

6 February 2015

Submission to the Department of the Treasury

## **Priorities for the Federal Budget 2015-16**

### **Foreword**

The Federal Government reveals its moral foundations through the choices it makes with public resources.

The choices made by the current Federal Government have been widely condemned. It is perceived that the Government have chosen to allocate public resources to the nation's biggest greenhouse polluters, withdraw support from clean energy initiatives and environmental protection programs and exacerbate growing social inequality.

The Federal Government has dismantled economically sensible frameworks that were driving reductions in carbon emissions and has withdrawn funding from environmental and scientific research programs.

It is attempting to reduce Government payments to the most vulnerable Australians with minimal changes to assistance for big business and the wealthiest Australians.

The Government is choosing to waste billions to subsidise fuel costs and give tax breaks for wealthy resource companies, while pressing needs for investment in social and environmentally productive programs go unmet.

This submission is based on the understanding that the environment is the lifeblood of the Australian economy.

Threats to the health, integrity and natural services provided by the environment to the economy undermine Australia's prosperity. These threats are growing.

Three of the top six threats to the global economy recently identified by the World Economic Report were environmental: water crises, climate change and extreme weather events.

These risks have far reaching consequences for Australia's society, economy and politics.<sup>1</sup>

The Federal Government can, and should, make responsible choices that address these risks.

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<sup>1</sup> World Economic Forum, Global Risks 2014. [http://www3.weforum.org/docs/WEF\\_GlobalRisks\\_Report\\_2014.pdf](http://www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf)

To address these risks the Federal Government should:

1. Implement an economically and environmentally efficient market or regulatory mechanism for driving down national greenhouse gas emissions to meet Australia's international commitment of at least 25 per cent by 2020;
2. Restructure programs that subsidise the use of fossil fuels and reallocate funds to socially and environmentally productive purposes;
3. Increase funding and long term certainty for programs that fund Indigenous Rangers to work on Country;
4. Increase funding for programs that deliver environmental protection outcomes;
5. Consider the environment in the budget process.

## Introduction

The Federal Budget provides an opportunity for the Government to outline its vision for the country and indicate what plans it has to deal with the approaching challenges.

The first Budget of the current Government was lacking in vision. So far the Government not only has a limited environmental agenda it is attempting to and in many cases already has dismantled policies such as carbon pricing that were working to protect the environment. Alongside this the Government continues to prioritise the handout of taxpayer funds for large corporates through subsidising fuel costs over investment in social and environmental productivity.

These corporate handouts contradict the rhetoric of the Treasurer who said in April 2014:

*“too many taxpayer dollars have been spent on corporate welfare and too often previous governments have been drawn into areas that are better left to the private sector. Not only are these policies an unsustainable use of taxpayer funds, they also undermine economic incentives, productivity, and ultimately our national prosperity.”<sup>2</sup>*

These handouts are also difficult to reconcile with the Government’s Emission Reduction Fund which may pay some of these same companies to reduce their carbon emissions. The Government’s policies send mixed messages on the use of fossil fuels. In budgetary terms the Government has replaced a revenue raising measure (the carbon price) with a scheme that require taxpayers to pay businesses to reduce their pollution. According to the Parliamentary Budget Office the carbon price would have raised \$18 billion from introduction to budget year 2017-18 in Government revenue while also reducing Australia’s carbon emissions.<sup>3</sup>

This submission calls for structural reform of corporate handouts of \$35 billion over the forward estimates that subsidise fuel and provide tax breaks for fossil fuel exploration, production and consumption. The reforms proposed would save over \$20 billion across the forward estimates.

## Northern Australia

The Government has commissioned a White Paper process to investigate the development of Northern Australia. ACF believes a strong, diverse and sustainable economy for northern Australia is necessary to underpin the wellbeing of its communities and the long term management of its natural resources. The growth of the cultural and conservation economy is crucial in Northern Australia as it will both create secure jobs and livelihoods alongside helping conserve the environment and cultural assets. This should be supported in the Budget by increasing and establishing secure long term funding for Indigenous Protected Areas and Indigenous Rangers through the *Working on Country* program.

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<sup>2</sup> ‘The Case for Change’, Address to Spectator Magazine Function Doltone House, Sydney, 23 April 2014, <http://jhb.ministers.treasury.gov.au/speech/004-2014/>

<sup>3</sup> Parliamentary Budget Office Costing. Provided to Senator Christine Milne’s Office, Costing completed June 2014

## Environmental protection

The Government's dismantling of effective environmental regulation is greatly concerning as environmental indicators continue to demonstrate that there is a continuing decline in biodiversity and that failing to address climate change will have severe environmental and economic impacts.<sup>4</sup> The Government's justification for this dismantling centres on a 'green tape' argument. A recent report from the OECD investigating the effect of environmental regulation stated "no lasting harm to productivity levels is found at the macroeconomic, industry or firm levels. On the contrary, a tightening of environmental policies is followed by a temporary increase in productivity growth."<sup>5</sup> The Government's claims have no basis in evidence.

This submission is also calling for funding to expand Australia's incomplete network of protected areas, known as the National Reserve System (NRS) to ensure conservation connectivity. For the first time since 1993 there is no Commonwealth program that supports the establishment of new protected areas across Australia. This is despite large proportions of threatened species, particularly in higher threat categories that have no or inadequate habitat coverage within the reserve system. These species are increasingly vulnerable to future climatic changes and threats and don't currently benefit from active management that accompanies protected areas.

Across Australia species continue to decline due to a range of factors including, loss of habitat and predation and competition by invasive species. The Government has committed to stopping all mammalian extinctions by 2020, but has provided no additional funding to achieve this outcome. A standalone threatened species recovery fund should be developed that invests directly in recovery actions for Australia's most threatened species. Funding should be directly invested into recovery plan actions and support on-ground teams.

The official framework of the Federal Budget excludes the consideration of ecological issues. The Australia Bureau of Statistics recognises that "economic prosperity is dependent on the ability of the environment to supply natural resources and to absorb pollution, and that environmental policies impact on economic activity."<sup>6</sup>

This is why they have been working on implementing a System of Environmental – Economic Accounting (SEEA) and developing a National Balance Sheet which includes Australia natural assets. This work is extremely important to integrate the environment into economic indicators. This submission calls for modest funding to assist the further development and use of these indicators throughout the machinery of Government.

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<sup>4</sup> State of the Environment Report 2011, Treasury Intergenerational Report 2010, Senate Standing Committee on Environment and Communications report titled 'The Government's Direct Action Plan.' March 2014.

<sup>5</sup> OECD, "Do Environment Policies Matter for Productivity Growth" Released December 2014  
[http://www.oecd-ilibrary.org/economics/do-environmental-policies-matter-for-productivity-growth\\_5jxrnjrcxp-en](http://www.oecd-ilibrary.org/economics/do-environmental-policies-matter-for-productivity-growth_5jxrnjrcxp-en)

<sup>6</sup> Australian Bureau of Statistics, Completing the Picture – Environmental Accounting in Practice, May 2012.

## Budget priorities

1. Restructure the fuel tax credits program and repeal the tax breaks for oil and gas assets and other subsidies that promote the use of fossil fuels.
2. Reintroduce an economy wide mechanism to reduce carbon emissions
3. Increase funding and provide long term certainty for management of Indigenous Protected Areas and increase the number of Indigenous Rangers.
4. Increase the National Reserve System to expand protection of water catchments and threatened species and safeguard places of cultural and social importance.
5. Establish a threatened species recovery fund to directly invest in recovery actions for Australia's most threatened species and landscapes.
6. Fund the implementation of the System of Environmental – Economic Accounting across Government.

## Summary of savings and investment for 2015-16 Budget

Savings and reform measures	2015-16 Budget (\$m)
1. Reform of fuel tax credits program	3,411
2. Repeal tax breaks for oil and gas assets	490
3. Abolish aviation fuel tax breaks	1,310
4. Reintroduce an economy wide mechanism to reduce carbon emissions	
<b>Total savings</b>	<b>5,211</b>
<b>Investment</b>	<b>2015-16 Budget (\$m)</b>
1. Increased funding for Indigenous Protected Areas	25
2. Increased the number of Indigenous Rangers	70
3. Establishment of a conservation connectivity fund	240
4. Establishment of a Threatened Species Recovery Fund	100
5. Implementation of the System of Environmental-Economic Accounting (SEEA) across Government	20
<b>Total Investments</b>	<b>455</b>
<b>Net saving</b>	<b>4,756</b>

## Reform of Fuel Tax Credits scheme

### The opportunity

The Fuel Tax Credits scheme exempts certain business from paying the fuel excise tax levied on liquid, gaseous and blended fuels. Fuel tax credits are set out in law in the Fuel Tax Act 2006. Fuel tax credits are available to eligible businesses based on business activities. As such, they represent an effective subsidy, providing an advantage to certain activities over others.

In the 2014/15 Budget, the Fuel Tax Credits scheme cost more than \$6 billion, and was estimated to rise to over \$7.5 billion over the forward estimates.

Around 40 per cent of the value of fuel tax these credits went to the mining sector. Full restructuring of this scheme is required and should involve phasing out the subsidies for mining and road transport over a three-year period, with better targeting of remaining concessions.

### How it is addressed

ACF proposes phasing out the Fuel Tax Credits scheme over the forward estimates, so by 2018-19 the cost of the scheme is 60 per cent lower that it would be on business as usual. Implementing a cap on the value of credits claimed could help to support smaller rural and regional businesses that may incur higher fuel costs as proportion of total business expenses.

### The savings

Below is an estimate of savings over the next four years, based on figures from the 2014-15 Budget. Phasing out the scheme would save an estimated \$14.9 billion over the forward estimates. This is based on a \$20,000 cap on fuel credits claimed being implemented from 2015-16 onwards. Note that this is a gross saving estimate and industry response to having to pay fuel tax, combined with the potential for lower corporate tax liabilities resulting from higher operating costs mean that the net saving would be lower than \$14.9 billion.

Savings (\$million) – forward estimates

ITEM	2015-16	2016-17	2017-18	2018-19	Total over four years
<i>Fuel Tax Credits Scheme as budgeted</i>	6,822	7,211	7,615	8,125 <sup>7</sup>	29,773
<i>Phase out of Fuel Tax Credits Scheme - savings</i>	3,411	3,606	3,808	4,063	14,887

Note: The unforeseen fall in oil prices since around mid-2014 may affect the FTCS forecasts as budgeted and by association, our estimated savings. Until the 2015-16 budget papers are released, the extent of this impact will be difficult to assess.

<sup>7</sup> Estimate, based on average annual growth rate of the scheme between 2014-15 and 2017-18 using figures in the 2014/15 budget.

## Tax breaks for oil and gas assets – accelerated depreciation

### The opportunity

Although accelerated depreciation was intended to be removed in the 2000 tax amendments, benefits were reinstated in the form of ‘capped effective life’ treatment of oil and gas capital assets, aircraft and many kinds of road vehicles.

In 1999, the Ralph Review of Business Taxation recommended lowering the company tax rate from 36 per cent to 30 per cent, in exchange for removing a wide range of accelerated depreciation rules benefitting some industries. This package of reforms was broadly intended to improve the efficiency of the tax system by removing arbitrary preferences for certain assets over others.

The company tax rate was reduced accordingly, but following industry lobbying, the Australian Parliament enacted special legislation to override determinations of the Commissioner of Taxation regarding the depreciation rules for various asset classes.

The first of these, passed in 2002, preserved the special treatment of assets in the oil and gas sector, among others. The legislation reduces the length of time that various oil and gas assets must be depreciated over, which in turn increases the deductions available for those industries to offset other income.

### How it is addressed

ACF proposes ending this tax break for the oil and gas industry.

### The savings

Estimates below suggest a saving to the Budget of around \$1.5 billion over the budget year and forward estimates.

Savings (\$million) – forward estimates

ITEM	2015-16	2016-17	2017-18	2018-19
<i>Statutory effective life caps – all sectors</i>	1,380	1,400	1,470	1,683*
<i>Statutory effective life caps – oil, gas and petroleum sectors</i>	490	349*	329*	318*
<b>TOTAL SAVING</b>	<b>490</b>	<b>349</b>	<b>329</b>	<b>318</b>

\*ACF estimates

For more information, see

[http://www.acfonline.org.au/sites/default/files/resources/ACF290\\_GivingWithBothHands\\_Report\\_Final\\_2014.pdf](http://www.acfonline.org.au/sites/default/files/resources/ACF290_GivingWithBothHands_Report_Final_2014.pdf) (note: figures above have been updated based on the 2014 Tax Expenditures Statement and will differ slightly from figures in the *Giving With Both Hands* report.

## Aviation fuel excise concessions

### The opportunity

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than other fuels. This represents a subsidy for the use of aviation gasoline and fuel vis-à-vis other forms of transport and reduces potential revenue from fuel excise.

### How it is addressed

The aviation fuel tax concession and the aircraft tariff exemption are costly and distortionary, promoting a more polluting mode of transport while inhibiting the development of alternatives. These concessions should be phased out.

### The savings

An immediate abolition of the concession from the 2015-16 Budget would save nearly \$6 billion over the forward estimates. Consumer (aviation company) responses to having to pay fuel tax excise and resulting high costs, and so lower corporate tax liabilities, mean that the net savings would be less than \$6 billion.

Savings (\$million) – forward estimates

ITEM	2015-16	2016-17	2017-18	2018-19
<i>Concessional rate of excise on aviation gasoline and aviation turbine fuel</i>	1,310	1,400	1,500	1,603*

\*ACF estimates based on average annual growth over previous three years

## **Economy-wide mechanism to reduce carbon emissions**

### **The opportunity**

A number of jurisdictions have introduced mechanisms so their economies can make a transition away from a reliance on fossil fuels.

Jurisdictions such as the European Union, South Korea and California all have economy wide mechanisms. China recently announced its intention to set up a nationwide carbon market in 2016. These schemes have stimulated new and innovative industries and provided cleaner environments for their citizens. They also provide opportunities to new and innovative businesses who can adapt to a new business environment that rewards pollution reduction. Before the repeal of Australia's carbon price, carbon emissions were falling and businesses were actively making the transition to a cleaner economy. It is extremely unclear what impact the Government's emissions reduction fund will have in transition the entire economy away from a reliance on fossil fuels.

### **How it is addressed**

An economy wide mechanism could take the form of a market based mechanism such as a price on carbon or a direct government regulation on the amount of carbon businesses are able to emit. Environmental policy can actually stimulate economic growth and innovation. The OECD found that there is no lasting harm to productivity levels at the economy wide level or industry level when environmental policies are tightened. In fact there is often a temporary increase in productivity growth as firms innovate to fit in with Government policy.<sup>8</sup>

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<sup>8</sup> OECD, "Do Environment Policies Matter for Productivity Growth" Released December 2014  
[http://www.oecd-ilibrary.org/economics/do-environmental-policies-matter-for-productivity-growth\\_5jxrjncjrcxp-en](http://www.oecd-ilibrary.org/economics/do-environmental-policies-matter-for-productivity-growth_5jxrjncjrcxp-en)

## Indigenous Protected Areas and Indigenous Rangers

### The opportunity

#### Indigenous Protected Areas – a vital part of our National Reserve System

Indigenous Protected Areas are a large and vital part of Australia's natural heritage under the National Reserve System – making up around 40 per cent of the NRS. These areas are managed by Indigenous organisations on behalf of all Australians and like National Parks are regarded by the Australian community as valuable national assets which require secure long term funding to properly manage and protect.

Indigenous organisations and their trained Indigenous Ranger teams now manage, or co-manage with state and federal governments, more than 1.5 million square kilometres of land and sea country with more than 90 per cent of projects managing matters of National Environmental Significance under the EPBC and more than 60 per cent addressing key threatening processes, such as the invasion of pests and weeds.

#### Indigenous Rangers – protecting country and closing the gap

The *Working on Country* or *Indigenous Ranger* program, since it was initiated by Greg Hunt in 2007, has proven to be one of Australia's success stories in terms of both conservation outcomes and Indigenous training and employment. This has been achieved with benefits to the taxpayer, the cost of the program being 23 per cent lower than the expenditure specifically allocated for Indigenous Rangers because of reduced welfare costs and increased taxation revenue. An additional benefit was more than \$12 million flowed in indirect benefits to local communities serviced by the program, many in remote communities where there are very few other employment opportunities.<sup>9</sup>

### How these are addressed

Provide long term certainty to Indigenous organisations by committing at least \$300 million over a ten year cycle of funding for Indigenous Protected Areas beginning with a \$130 million commitment over the forward estimates.

Increase the 2016 target for employment of Indigenous rangers from 730 to 1,000 by increasing the government's commitments in partnership with State and Territory governments.

### The investment

Total of \$460 million over four years with a forward guarantee for Indigenous Protected Areas of a minimum \$300 million over ten years.

Investments \$million – forward estimates

ITEM	2015-16	2016-17	2017-18	2018-19
<i>IPA funding</i>	25	30	35	40
<i>Boost Indigenous ranger funding</i>	70	80	90	90
<b>TOTAL</b>	<b>95</b>	<b>110</b>	<b>125</b>	<b>130</b>

<sup>9</sup> The Allen Consulting Group, *Assessment of the economic and employment outcomes of the Working on Country Program*, October 2011.

## Investing in conservation connectivity and climate refuges

### The opportunity

Australia’s network of protected areas, the National Reserve System (NRS), is incomplete. While we have made some substantial gains in the establishing protected areas over the past decade, we are a long way off a comprehensive, representative and adequate reserve system. Protected areas, on public, private and traditionally owned lands, are our safety net and provide a vast array of social benefits. They protect natural systems essential to human survival, such as water catchments, provide critical protections for our most threatened species and safeguard places of significant cultural and social importance. For the first time since 1993 there is no Commonwealth program that supports the establishment of new protected areas across Australia. This is despite the fact that there are many gaps in the NRS that need to be filled. Presently 62 per cent of bioregions in Australia that remain under-represented (below 17 per cent) within the NRS.<sup>10</sup> There are also many threatened species, particularly in higher threat categories, that have no or inadequate habitat coverage within the reserve system. Such species will be increasingly vulnerable to future climatic changes and threats and not benefit from active management that accompanies protected areas.

### How it is addressed

Strategic and well thought out reserve establishment is critical to safeguarding our future. This includes investing in conservation connectivity corridors that are made up of formal protected areas on public and private lands alongside land stewardship activities. Conservation corridors, such as the Great Eastern Ranges Initiative, will become increasingly important under future climate change scenarios, enabling species and ecosystems to adapt across latitudinal and topographic gradients and across tenures.

### The investment

The 2015 budget should include provision for a targeted investment program totalling \$1.23 billion over forward estimates for the establishment of public, private and Indigenous protected areas and stewardship investment on private lands. Investment should be guided by regional corridor strategies, with an aim of improving representativeness in the reserve system and protecting and connecting key climate refuge habitat for threatened species and ecosystems.

Investments \$million – forward estimates

ITEM	2015-16	2016-17	2017-18	2018-19
<i>Establishment of a conservation connectivity fund</i>	140	160	160	160
<i>Restoring and boosting terrestrial National Reserve System investments for land purchases and incentives for the widespread adoption of on-farm covenants by landholders</i>	100	170	170	170
<b>TOTAL</b>	<b>240</b>	<b>330</b>	<b>330</b>	<b>330</b>

<sup>10</sup> Taylor MFJ, Fitzsimons JA, Sattler PS, 2014. *Building Nature’s Safety Net 2014: A decade of protected area achievements in Australia*. WWF-Australia, Sydney ([www.wwf.org.au/buildingnaturesafetynet2014](http://www.wwf.org.au/buildingnaturesafetynet2014)).

## Threatened species recovery fund

### The opportunity

There are over 1800 species and ecological communities listed as threatened under Australia's national environment law. Species continue to decline due to loss of habitat, predation and competition by invasive species, inappropriate fire regimes, diseases, unsustainable use and other influences.

Significant effort across jurisdictions, agencies, institutions and individuals has been devoted to studying these species and ecological communities, understanding their ecology and planning for their recovery. This planning effort has not historically been matched by equivalent investment. For example analysis of the recovery requirements for Australia's threatened macropods highlighted that a 10 year investment of \$290 million was required to successfully ensure these species would be eligible for down-listing.<sup>11</sup>

Similar research has highlighted that \$10 million annual investment would significantly limit the likelihood of extinction for Australia's threatened bird species.<sup>12</sup>

The Abbott Government has committed to stopping all mammalian extinctions by 2020, but has provided no additional funding to achieve this outcome. The appointment of a Threatened Species Commissioner is a positive step, but the position has no statutory authority, no administered funds and no scope to intervene in the regulatory process.

### How it is addressed

A standalone threatened species recovery fund should be developed that invests directly in priority recovery actions for Australia's most threatened species across taxa. A transparent, scientifically robust investment protocol should be developed with an independent advisory body established to guide investment. Funding should be directly invested into recovery plan actions and support on-ground teams.

### The investment

An allocation of \$400 million over forward estimates to be delivered through species and ecological community recovery teams based on a transparent prioritisation system. Such a program must work alongside existing community programs, such as Landcare, to facilitate community participation in threatened species recovery and habitat management.

Investments \$million – forward estimates

ITEM	2015-16	2016-17	2017-18	2018-19
<i>Threatened Species Recovery Fund</i>	100	100	100	100
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>11</sup> Action Plan for Australia's Threatened Macropods 2011-2021 – WWF

<sup>12</sup> McCarthy, M. A., Thompson, C. J. and Garnett, S. T. (2008), Optimal investment in conservation of species. *Journal of Applied Ecology*, 45: 1428–1435. doi: 10.1111/j.1365-2664.2008.01521.x

## **Implement the System of Environmental-Economic Accounting (SEEA) across Government**

### **The opportunity**

Federal Government balance sheets play a central role in decision making and ongoing planning to ensure sustainable budget positions. However environmental measurement is not included in the Government's budgetary process. This means there is less visibility of environmental issues in Government budgetary process and its consideration in decision making is diminished. Given the environment's contribution to Australia's quality of life this situation should be rectified.

### **How it is addressed**

Australia played an important role in the development of the UN System of Environmental-Economic Accounting (SEEA) launched in 2012 – a globally agreed statistical standard equivalent to the process for standard measurement across countries of GDP.

The full implementation of SEEA is a critical step to developing a National Balance Sheet, including all of Australia's natural assets with forward projections, and to using these tools to drive more informed decision making in federal budget processes and policy development.

### **The investment**

For a relatively modest allocation of \$20 million per year, publication of a full SEEA account for Australia is feasible, and would provide decision-makers at all levels of government and in the private sector with vital information about our natural assets.

Investment (\$million) – forward estimates

<b>ITEM</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>
<i>Implement the System of Environmental – Economic Accounting across Government</i>	20	20	20	20
<b>TOTAL</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>