Greenpeace Tax Reform Priorities
Commonwealth Tax Summit
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Fossil Fuel Subsidies

Australia has a tax system at war with itself. There are numerous historical reasons for this, but nowhere is its Push-Me-Pull-You nature more apparent than when looking at the proposed Clean Energy legislation and fossil fuel subsidies. If we aspire to a safe, sustainable and secure energy future - let alone a consistent tax regime - this must change.

Tax systems send signals throughout the economy. While never completely coherent or systematic, they do reflect the priorities, policies and imperative of a society and its economy. The passage of the Clean Energy legislation is an attempt to harness the power of this system to clean up Australia's carbon pollution.

Unfortunately, while the carbon tax will undoubtedly drive some improvements in industrial practice, other elements of the tax system will continue to work against these very improvements. Indeed the way the tax system uses fossil fuel subsidies suggests a system with one foot on the accelerator and the other on the brake – dysfunctional and perverse.

Failed action on Fossil Fuel Subsidies

Following a clear G20 commitment made in 2009 to phase out or eliminate 'inefficient' fossil fuel subsidies, the Australian Taxation Office assessed that there were up to 17 mechanisms in the Federal Tax system that could be considered fossil fuel subsidies.[1] This included the diesel fuel rebate (5 billion annually) and million annually). [2] The total subsidy to the fossil fuel sector identified in these documents was over $8 billion a year.[3] This figure would have been significantly higher if the costs associated with research, development and exploration had also been included. For example, a recent Parliamentary question revealed that the value of exploration and quarrying subsidies alone were likely to be worth around $8 billion in 2010.[4]

Despite this initial review, however, there has been no radical overhaul of policy or any fundamental review of taxation away from such subsidies. Progress has been ad hoc and hard fought with small steps confined to minimal reductions in the Fringe

[1] Unpublished Treasury freedom of information document, number 52; draft table produced in response to the G20 commitment. The list was eventually narrowed down to three subsidies and all of those were deemed by the Minister not to be subject to the G20 commitment. Document is available from Greenpeace on request.

[2] Unpublished Treasury freedom of information document, number 52

[3] Unpublished Treasury freedom of information document, number 66; Briefing to the PM working group on the G20 commitment, 4 April 2010. At this point, the number of subsidies has been reduced to 9 and the total estimated subsidy in the document is 8.86 billion. Document available on request.

[4] Question on notice 669, response 3(a), 16 August 2011, Senator Milne; respondent Senator Wong; "the value claimed for the decline in value of depreciating assets used in exploration or prospecting was approximately 8 billion."

Benefits Tax for company cars, the introduction of an excise on some ‘alternative’ gas fuels and the Productivity Commission has been asked to review fuel excise arrangements, a result of the Multi Party Committee on Climate Change agreement.

Meantime, the fossil fuel industry has continued to benefit enormously at the taxpayers’ expense. For example, direct subsidies for the building of coal export infrastructure in Queensland in 2009 alone, amounted to around $1.6 billion.[5] Moreover, the industry is negotiating a resource rent tax that is likely to be so compromised by subsidies - including even more accelerated depreciation provisions - that it may not actually result in any revenue for the Commonwealth.[6]

There remains no internal intellectual integrity in our tax system when it comes to making an efficient transition to a low carbon economy. By picking “winners” through the extensive use of fossil fuel subsidies Australia’s economy remains hostage to 19th century fuel options. It’s time for this to change.

Greenpeace is calling on the Government to:

1. Identify the full range of fossil fuel subsidies at state and federal levels.
2. Immediately eliminate the most perverse subsidies, including accelerated depreciation and the diesel fuel rebate for mining
3. Commit to phasing out fossil fuel subsidies long term
4. Use subsidies in the energy sector to promote low emissions technologies such as wind and solar energy.

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[5] The Queensland Budget paper 2008-09 identifies approximately 1.6 billion dollars in direct subsidies for the fossil fuel industry. This does not include tax relief, rate relief or water and electricity discounts, all of which are likely to be substantial subsidies, and are kept from public review under commercial in confidence claims.

[6] Minerals Resource Rent Tax, Exposure Draft Explanatory Memorandum, 2011. The explanatory memorandum describes the tax as being closer to a profit sharing mechanism, whereby mines may deduct expenses, write off assets, accelerate depreciation, carry over losses and offset tax liability. Under this system, revenue from resource profits is not assured.