



RESEARCH NOTE

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Fuel Price Subsidy Schemes

The Commonwealth has three schemes that subsidise the price of petrol and diesel to certain users. The schemes are the Diesel Fuel Rebate Scheme (DFRS), the Diesel and Alternative Fuels Grants Scheme (DAFGS) and the Fuel Sales Grants Scheme (FSGS).

While the rise in fuel prices has focused public comment on the role of taxes in prices,¹ attention to the subsidy schemes has also increased, particularly with respect to eligibility and subsidy amounts. To assist Parliamentarians improve their understanding of the schemes, this Note describes their main features and effects.

Diesel Fuel Rebate Scheme

The DFRS provides a rebate² of the excise (or customs) duty paid on diesel and like fuels³ used in certain businesses and other activities. Eligible business activities are rail and marine transport, mining, agriculture, forestry and fishing. Other eligible activities are electricity generation for residences, and the operation of hospitals, nursing and aged care homes and other medical institutions.

The DFRS is often described as the 'off-road' scheme because, to be eligible, diesel used in mining and primary production must not be used in a vehicle on a public road. But the DFRS is activity-based and the legislation specifies the activities that are eligible. Hence not all activities in an industry are

eligible. For example, mining does not include quarrying.

Until 31 December 2000, the rebates varied by activity. For example, in December 2000, the rebates for diesel were: \$0.37623 per litre for agricultural, fishing, forestry, rail and marine industries; \$0.37225 for mining operations; and \$0.362 for residential and other eligible activities. However, since 1 January 2001, the rebate has been the same for all eligible activities.

Fuel excises are indexed each February and August, and the 'declared' rebate rate is the same as the indexed excise rate. Thus on 1 February 2001, the indexed excise rate and the declared rebate rate were both \$0.39643 per litre. However, the amount paid in February was \$0.38118 per litre. The difference between the declared rebate and the amount paid is the result of averaging. Increases in the amount paid are phased in over six months through averaging provisions. Hence it will not be until August 2001 that the amount paid will equal the February 2001 declared rate of \$0.39643 per litre. Averaging was introduced partly to discourage claimants from delaying lodging claims in the hope that the rebate would exceed the amount of excise they had paid.

The rebate is an Assessable Government Industry Payment and is therefore assessable income for income tax purposes if received in relation to carrying on a business.⁴

The DFRS is, in effect, an industry subsidy scheme, with agriculture and mining the main beneficiaries. Subsidising selected industries distorts resource use towards the favoured industries at the expense of other industries, resulting in a loss of aggregate economic efficiency. The discrimination among activities within an industry further distorts resource use.

Diesel and Alternative Fuels Grants Scheme

Under this scheme, grants are paid for business-related on-road use of diesel (and alternative fuels)⁵ in all vehicles over 20 tonnes gross vehicle mass (GVM), and in vehicles weighing between 4.5 and 20 tonnes GVM that are used to transport goods and passengers in regional areas.

Eligibility for vehicles between 4.5 and 20 tonnes GVM depends on where the journeys are undertaken. Eligible journeys are those outside metropolitan areas; between a point inside a metropolitan area and a point outside that particular metropolitan area and vice versa; and journeys between different metropolitan areas. The grant is not available for journeys solely within metropolitan areas. The journey restrictions do not apply to vehicles transporting passengers or goods solely on behalf of a primary production business; buses using alternative fuels; and emergency vehicles.

The grant amount is \$0.1851 per litre. The grant rate is adjusted each

February and August to reflect changes in the consumer price index. Like the DFRS rebate, DAFGS grants are assessable income.

The Scheme's origins lie in *A New Tax System* in which the Howard Government announced its intention to introduce the Diesel Fuel Credit Scheme (DFCS), which would be delivered through the GST system.⁶ But under the terms of the agreement between the Government and the Australian Democrats to change the tax reform package, the Government converted the DFCS to the DAFGS.⁷

DAFGS is, in effect, a subsidy to transport businesses in regional areas, and to Tasmania and the Northern Territory where all journeys are eligible. DAFGS also subsidises primary production since only this industry in metropolitan areas is eligible. Thus DAFGS, like the DFRS, distorts resource use.

The Government intends to replace the DFRS and DAFGS in mid-2002 with an Energy Grants (Credits) Scheme. The new scheme will maintain benefits equivalent to those available under the DFRS and DAFGS, and will encourage the use of cleaner fuels. No details of the proposed scheme are yet available.

Fuel Sales Grants Scheme

The FSGS subsidises end-use consumers of petrol and diesel in regional and remote areas by providing grants to fuel retailers.⁸ The grant is paid for sales in defined non-metropolitan zones after 30 June 2000. These include sales by distributors of bulk fuel to end-users such as farms and mines where the sale occurs in a non-metropolitan zone. Retailers must be registered for the scheme before they can claim grants. The

Australian Competition and Consumer Commissioner is responsible for monitoring petrol and diesel prices to ensure that retailers are passing the subsidy to consumers. The grant is also an Assessable Government Industry Payment.

The grant for the non-metropolitan zone is one cent per litre and two cents per litre for the remote zone. These amounts are not indexed so that their real value will fall with inflation.

The scheme is, in effect, a subsidy to fuel users in regional areas. As such, it does not address the reasons fuel prices are higher in regional than metropolitan areas.⁹

Estimated expenditure on the Schemes is shown in the Table.

Table: Estimated Expenditure on Fuel Price Subsidy Schemes 2000–01 (\$m)

DFRS	1 992
DAFGS	639
FSGS	115

Sources: Treasury Portfolio Budget Statements 2000–01, p. 170 and MYEFO 2000–01, p. 102.

1. For a review of mechanisms and policies regarding excise on petrol and diesel, see <http://www.aph.gov.au/library/pubs/rp/2000-01/01RP06.htm>
2. The rebate is payable under section 164 of the *Customs Act 1901* and section 78A of the *Excise Act 1901*.
3. Like fuels include heavy fuel oil, light fuel oil and all fuels that attract the same rate of duty as diesel (except for gasoline, coal tar and coke oven distillates).
4. Rebates are assessable income because registered businesses can claim the cost of fuel as a tax deduction. Rebates reduce the amount paid for fuel and

hence the amount claimable as a deduction.

5. Alternative fuels are compressed natural gas, liquefied petroleum gas, recycled waste oil, ethanol, canola oil, and other fuel specified by regulation.
6. *Tax Reform: not a new tax, a new tax system*, p. 86.
7. Prime Minister, 'Changes to the Goods and Services Tax', press release, 31 May 1999.
8. Eligible fuels are leaded and unleaded petrol and diesel, including light fuel oil, two stroke, premium unleaded and Shell Optimax.
9. For a discussion of some of these causes, see Productivity Commission, 'Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia'. Draft report, 18 May 1999, pp. 289–94.

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