

**Senator the Hon
Nick Sherry**
Assistant Treasurer



**Martin Ferguson
MP**
Minister for Resources
and Energy

PRESS RELEASE

GOVERNMENT TO IMPLEMENT 50 PER CENT TAX DISCOUNT FOR ALTERNATIVE FUELS

The Assistant Treasurer, Senator Nick Sherry, and the Minister for Resources and Energy, Martin Ferguson MP, have today confirmed the Rudd Government will complete the long-standing plan for a 50 per cent tax discount on alternative fuels – such as ethanol and LPG.

As part of the implementation of the energy content based taxation of all fuels originally announced in the 2003-04 Budget, the Government has announced a new staged phasing in of the regime to address the sudden loss in the relative tax advantage of domestic ethanol compared to imported ethanol that would have occurred under the policy announced by the previous Government.

“These initiatives will provide the fuel industry and fuel users with certainty as to the future direction of fuel tax policy so that they have confidence to make future investment decisions and consumption choices,” the Assistant Treasurer said.

“To allow the alternative fuels industries time to adjust, effective excise will be phased in over the period beginning 1 July 2011 and ending 1 July 2015.”

“In addition, the Rudd Government was concerned to ensure that, as part of these new arrangements, our domestic ethanol industry would benefit from an appropriate transition period to the arrangements announced in 2004-05, which was absent from the previous Government’s approach.”

“To achieve this, imported ethanol will face a more gradual decline in excise equivalent customs duty over the transition period compared to the previously announced measure.”

“When we were in Opposition we stated that: ‘We will be watching who the winners are and who get the preferences ... watching how much money is spent and where it goes.’ We have delivered on that commitment now we are in government.”

“Overall this policy will provide a comprehensive tax policy for the fuel market, while supporting the alternative fuel industry and domestic ethanol producers,” the Assistant Treasurer said.

As a result of the 2004-05 reforms, alternative fuels, namely the biofuels, ethanol and biodiesel, and the gaseous fuels including liquefied petroleum gas, liquefied natural gas and compressed natural gas, will be brought fully into the tax system by being placed into one of the following three energy content bands:

- high (energy content greater than 30 megajoules per litre, or per cubic metre in the case of compressed natural gas);
- medium (between 20 and 30 megajoules per litre), or
- low (less than 20 megajoules per litre).

Effective excise will be phased in for alternative fuels from 1 July 2011, until 1 July 2015.

“At the end of the transition period, alternative fuels will benefit from a 50 per cent reduction of their full energy content tax rate,” said Minister Ferguson.

“These fuels provide consumer choice and competition in the transport fuels market.”

“This announcement completes the implementation of the 2004-05 reform package, which received bipartisan support at the time,” said Minister Ferguson.

“In enacting the final parts of the reform package, we will ensure that alternative fuels receive appropriate treatment under the tax law.”

The sudden loss in the relative tax advantage of domestic ethanol compared to imported ethanol that would have occurred under the policy announced by the previous Government will be addressed. Entitlement to the Energy Grants (Cleaner Fuels) Scheme will be removed for ethanol and direct subsidies will be provided to domestic producers and phased down over the transition period.

This measure will result in revenue of \$275 million over the forward estimates.

“The Government will consult extensively with key stakeholders on the implementation details of this important policy,” the Assistant Treasurer said.

This consultation will cover the implementation of support for the domestic ethanol industry, whether offsetting grants are the best mechanism to phase in effective excise over the transitional period for the biofuels and the gaseous fuels, and how to determine the appropriate taxation point for the gaseous fuels.

A discussion paper to this effect will shortly be released by the Assistant Treasurer.

Details of the previous Government’s reform scheme as set out in the 2003-04 and 2004-05 Budget Papers are set out below.

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BUDGET PAPER TWO 2003-04 (Revenue)**Fuel tax reform**

Revenue (\$m)

	2003-04	2004-05	2005-06	2006-07
Fuel tax framework	-	-	-	-
Excise (and customs) duty on biodiesel	5.0	10.0	10.0	10.0
Australian Taxation Office - Total	5.0	10.0	10.0	10.0

The Government will reform the current fuel tax arrangements to bring all currently untaxed fuels into the excise (and customs) duty system from 1 July 2008. This reform establishes a long term sustainable taxation framework for fuels, by addressing a number of anomalies in the current fuel tax system and providing increased certainty for investors, while meeting Government commitments and providing time for industry to adjust.

Fuels that will become excisable from 1 July 2008 will include liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG), where these fuels are used in internal combustion engines. The final excise rates to apply to fuels will be determined later this year.

The introduction of excise for currently untaxed fuels will be accompanied by the use of subsidies that will reduce the effective excise (that is, excise less grant) for those fuels for a transitional period. These subsidies will be progressively reduced, raising the effective excise for untaxed fuels from zero prior to 1 July 2008, to their final rates in five even annual instalments commencing 1 July 2008 and ending 1 July 2012.

From 18 September 2003, the Government will apply excise duty to biodiesel at the same rate as the excise duty on diesel fuel, currently 38.143 cents per litre. Grants will then be provided for production or importation of biodiesel. These grants will be reduced in five equal annual instalments from 1 July 2008 to 1 July 2012.

The measure will provide certainty for biodiesel producers and together with the extension of the existing grants for ethanol producers (which will also be phased out from 1 July 2008) delivers on the Government's Measures for a Better Environment commitment to encourage the production of alternative and renewable fuels.

Further details on the Government's Measures for a Better Environment commitment may be found in the Prime Minister's Press Release of 31 May 1999.

See also the related expense measure titled *Fuel tax reform* in the Treasury portfolio.

BUDGET PAPER TWO 2003-04 (Expense)

Fuel tax reform

Expense (\$m)	2003-04	2004-05	2005-06	2006-07
Australian Taxation Office - fuel tax framework	-	-	-	-
Australian Taxation Office - biodiesel production grants	15.0	44.0	76.0	99.0
Industry, Tourism and Resources - ethanol production grants	27.0	45.0	61.0	62.0

From 1 July 2008, the Government will provide grants to the producers and importers of fuels that are currently exempt from excise (and customs) duty and which are used in internal combustion engines. These grants are part of arrangements to make these fuels subject to fuel excise and will apply for a transitional period. The grants will be progressively reduced, raising the effective excise (that is, excise less grant) for untaxed fuels from zero prior to 1 July 2008, to their final rates in five even annual steps commencing from 1 July 2008.

The transitional grants form part of a programme that will establish a long term sustainable taxation framework for fuels by addressing a number of anomalies in the current fuel tax system and providing increased certainty for investors, while meeting existing Government commitments and providing time for industry to adjust.

In addition, the Government will continue to provide production grants for fuel ethanol from 18 September 2003 under the same basis as announced in the *Mid-Year Economic and Fiscal Outlook 2002-03*. The Government will also provide grants for the production and importation of biodiesel, from 18 September 2003. Both grants will be reduced in five equal annual instalments from 1 July 2008.

See also the related revenue measure titled *Fuel tax reform* in the Treasury portfolio

BUDGET PAPER TWO 2004-05 (Revenue)

Fuel tax reform — introducing a new energy content based fuel excise system

Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08
Australian Taxation Office	-	-	-	-

The Government has deferred the introduction of the energy content based excise system for fuels capable of use in an internal combustion engine until 1 July 2011.

The measure will ensure that alternative fuels that are effectively untaxed under the current excise regime remain so until 1 July 2011.

Under the new system, from 1 July 2011 alternative fuels will receive a 50 per cent discount on the full energy content rate, with the excise rates phased in equally over five years to their final rate on 1 July 2015. In addition, all fuels will be grouped into three bands based on their energy content, with different rates for high, medium and low-energy fuels. Excise on petrol and diesel will remain unchanged.

Further information can be found in the press release of 16 December 2003 issued by the Prime Minister.