

# Chapter 1

## Introduction

### Referral

1.1 On 19 June 2014, pursuant to the Selection of Bills Committee's report, the Senate referred the provisions of the following bills to the Economics Legislation Committee for inquiry and report by 7 July 2014:

- Excise Tariff Amendment (Fuel Indexation) Bill 2014;
- Customs Tariff Amendment (Fuel Indexation) Bill 2014;
- Fuel Indexation (Road Funding) Bill 2014; and
- Fuel Indexation (Road Funding) Special Account Bill 2014.<sup>1</sup>

1.2 The main reason for supporting the referral of this legislation to a parliamentary committee was to consider the distributional analysis of fuel excise increases.<sup>2</sup>

### Conduct of the inquiry

1.3 The committee advertised the inquiry on its website and wrote to relevant stakeholders and other interested parties inviting submissions. The committee received 16 submissions as well as additional information including answers to questions on notice. These documents are listed at Appendix 1.

1.4 The committee held a public hearing in Canberra on 2 July 2014. The names of the witnesses that gave evidence are at Appendix 2.

### Background to the bill

1.5 As a key initiative of the 2014–15 Budget, the Treasurer announced the government's intention to establish 'a sustainable source of future productivity-enhancing road funding' through the reintroduction of the bi-annual indexation of fuel excise to the Consumer Price Index (CPI) from 1 August 2014'.<sup>3</sup> This measure was part of the government's broader commitment to achieving a stable and growing

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1 *Journals of the Senate, 19 June 2014*, p. 914.

2 Selection of Bills Committee, *Report No. 3 of 2014*, Appendix 2, 20 March 2014.

3 Budget 2014–15, Overview, 13 May 2014, p. iv, [http://www.budget.gov.au/2014-15/content/overview/download/Budget\\_Overview.pdf](http://www.budget.gov.au/2014-15/content/overview/download/Budget_Overview.pdf) and Budget 2014–15, *Building Australia's Infrastructure*, May 2014, p. 2, <http://www.budget.gov.au/2014-15/content/glossy/infrastructure/download/Infrastructure.pdf> (accessed 30 June 2014).

funding source for major infrastructure development. More specifically, the proposed legislation is intended 'to create a more stable and secure source of Commonwealth funding for road infrastructure over the longer term'.<sup>4</sup> According to the government, this measure would secure \$2.2 billion over the forward estimates to start immediately to invest in Australia's future 'by building new roads and upgrading existing roads'. The Budget papers explained further:

Funding constraints at all levels of government have become a significant impediment to the provision of the infrastructure that Australia needs to bolster the productive capacity of the economy and prosperity for the 21st century.

Accordingly, the Government will move to amend the Excise Act 1901 to ensure that the amount spent on road infrastructure is greater than the net revenue raised by the reintroduction of indexation on fuel excise and excise-equivalent customs duty.

1.6 The Budget Overview noted that, under difficult budget circumstances, this measure was the responsible way to start building immediately 'the productivity boosting road infrastructure that Australia needs'.<sup>5</sup>

### **Purpose of the bills**

1.7 The package of four bills (the bills) would give effect to the government's stated intention to secure funding for 'additional productivity-enhancing road infrastructure'.<sup>6</sup>

1.8 The first two bills propose to amend the *Excise Tariff Act 1921* and the *Customs Tariff Act 1995* to index the rate of excise and excise-equivalent customs duty applying to fuels to CPI. The excise and excise-equivalent levies on fuel are set out in these acts.

1.9 The Fuel Indexation (Road Funding) Bill 2014 would amend the *Fuel Tax Act 2006* to ensure that taxpayers generally use the same rate of duty that was payable on the fuel for determining the amount of their fuel tax credits.

1.10 The Fuel Indexation (Road Funding) Special Account Bill 2014 would establish a special account to ensure that the net additional revenue raised from the reintroduction of fuel indexation would be used for road infrastructure funding.

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4 Budget 2014–15, Overview, 13 May 2014, p. 15, [http://www.budget.gov.au/2014-15/content/overview/download/Budget\\_Overview.pdf](http://www.budget.gov.au/2014-15/content/overview/download/Budget_Overview.pdf) and Budget 2014–15, *Building Australia's Infrastructure*, May 2014, p. 2, <http://www.budget.gov.au/2014-15/content/glossy/infrastructure/download/Infrastructure.pdf> (accessed 30 June 2014).

5 Budget 2014–15, Overview, 13 May 2014, p. 8, [http://www.budget.gov.au/2014-15/content/overview/download/Budget\\_Overview.pdf](http://www.budget.gov.au/2014-15/content/overview/download/Budget_Overview.pdf) (accessed 30 June 2014).

6 Budget 2014–15, *Building Australia's Infrastructure*, May 2014, p. 8, <http://www.budget.gov.au/2014-15/content/glossy/infrastructure/download/Infrastructure.pdf> (accessed 30 June 2014).

## **Structure of this report**

1.11 To provide context for the examination of the provisions of the bills, the committee presents a brief history of excise on fuel including the circumstances around removing fuel indexation in 2001. The committee then looks in turn at the provisions of each bill and considers the arguments in favour of the proposed legislation and those against it.

## **Acknowledgements**

1.12 The committee thanks all those who participated in, and assisted the committee with, the inquiry. The committee notes the short inquiry and reporting timeframes and acknowledges the contribution of all submitters and witnesses who worked to such a tight schedule.

