

*Department of the
Parliamentary Library*



INFORMATION AND RESEARCH SERVICES

Bills Digest

No. 142 2000–01

Excise Tariff Amendment Bill (No. 2) 2001

ISSN 1328-8091

© Copyright Commonwealth of Australia 2001

Except to the extent of the uses permitted under the *Copyright Act 1968*, no part of this publication may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior written consent of the Department of the Parliamentary Library, other than by Senators and Members of the Australian Parliament in the course of their official duties.

This paper has been prepared for general distribution to Senators and Members of the Australian Parliament. While great care is taken to ensure that the paper is accurate and balanced, the paper is written using information publicly available at the time of production. The views expressed are those of the author and should not be attributed to the Information and Research Services (IRS). Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion. Readers are reminded that the paper is not an official parliamentary or Australian government document. IRS staff are available to discuss the paper's contents with Senators and Members and their staff but not with members of the public.

Inquiries

Members, Senators and Parliamentary staff can obtain further information from the Information and Research Services on (02) 6277 2646.

Information and Research Services publications are available on the ParlInfo database. On the Internet the Department of the Parliamentary Library can be found at:
<http://www.aph.gov.au/library/>

Published by the Department of the Parliamentary Library, 2001

I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

Bills Digest
No. 142 2000–01

Excise Tariff Amendment Bill (No. 2) 2001

Ian Ireland
Law and Bills Digest Group
4 June 2001

Contents

Purpose	1
Background and Main Provisions.	1
Fuel excise indexation.	1
Government analysis of costs/benefits	1
Prime Minister's Rationale.	2
Media Comment.	3
Excise Tariff Amendment (Petrol Tax Cut) Bill 2001	4
Endnotes.	5

Excise Tariff Amendment Bill (No. 2) 2001

Date Introduced: 22 May 2001

House: House of Representatives

Portfolio: Treasury

Commencement: Royal Assent

Purpose

To remove the indexation of excise on petroleum fuels from 1 August 2001.

Background and Main Provisions

Fuel excise indexation

On 1 March 2001, the Prime Minister announced a package of measures to cut fuel taxes. To implement this package, a number of legislative changes to provisions relating to the indexation of excise of petroleum products are required. The excise duty on petroleum products is indexed to movements in the consumer price index (CPI) twice a year. **Item 1** of **Schedule 1** of the Bill gives effect to the relevant changes. Under the proposed amendments:

- the indexation of excise tax on all petroleum fuels (eg. Leaded, unleaded, diesel and aviation fuels) is removed from the indexation period commencing 1 August 2001.

Government analysis of costs/benefits

The Government's Explanatory Memorandum to the Bill provides a cost/benefit analysis. In respect to costs of compliance, it is stated:

There may be a reduction in ongoing compliance costs for petroleum manufacturers, importers and licensed distributors (numbering around 30), as less frequent changes will be needed to their systems to cater for new duty rates. This reduction is likely to be minor, given that the procedures and systems these businesses have in place were designed to handle the regular indexation changes with minimal effort.¹

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

In respect to the financial impact of the proposed amendment, the Government's Explanatory Memorandum to the Bill states:

The cost to the Budget of the abolition of excise and customs duty indexation for petroleum fuels is \$150 million in 2001-2002, \$425 million in 2002-2003, \$785 million in 2003-2004 and \$1,135 million in 2004-2005.²

In respect to the economic costs of the proposed amendment, the Government's Explanatory Memorandum to the Bill states:

Retail prices of fuels used by individual non-business consumers, for example, petrol and home heating oil, should in the future be lower than they otherwise would be, had indexation not been abolished. This could affect consumption patterns.

Industries that use duty-paid petroleum fuels as inputs to production, including the aviation and transportation industries, should benefit from lower costs than would otherwise be the case. The extent of the impact across industry sectors and for individual operators will vary. Lower input costs could result in lower retail prices for products and could affect consumption patterns.

As the price of petroleum products is a factor in determining the consumer price index, there could be an effect on inflation rates.³

Prime Minister's Rationale

Based on the contents of the transcript of the Prime Minister's Press Conference of 1 March 2001, at which he announced the abolition of the indexation of excise and customs taxes for petroleum fuels, a number of rationale for the decision can be identified, the clearest of which was:

... it is designed to do what governments should always do and that is respond to the strongly held feelings of the Australian community. The Australian community was, has clearly sent us a message that it's unhappy that we haven't done more - even though they recognise that the main reason petrol prices are high because of the high price of crude oil, they recognise that - but they really think that we could have done a bit more. And they were obviously not persuaded about the argument on the cost savings last year when the GST was introduced. Even though when you look at the ACCC report you find there's plenty of evidence that there was an absorption of cost by the oil companies at the time of the introduction of the GST. So for all of those reasons we have come to the conclusion that we do need to recognise that concern, acknowledge that there has been an unwillingness for reasons they feel are well based to accept what the Government has said on that issue and others and through this not only to meet those concerns and re-establish that connection as John puts it very well, but also to make some contribution towards reducing the price of petrol at the bowser, I mean it will help a little. It's not going to cut it dramatically, I've never, you know, pretended that. The only way you can cut it dramatically is to see the world price fall.⁴

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Media Comment

The Prime Minister's announcement of 1 March 2001 has received considerable media attention. Outlined below is a selection of media reports relating to the issue.

- *The Age* – 2 March 2001 – It is reported that the petrol package was welcomed by key interest groups. The National Farmers Federation is reported as hailing 'it as the third tax break for farmers in eight days'. In addition, motoring organisations, including the RACV is reported as saying that they were pleased with the petrol price relief and planned review of the fuel tax system. In contrast to such support, the article also reports that economist Chris Richardson, director of Access Economics, said that the Government had an excellent record on budget management but was now 'letting populism win out over policy because it feared losing the election.'
- *The West Australian* – 2 March 2001 – The WA Motor Trade Association and the RAC are reported as welcoming the decision to cut fuel excise. However, both organisations are also reported as agreeing that it would do nothing to reduce the gap between city and country prices in WA.
- *The Canberra Times* – 2 March 2001 – Liberal Gary Nairn, Member for Eden Manaro, who holds a slim margin, is reported as saying that the Government had responded to the legitimate concerns of country voters and that '[W]hile high oil prices will still have an impact on fuel prices, farmers, rural families and small businesses will know that the Coalition Government is doing as much as is economically responsible to help ease the burden.'
- *The Financial Review* – 2 March 2001 – Oil companies confirmed they would pass on the Federal Government's excise cut of 1.5 cents a litre. However, Mobil is reported as saying that an instant flow through was conditional on the Government refunding pre-paid excise on fuel products already in stock.
- *The Sydney Morning Herald* – 2 March 2001 – The Chief Executive officer of the NRMA, Mr Rob Carter, is reported as saying that the abolition of six-monthly indexation was more significant than the 1.5 cents per litre cut. Market economists are also reported as saying that overseas investors would view the about-turn on petrol tax as a reaction to special interests and this would undermine investor confidence in Australia.
- *The Age* – 2 March 2001 – Access Economics director Chris Richardson is reported as calculating that by 2004-5 the scrapping of indexation and the 1.5 cents a litre tax cut would cost the budget \$2 billion. BT Funds Management senior economist Ian Cassie is reported as saying he was concerned that the budget could fall into deficit next financial year because of the spending blowout and lower than expected tax collection and higher social security payments. Mr Cassie stated 'the

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

GST was the big wild card. Revenue from the new tax could help fill the hole the spending blowout left, but it was difficult to predict the size of the surplus because the government had given little information on GST revenue being collected.'

- *The Australian* – 2 March 2001 – Small business is reported as being underwhelmed by the excise cut with operators seeing the cut as laughably small. Sydney garage door repair man Bruce Moller is reported as saying 'so what?... I just paid 99c a litre to fill up.' APM courier Allan Moxan is reported as saying that the cut would not make any difference because petrol prices were all over the place. Dianna Dalton, franchise manager of household cleaning company Bizzi Bees, stated 'We have 100 franchisees all over NSW and we're not territorial and so they're driving all over to their customers. This price cut will be appreciated because the higher petrol prices and the costs of the GST have not been passed on to our customers.' Gold Coast-based Fastway Couriers Rachel Bennett and Wade Gallagher are reported as having been over-whelmed by the petrol price rise, arguing that the dollar cost and the time impost of the GST have made business life much tougher. Ms Bennett is said to have calculated that she will save around \$85 a year from the fuel excise cuts.
- *The Australian* – 7 March 2001 – International oil companies are reported as having wiped out the Government's excise cut with price increases of up to 10c a litre in Melbourne and Adelaide. The price rises are said to have lifted the cost of petrol in Melbourne and Adelaide above its levels before the Government cut petrol taxes on 1 March 2001.

Excise Tariff Amendment (Petrol Tax Cut) Bill 2001

On 7 February the Deputy Leader of the Opposition in the Senate, Senator Cook, introduced the Excise Tariff Amendment (Petrol Tax Cut) Bill 2001. This Private Members Bill amends the *Excise Tariff Act 1921* to prevent the 1 February 2001 indexation of rates of excise duty applying to specified petroleum products.

The rationale given by Senator Cook in introducing the Bill was:

The bill I am introducing in the Senate today seeks not only to ease the pain of high fuel taxes, caused by the Howard Government's attempt to leach millions of dollars out of Australia through its fuel tax squeeze, but to stop this Government lining its pockets at the expense of families and communities, industries, businesses and voluntary organisation, both in the cities and the bush.

The Excise Tariff Amendment (Petrol Tax Cut) Bill 2001 amends the Excise Tariff Act 1921 to provide relief from the 1 February 2001 indexation of rates of excise duty applying to petroleum, and give much needed fuel tax relief.⁵

The second reading debate on Senator Cook's Bill was adjourned on 8 March 2001.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

The leader of the Opposition, Kim Beazley, introduced a Bill of the same title and effect in the House of Representatives on 5 March 2001. The second reading of that Bill has been made an order of the day for the next sitting day.

Endnotes

- 1 Excise Tariff Amendment Bill (No. 2) 2001 and Customs Tariff Amendment Bill (No. 3) 2001, *Explanatory Memorandum*, p. 7.
- 2 *ibid*, p. 8.
- 3 *ibid*.
- 4 <http://www.pm.gov.au/news/interviews/2001.780.htm>
- 5 [http://search.aph.gov.au/search/ParlInfo.ASP?action=view&item=4&from=browse&path=Legislation/Current+Bills+by+Title/Excise+Tariff+Amendment+\(Petrol+Tax+Cut\)+Bill+2001/Second+reading+speeches&items=21](http://search.aph.gov.au/search/ParlInfo.ASP?action=view&item=4&from=browse&path=Legislation/Current+Bills+by+Title/Excise+Tariff+Amendment+(Petrol+Tax+Cut)+Bill+2001/Second+reading+speeches&items=21)

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.