

## MEDIA BRIEF

25 June 2010

# G20 and fossil fuel subsidies

*“29. Inefficient fossil fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change. [...] eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten per cent”*

– G20 leaders’ statement, Pittsburgh, September 2009

### **Australia’s G20 commitment to phase out fossil fuel subsidies**

As a member of the G20, Australia made a clear commitment in September 2009 “to phase out and rationalize over the medium term inefficient fossil fuel subsidies”. According to the leaders’ statement, each G20 nation will develop implementation strategies and timeframes for phasing out fossil fuel subsidies and report back to the next leaders’ summit. The next summit occurs this weekend in Toronto, Canada.

### **What are fossil fuel subsidies?**

The G20 asked the OECD to provide guidance on the definition and calculation of fossil fuel subsidies. The OECD’s guidance defines a subsidy as including “various types of policy-related transfers provided by governments and their agents, along with foregone revenues, [and] the more common notion of a subsidy as a direct government payment”.<sup>1</sup> Further to this definition, the OECD distinguishes between producer support and consumer support mechanisms.

Support to producers, the most significant proportion of fossil fuel subsidies, include tax concessions (including additional deductions and depreciation allowances), reimbursing a tax (reduced or exemption from taxes), reducing input prices, providing services in-kind and investing in knowledge-creating activities. On the consumer side, subsidies include support in cash or in kind to support consumption levels or any government intervention that artificially depresses the domestic price of energy.

### **What is the extent of the fossil fuel subsidies in Australia?**

Following these definitions, the annual value of fossil fuel subsidies in Australia is currently valued at \$7.7 billion (comprising producer subsidies of \$6,645 million and consumer subsidies of \$1,065 million).

The largest subsidy is the Fuel Tax Credits program, which rebates fuel excise tax on diesel fuel consumption for many business users. It is worth more than \$5 billion each year (65 per cent of total fossil fuel subsidies). Full details of other subsidies are set out on the following page.<sup>2</sup>

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<sup>1</sup> OECD (2010), *Measuring Support to Energy - Version 1.0: Background paper to the joint report by the IEA, OPEC, OECD and World Bank on “Analysis on the scope of energy subsidies and suggestions for the G20 initiative”* and <http://www.oecd.org/dataoecd/26/2/45419349.pdf>

<sup>2</sup> **NB:** this is not a comprehensive list of all fossil fuel subsidies in Australia. State and Territory policies are not covered. Other issues, such as government funded infrastructure provision to mining companies, government marketing support (e.g. trade shows etc.),

## Government response to date

At the end of September's G20 summit, Treasurer Wayne Swan suggested fossil fuel subsidies were not relevant to Australia: "I don't believe it has implications for us [...] It is aimed particularly at some massive subsidies elsewhere in the world which do need to be removed over time".<sup>3</sup> However, OECD advice provided to the G20 (and supported by the IEA, OPEC and World Bank) includes a broad definition of "subsidy" that appears to include the current Australian policies described in detail below.

## What does the government have to do?

To meet this commitment, the Government needs to set out a clear implementation plan for the phase out of fossil fuel subsidies in Australia and report back on this plan and timeframe at this weekend's leaders' summit in Toronto.

## Producer support subsidies

### Total value of fossil fuel subsidy: \$6,645 million

- **Fuel tax credits** **Annual cost: \$5,065 million<sup>4</sup>**  
The Fuel Tax Credits program offers rebates on the use of diesel for qualifying road transport and most off-road uses (such as energy generation and mining). Although often pitched as a benefit for farmers, in fact only 10.5 per cent of value of the scheme supports agriculture (excluding forestry and fishing) with of 33 per cent for mining (\$1.7 billion) and 24 per cent for transport, postal and warehousing (\$1.2 billion).
- **Reduced excise for aviation fuels** **Annual cost: \$680 million<sup>5</sup>**  
Domestic air transport is three to five times as energy-intensive as other forms of intercity transport, such as rail, bus or multi-passenger vehicle. Yet while petrol attracts excise of about 38 cents per litre, aviation fuels are taxed at 2.85 cents per litre.
- **Accelerated depreciation for fossil fuel assets** **Annual cost: \$655 million<sup>6</sup>**
- Capital depreciation concessions for oil and gas assets, heavy vehicles, and aircraft distort investment in favour of energy- and resource-intensive activities and cost the budget an increasing amount each year, projected to be \$1 billion by 2012-13.
- **Henry Review:** recommended that special provisions to statutory effective life caps and other concessional write off provisions should be reviewed (Rec.28).
- **Zero tariffs for aircraft** **Annual cost: \$135 million<sup>7</sup>**  
While many vehicles including trains attract a 5 per cent import duty, aircraft – the most pollution-intensive form of transport – attract no tariff at all.
- **Enhanced Project By-law Scheme (EPBS)** **Annual cost: \$60 million<sup>8</sup>**  
The EPBS offers tariff concessions on imported capital equipment for qualifying major developments. In practice, heavily polluting industries have been among the biggest beneficiaries. In 2006, the scheme was extended to cover the pollution-intensive energy generation sector.

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research and development and inspection services are also classified as subsidies under the OECD definition but are not costed in this document.

<sup>3</sup> Treasurer Wayne Swan, as quoted in SMH, "End to fossil fuel subsidy won't affect Australia", 28 September 2009

<sup>4</sup> Australian Taxation Office, *Taxation Statistics 07-08 (2010)*. Henry Review estimates \$1,771.6 mill.

<sup>5</sup> *Tax Expenditures Statement 2009 F3, data for 2008/09.*

<sup>6</sup> *Tax Expenditures Statement 2009 B87, data for 2008/09.*

<sup>7</sup> 5% revenue forgone on civil aircraft imports calculated from 07-08 ABS *International Trade Data* (post December 2008, aircraft values are no longer provided).

<sup>8</sup> *AusIndustry Program Summary*, [www.ausindustry.gov.au](http://www.ausindustry.gov.au) accessed June 2010 - estimated value for 2009/10

- **Geoscience Australia** **Annual cost: \$50 million<sup>9</sup>**  
Geoscience Australia operates as an agency of the Department of Energy, Resources and Tourism with a substantial proportion of its work dedicated to providing geospatial information to aid exploration of mineral and petroleum resources.
- **150 per cent deduction for petroleum exploration** **Annual cost: \$0-10 million<sup>10</sup>**  
To encourage development of new petroleum fields, the Federal Government allows a deduction of 150 per cent of certain exploration expenses.

### Consumer support subsidies

#### Total value of fossil fuel subsidy: \$1,065 - \$1,335 million

- **Tax concessions for private use of company cars** **Annual cost: \$1,035 million<sup>11</sup>**  
The Fringe Benefits Tax concession for private use of company cars subsidises the use of motor vehicles with a tax rate that becomes more generous the more kilometres one drives each year. Research has shown that this creates an incentive for unnecessary travel and subsequent consumption of fossil fuels.
- **Tax concessions for car parking** **Annual cost: \$10 – 100 million<sup>12</sup>**  
Car parking benefits provided by an employer are not taxed at the full fringe benefits tax rate and for some employers (such as small businesses and charities) parking benefits are entirely exempt from tax.
- **Discounted tax value for stand-by air travel** **Annual cost: \$10 - 100 million<sup>13</sup>**  
Employees of the airline and travel industries are not required to cost fully the value of stand-by flight benefits for fringe benefits tax purposes.
- **Tax exemption for taxi travel to and from work** **Annual cost: \$10 – 100 million<sup>14</sup>**  
Travel by taxi to and from work that is paid for by an employer is entirely exempt from fringe benefits tax.
- **Negative tax treatment of efficiency improvements** **Annual cost: n/a** Several features of the taxation system discourage investment in energy and resource efficiency. For example, if a business installs an air conditioner, the installation attracts accelerated depreciation as machinery, whereas improvements to premises such as double glazing receive the lower depreciation rate for capital expenditure.

### For more information, please contact

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*The Australian Conservation Foundation is committed to achieve a healthy environment for all Australians. We work with the community, business and government to protect, restore and sustain our environment.*

*[www.acfonline.org.au](http://www.acfonline.org.au)*

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<sup>9</sup> Estimate of value to the oil and gas industry as per Senate question posed by Senator Christine Milne, 17 June 2010. Annual budget of Geoscience is \$157 million - *Geoscience Australia Annual Report 2008-09*, contained within *Department of Energy, Resources and Tourism Annual Report 2008-09*

<sup>10</sup> *Tax Expenditures Statement 2009 G2, 2008/09 data.*

<sup>11</sup> *Tax Expenditures Statement 2009 D26, D44 & A61, data for 2008/09*

<sup>12</sup> *Tax Expenditures Statement 2009 D28, D35 and D41, data for 2008/09 (D41 \$10-100mill.); Taxation Statistics 07/08 estimates \$218 mill.*

<sup>13</sup> *Tax Expenditures Statement 2009 D18 & D37, 2008/09 data.*

<sup>14</sup> *Tax Expenditures Statement 2009 D15, 2008/09 data.*