



24 May 2006

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Hallahan

**INQUIRY INTO THE PROVISIONS OF THE *FUEL TAX BILL 2006* AND THE
*FUEL TAX (CONSEQUENTIAL AND TRANSITIONAL PROVISIONS) BILL 2006***

I am writing in relation to the Committee's inquiry into the provisions of the *Fuel Tax Bill 2006* and the *Fuel Tax (Consequential and Transitional Provisions) Bill 2006* on behalf of the Australian Institute of Petroleum (AIP).

AIP was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards. AIP's four core member companies are BP Australia Pty Ltd, Caltex Australia Limited, Mobil Oil Australia Pty Ltd and The Shell Company of Australia Ltd.

AIP and its member companies welcome the opportunity to comment on relevant fuel tax reforms announced in the Australian Government's 2004 Energy White Paper (*Securing Australia's Energy Future*), and to assist this Senate Committee in its consideration of the legislation which gives effect to key aspects of this important policy reform package.

This submission makes some brief comments only on three key areas – the reform package and underlying principles, consultation and administration. This approach largely reflects our strong support for this reform package. I note that these comments apply equally to the other tax reform legislation subject to current inquiry by the Senate Economics Committee, since it is an integrated reform package.

Reform Package & Principles

In summary, AIP agrees with the policy objectives underlying the Government's fuel tax reforms, and considers the current legislative package will help to deliver on these when fully implemented. However, we consider that ongoing consultation is needed to help implement these reforms successfully, including in the most practical way (see 'Consultation') and we consider there is significant scope to improve government administration in the future (see 'Administration').

AIP supports the Government's announced objectives in this reform area, including the following.

- ⇒ The fuel taxation system should be efficient (cause minimum distortions), equitable (fair) and simple (easily understood).
- ⇒ A simple tax system (supported by modern excise law) should provide clarity, consistency and stability.
- ⇒ The fuel taxation system should minimise compliance and administration costs for business and government.
- ⇒ The current complex system of grants and rebates should be replaced with a single fuel tax credit system administered through the BAS and with compliance responsibilities aligned with claimants of fuel tax credits.

Overall, we consider that the reforms assist in reducing uncertainty in relation to fuel taxation and are consistent with AIP's long held view that all fuels should be taxed on a consistent basis so that consumers can make informed decisions about fuel choice.

Consultation

As noted above, AIP strongly supports the aim of making the necessary legislation practical and workable while minimising the compliance costs to business. This objective is particularly important since there are number of significant practical impacts on AIP member company operations resulting from our unique position of being the remitter of the excise payments as well as the beneficiary of the fuel tax credits. There are implications for commercial, accounting and computing practices, as well as sales (financial and volume) monitoring, reporting and compliance policies and practices.

To help ensure a smooth transition to the new arrangements, AIP member companies have actively participated in Treasury/ATO consultation processes to date. We look forward to further opportunities to work through the range of practical issues with relevant agencies in advance of the legislation coming into effect on 1 July 2006.

AIP notes that the transition to the new excise regime, like any other substantial reform process, will involve costs and practical issues that need to be managed in the very short term (eg. the cash flow of some affected parties) in order to realise the longer terms benefits of reform.

Excise Administration

In relation to administration, we note that under the new arrangements, AIP member companies will continue to be required to deal with two different government agencies and systems in relation to fuel excise. That is, the taxation of locally produced fuels will continue to be administered by the Australian Taxation Office (ATO) under excise duty arrangements, while Customs will continue to administer the collection of taxes (customs duties) on fuels imported in their final forms.

While not the specific focus of the legislation before the Committee, AIP member companies strongly believe that a single administration point for fuel taxation in Australia should be established. In this regard, we note that the Government's 2002 Fuel Taxation Inquiry recommended a single administration point and a transfer to the ATO of the administration of customs duty collection on all imported fuel products.

AIP member companies believe that a single administration point would ensure a consistent and integrated approach is taken to fuel taxation issues, that administration for industry and government is simplified, and that fuel taxation matters can be fully integrated into the new modern excise collection arrangements outlined in the legislation before this Senate Committee.

Contact Details

Should you have any questions in relation to this submission, or require additional information from AIP, the relevant contact details are outlined below.

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Thank you once again for the opportunity to participate in this Senate Committee Inquiry.

Yours sincerely



Dr John Tilley
Executive Director