2016, following new long term electricity contacts having been agreed between private electricity generators and the aluminium smelters.
Estimated financial value of measure per annum:	
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	A 2007 study by University of Technology Sydney (UTS) classified this measure as a fossil fuel subsidy. Other countries are unlikely to list this measure. US and Canada do not intend to list sub-national policy measures.
Responsible Department:	Department of Resources, Energy and Tourism

11. Electricity cross-subsidies to rural areas	
Description:	Retail pricing of electricity is determined by state governments and involves some degree of cross-subsidy between urban and rural areas.
Policy Objective:	To fulfil social objectives, by ensuring that and rural consumers have comparable access to electricity services.
Government Intervention:	Price distortion
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage).	Electricity cross-subsidies are not specific to electricity generation using fossil fuels (i.e. they can equally apply to renewable energy) and are unlikely to increase overall electricity consumption.
Estimated financial value of measure per annum:	
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Consultation with states required before listing of state government measures Comparison with other countries: • Electricity cross-subsidies exist in most OECD countries and are unlikely to be listed • Inefficient and poorly targeted rural electricity subsidies in non-OECD countries (e.g. India) comprise a significant share of global energy subsidies. Media reports suggest that India intends to remove major electricity subsidies. • Direct electricity subsidies in non-OECD countries result in considerably more inefficiency and wasteful consumption than cross-subsidies in OECD countries.

	• US and Canada do not intend to list sub-national policy measures.
Responsible Department:	Department of Resources, Energy and Tourism

12. State government electricity and gas subsidies to low income households	
Description:	[Details are yet to be provided if required.]
Policy Objective:	To ensure that low income households have access to essential energy services
Government Intervention:	Direct payment
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage).	It is likely that energy subsidies are well targeted. It is unclear whether the measures are inefficient or encourage use of cleaner energy.
Estimated financial value of measure per annum:	
Sensitivities: Are other countries likely to list similar measures? Have similar measures been identified in international or domestic studies of energy subsidies?	Consultation with states required before listing of state government measures Comparison with other countries: • US and Canada do not intend to list sub-national policy measures • Inefficient and poorly targeted consumption subsidies in non-OECD countries represent bulk of the global energy subsidies. • US intends to defend the retention of well targeted but potentially inefficient heating subsidies to low income households
Responsible Department:	Department of Families, Housing, Community Services and Indigenous Affairs

13. Utilities Allowance	
Description:	Utilities Allowance provided by the Australian Government to pensioners
Policy Objective:	To ensure that low income households have access to essential energy services
Government Intervention:	Direct payment
Assessment: – Is it a subsidy? – Is it inefficient? – Does it encourage wasteful consumption? – Is it targeted at the needy? – Does it encourage use of cleaner energy? – Does it address a market failure? – Does the measure result in additional Government revenue and, if so, what is the net effect? – Does it have implications for global use of fossil fuels and global greenhouse gas emissions (i.e. carbon leakage) – Are other countries likely to list similar measures? – Have similar measures been identified in international or domestic studies of energy subsidies?	Utilities Allowance is no longer provided in the form of an energy subsidy. Since September 2009, it has been incorporated in the Pension Supplement which is automatically paid to pensioners with their regular fortnightly payment. Well targeted and efficient. Comparison with other countries: • Inefficient and poorly targeted consumption subsidies in non-OECD countries represent bulk of the global energy subsidies. • US intends to defend the retention of well targeted but potentially inefficient heating subsidies to low income households
Estimated financial value of measure per annum:	
Sensitivities:	No
Responsible Department:	Department of Families, Housing, Community Services and Indigenous Affairs

TREASURY EXECUTIVE MINUTE

Minute No.

8 April 2010

Treasurer

G20 COMMITMENT ON FOSSIL FUEL SUBSIDIES

Timing: An initial list of Australia's fossil fuel subsidies needs to be submitted to the G20 Energy Experts Group by 12 April.

Recommendation: A decision needs to be taken whether to include the following taxation measures in Australia's initial list of fossil fuel subsidies to be submitted to the G20 by 12 April:

- the statutory formula for valuing FBT car benefits **(Agreed/Not Agreed)**;
- the excise exemption for gaseous transport fuels (LPG, LNG and CNG) used for non-business purposes **(Agreed/Not Agreed)**; and
- the statutory caps on the effective life of certain depreciating assets used in the oil and gas industries **(Agreed/Not Agreed)**.

Signature: ..../...../2010

KEY POINTS

- At the Pittsburgh Summit, G20 Leaders committed to rationalise or eliminate inefficient fossil fuel subsidies that encourage wasteful consumption (excluding subsidies targeted at the poor and those that support clean energy).
- Under the timeline agreed by the G20 Energy Experts Group, Australia is required to submit a list of fossil fuel subsidies by 12 April for consideration by Finance Ministers on 23 April in Washington DC. National plans for rationalising/eliminating inefficient and wasteful fossil fuel subsidies must be developed by 24 May. These plans will be considered by G20 Finance Ministers and Leaders in June.
- Members of the Energy Experts Group have been unable to agree on how to define a fossil fuel subsidy. Neither have they been able to agree how to assess whether a subsidy is inefficient and encourages wasteful consumption. As a result, each country is able to adopt its own approach to defining and evaluating fossil fuel subsidies.
- However, national approaches will be subject to public scrutiny and are likely to be assessed against the definitions used by international organisations involved in the project, especially the International Energy Agency (IEA) and the Organisation for Economic Co-operation and Development (OECD).
- The definition of a subsidy used by the IEA and OECD includes all government measures that have the effect of reducing costs to producers, increasing producer profits or reducing costs to consumers. These measures include direct financial payments, trade restrictions, taxation measures, provision of services on a non-cost recovery basis, and regulatory arrangements such as price controls and market access restrictions. Australia has traditionally been supportive of this approach in relation to the work of the OECD on agricultural subsidies.

- As our representative on the G20 Energy Experts Group, the Department of Resources, Energy and Tourism (RET) has been responsible for coordinating the development of Australia's list of fossil fuel subsidies. In common with Canada and the US, we have not sought to identify sub-national level subsidies because of the limited time available. The IEA/OECD definition of a subsidy has been used as a starting point for this exercise.

- RET has asked portfolios to identify measures that potentially fall within the scope of the G20 commitment.

- Treasury has three measures that potentially fall within the scope of the commitment. These are:

  - the statutory formula for valuing Fringe Benefits Tax (FBT) car benefits.

  - the excise exemption that currently applies to gaseous transport fuels (LPG, LNG and CNG) used for non-business purposes.

  - statutory caps on the effective life of certain depreciating assets used in the oil and gas industries.

- These measures are within the scope of the Review of Australia's Future Tax System. The previous Government committed to phasing-in higher excise rates for gaseous transport fuels between 2011 and 2015. This measure is included in the Forward Estimates.

- Prior to submitting our response to RET and the G20 Energy Experts Group, we are seeking your decision on whether to identify these measures as inefficient fossil fuel subsidies to be eliminated or rationalised, or whether to exclude them from our response to the G20. There are arguments both ways. The measures could be excluded on the grounds that the primary purpose of these measures is not to subsidise fossil fuel consumption. However, the IEA and OECD could publish their own broader list of Australia's fossil fuel subsidies based on information contained in our Tax Expenditure Statement, notwithstanding that it is not focusing on identifying inefficient subsidies.

- <u>Additional information</u> provides further information on potential fuel subsidies in the Treasury portfolio. It includes arguments for and against listing these measures as inefficient fossil fuel subsidies that encourage wasteful consumption.

- Tax Analysis Division, Personal Retirement and Income Division, Business Tax Division and Indirect Tax Division were consulted in the preparation of this minute.

s 22 (irrelevant information)

Contact Officer: s 22 (irrelevant information)

Manager
G20 Unit International and G20 Division

ADDITIONAL INFORMATION

Measure	Analysis
Statutory formula for valuing FBT car benefits	This measure is identified as a tax expenditure in Australia's 2009 Tax Expenditure Statement (D26). The primary purpose of this measure is not to provide a fossil fuel subsidy. It is intended to provide a simple proxy for determining the extent to which a vehicle is used for business use. Distance travelled is used as a proxy for business use. The rate of FBT declines as distance travelled increases. It can be argued that this measure is a fossil fuel subsidy (as defined by the IEA/OECD) because it provides some consumers with preferential tax treatment. It can also be argued that this measure is inefficient because distance travelled by a vehicle is not necessarily a good indicator of business use. Finally, it can be argued that the measure encourages wasteful consumption as it provides an incentive for increased use of cars in order to reduce the cost of fuel.
Excise exemption for gaseous transport fuels (LPG, CNG/LNG)	This measure is identified as a tax expenditure in Australia's 2009 Tax Expenditure Statement (F6). It was also mentioned in a recent OECD presentation on energy subsidies to members of the G20 Energy Experts Group. The primary purpose of this measure is not to provide a fossil fuel subsidy. It was introduced to encourage diversification of Australia's liquid fuel supplies. It can be argued that this measure is outside the intended scope of the G20 commitment because it supports the use of clean fuel and because it encourages substitution of one type of fossil fuel for another (rather than increasing overall consumption). Alternatively, it could be argued that this measure is a fossil fuel subsidy (as defined by the IEA/OECD) because it provides some consumers with preferential tax treatment. While this is appropriate in relation to business use, it is not appropriate in relation to use by consumers. It is also possible to question the efficiency of this measure as a means of encouraging the use of cleaner fuels. The 2004 Fuel Tax Inquiry noted that the environmental benefits of these fuels are lessening with improved technology for conventional engines. It also concluded that these fuels do not offer significant greenhouse gas reductions over

	conventional fuels in modern engines. The 2004-05 Budget announced that higher excise rates would be phased in from 1 July 2011 to 30 June 2015. The excise rate was to be proportional to the energy content of the fuel with alternative fuels receiving a further 50 per cent discount so that by 1 July 2015, the effective excise rate for LPG and LNG would be 12.5 cents per litre. Implementation of this plan could form part of a plan to rationalise the current excise exemption.
Statutory caps on the effective life of certain depreciating assets used in the oil and gas industries	This measure is identified as a tax expenditure in Australia's 2009 Tax Expenditure Statement (B87). The primary purpose of this measure is not to subsidise fossil fuel production. It can also be argued that it is a general measure that applies across the economy and is not confined to the energy sector. We have not considered other 'across the board' tax deductions (such as those that apply to research and development) as being within the scope of the G20 commitment. To the extent that it applies to fossil fuel producers, it can be argued that this measure is a fossil fuel subsidy (as defined by the IEA/OECD). This is because it provides preferential tax treatment to fossil fuel producers through accelerated depreciation (compared with the arrangements that would apply in the absence of the statutory cap). Relevant assets used in fossil fuel production which are subject to a statutory cap on their effective life include: – Offshore platforms used for oil and gas extraction (20 years, compared to the Commissioner of Taxation's determination of 30 years) – Oil and gas production assets (other than an offshore platform or for electricity generation) (15 years, compared to the Commissioner of Taxation's determination of 30 years for many assets) – Assets used to manufacture condensate, crude oil, domestic gas, liquid natural gas or liquid petroleum gas (but not if the manufacture occurs in an oil refinery) (15 years, compared to the Commissioner of Taxation's determination of 30 years for many assets). It can be argued that this measure is inefficient as the substantially lower effective life for some assets has the

	potential to distort investment decisions. However it is not clear that it causes wasteful consumption (as defined for this process). The extent to which the measure impacts on consumption is likely to depend on a range of factors, including market structure.
Increased deduction for petroleum exploration in designated offshore frontier areas.	This measure is identified as a tax expenditure in Australia's 2009 Tax Expenditure Statement (G2). This measure applies to fossil fuel exploration rather than production or consumption. While it is a fossil fuel subsidy (as defined by the IEA/OECD), there is no evidence that it is either inefficient or encourages wasteful consumption.
Mining and quarrying exploration and prospecting deduction.	This measure is identified as a tax expenditure in Australia's 2009 Tax Expenditure Statement (B86). This measure applies to fossil fuel exploration rather than production or consumption. While it is a fossil fuel subsidy (as defined by the IEA/OECD), there is no evidence that it is either inefficient or encourages wasteful consumption.
Fuel Tax Credit Scheme	This is a budget expenditure. It refunds to businesses the excise paid on fuel used for certain business purposes. This measure potentially falls within the definition of a fossil fuel subsidy used by the IEA/OECD as it provides businesses with preferential tax treatment in relation to consumption of transport fuels. However, we intend to argue that this measure should not be treated as a fossil fuel subsidy. This is because it is intended to ensure that business inputs are not subject to a consumption tax. Businesses also receive an input tax credit for GST levied on fuel acquired for business purposes.
Excise treatment of aviation gasoline and turbine fuel	This measure is identified as a tax expenditure in Australia's 2009 Tax Expenditure Statement (F3). It is a tax expenditure because the amount of excise levied on aviation fuel is lower than the 'benchmark rate' because it is used to fund the Civil Aviation Safety Authority rather than for general revenue-raising purposes. As previously noted, the IEA/OECD definition of a fossil fuel subsidy includes preferential tax treatment. However, we intend to argue that this measure should not be treated as a fossil fuel subsidy. As with the Fuel Tax Credits Scheme, it is intended to ensure that business inputs are not subject to a consumption tax.