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## Excise Tariff Amendment Bill (No. 1) 2002

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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

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No. 29 2002–03

Excise Tariff Amendment Bill (No. 1) 2002

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27 August 2002

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# Excise Tariff Amendment Bill (No. 1) 2002

**Date Introduced:** 22 August 2002

**House:** House of Representatives

**Portfolio:** Treasury

**Commencement:**

The Bill has four commencement dates:

- relief from excise for diesel/water emulsion is deemed to have taken effect from 25 October 2001
- the excise-free treatment for non-recyclable oils and lubricants is deemed to have taken effect from 15 April 2002
- the national excise scheme for low alcohol beer is deemed to have taken effect from 1 July 2002, and
- proposed sections 1 to 3 and anything else in the Bill not covered by the table of commencement information, and Schedule 1, Part 4, commence when the Bill receives the Royal Assent.

## Purposes

To give legislative effect to decisions to:

- implement a national excise scheme for low alcohol beer
- remove excise on certain non-recyclable oils and lubricants now subject to excise under the Product Stewardship (Oil) Scheme, and
- remove the excise on the water component of emulsified diesel/water fuel blends.

The Bill also abolishes the indexation of excise on Product Stewardship (Oil) Scheme petroleum-based oils and greases.

This Digest should be read in conjunction with the Digest for the Customs Tariff Amendment Bill (No. 2) 2002, which makes comparable changes to the *Customs Tariff Act 1995*.

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## Background and basis of policy commitment

### Product Stewardship (Oil) Scheme

The [Product Stewardship \(Oil\) Scheme](#) (PSOS) was introduced as part of *Measures for a Better Environment*. On 28 May 1999 the Prime Minister announced:

The Commonwealth will fund the development of a comprehensive product stewardship arrangement and provide transitional assistance to ensure the environmentally sustainable management and re-refining of waste oil and its reuse. It will support economic recycling options and the development of stewardship arrangements. Any diesel extenders or other products manufactured from recycled oil will be required to meet the relevant Commonwealth environmental standards.

The long term solution to avoiding environmentally damaging disposal of waste oil is the development of an effective product stewardship partnership linking the oil companies, the States and the Commonwealth.

A stewardship programme will see the oil companies progressively assuming a greater share of these costs.

The Prime Minister also announced that industry transitional assistance would commence from 1 July 2000 and consist of \$15 million per year for four years.

PSOS is intended to encourage the reuse of waste oils by providing a payment to oil recyclers for the appropriate treatment of waste oil products. The scheme involves a levy-benefit arrangement whereby a five cents per litre levy is paid by manufacturers of virgin oil and lubricants to fund payments to recyclers. Recyclers are able to claim benefits at various rates depending on the final product and end use. The Australian Taxation Office administers the scheme under the *Product Stewardship (Oil) Act 2000* and the *Product Grants and Benefits Administration Act 2000*. Payments to recyclers are payable for the sale or consumption of recycled oil on or after 1 January 2001, that has been recycled in Australia. To be eligible, the entity must be registered for entitlement to the grant and/or the benefit when making a claim for payment of the grant or the benefit.

Where an oil is used in the production of a non-oil product and the oil has clearly distinguishable characteristics from all other oil-based products, it is not appropriate for it to be subject to the scheme. According to the Minister's second reading speech:

The changes exempt from the levy those products which have been identified to be solely used for the manufacture of other products and do not result in waste oil.

The excise on non-recyclable oils and lubricants used in the production of non-oil products was abolished from 15 April 2002. Regulations to give effect to these changes were gazetted on 12 April 2002.

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The oils and lubricants made excise-free are food grade white oil, aromatic process oils and polyglycol brake fluid. These oils are used in the manufacture of cosmetics, pharmaceuticals, foods, plastics, polystyrene, and tyres and in the braking systems of passenger and light commercial vehicles.

The changes also apply to the customs duty on imported oils and lubricants.

The estimated revenue forgone is shown in the following table (\$m):

2002-03	2003-04	2004-05	2005-06
-1.3	-1.3	-1.3	-1.3

Source: Budget Measures 2002-03, Budget Paper No. 2, p. 26

With respect to the cessation of the indexation of excise on PSOS products, the Minister's Second Reading Speech states:

The removal of the indexation provisions from oils provides for consistency of treatment between petroleum fuels and certain oils for non-fuel use, and reduces costs to business. The amendments in the bill give effect to the government's decision by altering the indexation provisions of the Excise Tariff Act to exclude all oil products from the application of the provisions for the first indexation period following royal assent—that is, commencing on 1 February 2003 and any subsequent indexation period.

The then government introduced the automatic six-monthly indexation of excise in 1983. On 30 June 2001, legislation took effect that abolished the half-yearly indexation of fuel excise. An inconsistency arose as a result of this legislation, which covered petroleum products but not oils and lubricants dutiable under the product stewardship oil arrangements. Abolition of indexation in respect of oil products will restore consistency between the treatment of fuels and oils for non-fuel use, and further reduce costs to business.

### National Excise Scheme for low alcohol beer

From 1 July 2002, a National Excise Scheme for low alcohol beer was implemented. The Commonwealth and the State and Territory Governments (the States) agreed to the scheme at the meeting of the Ministerial Council for Commonwealth-State Financial Relations on 22 March 2002. (For details, see the [Treasurer's Press Release](#) of 22 March 2002). The Scheme replaces a range of State subsidies with a nationally uniform concession in the rate of excise on low alcohol beer. The national scheme eliminates the requirement for wholesalers to lodge a claim for a rebate of excise that they have paid. It should also reduce compliance costs for industry and eliminate administration costs for the States.

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The excise rates per litre of alcohol on beer products deemed to apply from 1 July 2002 are:

	Not exceeding 48 litres*	Greater than 48 litres*
Low strength (<= 3 per cent alcohol/volume)	\$28.49	\$5.69
Mid strength (<= 3.5 per cent alcohol/volume)	\$33.22	\$17.87
Full strength (> 3.5 per cent alcohol/volume)	\$33.22	\$23.39

\*Excise on beer products is calculated on the volume of alcohol exceeding 1.15 per cent.

Source: Budget Measures 2002-03, Budget Paper No. 2, p. 28

The States and the Commonwealth meet the total cost of the scheme. The States make financial contributions commensurate with their current subsidies. The Commonwealth funds the shortfall. In 2002-03, the estimated cost of the scheme is \$68 million with the States contributing \$62.9 million and the Commonwealth \$5.1 million.

The total cost of the scheme (State plus Commonwealth contributions) is shown in the following table (\$m):

2002-03	2003-04	2004-05	2005-06
68.0	69.0	69.0	70.0

Source: Budget Measures 2002-03, Budget Paper No. 2, p. 27

The Commonwealth will eventually fully fund the Scheme.

### Diesel/water emulsion relief from excise

From 25 October 2001, the excise on the water component of emulsified diesel/water fuel blends was removed. (Regulations to give effect to these changes were gazetted on 25 October 2001). According to the Minister's second reading speech, the measure is:

... an environmental initiative designed to encourage clean fuel technology.

Previously, diesel/water blends were subject to excise duty on the totality of the blended fuel. This measure will allow diesel/water emulsion technology to be trialed without payment of duty on the water component.

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## Main Provisions

**Part 1** deals with the relief from excise for diesel/water emulsion having effect on and from 25 October 2001.

Section 6G of the *Excise Tariff Act 1921* sets out how duty on blended petroleum products is calculated. **Item 3** inserts a **new subsection 6G(3)**. This defines 'emulsified blend' as comprising diesel, added water, and additives. Subsection 6G(3) also contains the formula for calculating excise. The formula excludes the added water component so that excise is levied only on the diesel and additives components.

Section 6G(1A) of the *Excise Tariff Act 1921* says that the maximum diesel rate is the maximum rate of excise duty applicable to diesel classified to item 11 of the Schedule. The Schedule contains definitions of products and the rates of excise applicable to those products. Item 11 contains the excise rates on diesel fuels. The Explanatory Memorandum says that **Item 2** provides that:

A consequential amendment will also be made to subsection 6G(1A) to ensure that the duty rate applicable to the diesel/water blends mirrors the 'maximum diesel rate' set out in the existing provisions.

Item 2 would thus seem to have the effect of ensuring that the excise on diesel is the same whether it is used to blend or for other purposes.

**Part 2** deals with the excise-free treatment of non-recyclable oils and lubricants having effect on and from 15 April 2001.

Item 15 of the Schedule to the *Excise Tariff Act 1921* sets out the rates of duty on various petroleum based products. **Items 4, 5 and 6** define 'exempt oils and hydraulic fluids' and exempt them from excise. Item 5 sets out the technical standards that define exempt oils and hydraulic fluids, while Item 6 amends item 15 of the Schedule to the *Excise Tariff Act 1921* to exempt these products from excise.

**Part 3** deals with the national scheme for low alcohol beer having effect on and from 1 July 2001.

A section of the Schedule to the *Excise Tariff Act 1921* also contains definitions of and the excise rates on beer, spirits and other alcoholic beverages (excluding wine). **Item 7** changes the Schedule by inserting new reduced excise rates on certain beer. According to paragraph 3.4 of the Explanatory Memorandum, not only will the amendments give effect to the national scheme but:

The amendments will also remove an anomaly in the current excise rates that has allowed manufacturers to reduce their excise liability by marginally increasing the alcohol content of the beer from 3.5% to 3.6%.

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**Part 4** deals with the exemption of petroleum-based oils and greases from indexation of excise rates to the consumer price index.

On 1 March 2001, the Government abolished the half-yearly indexation of Federal fuel excises (see [Bills Digest No. 142 2000-01](#)). However, abolition was not extended to petroleum-based oils and greases. Section 6A of the *Excise Tariff Act 1921* deals with indexation of rates of duty to changes in the consumer price index. Subsection 6A(1A) says that for the indexation period that commences on 1 August 2001 and any subsequent indexation period, this section does not apply to certain items. **Item 8** inserts a **new subsection 6A(1B)** that similarly exempts from indexation duty rates in [item 15 of the Schedule](#) to the *Excise Tariff Act 1921*.

## Concluding Comments

The relief from excise of the 'added water' component of emulsified diesel/water fuel blends removes an anomaly in that excise on petroleum fuels is also levied only on fuel and additives components. This measure also provides an incentive for the use of emulsified fuels compared with the previous situation by reducing their cost.

The excise-free treatment of non-recyclable oils and lubricants also removes an anomaly. The Product Stewardship (Oil) Scheme is aimed at recycling oil and other oil-based products. But where oils and lubricants do not result in waste oil, it does not make sense to subject them to the levy.

The national scheme for low alcohol beer is a considerable improvement over the arrangements whereby the States had a range of subsidy schemes. The national scheme should ensure greater consistency and reduce administrative costs, and costs to businesses that now have to deal with multiple authorities should also fall. The delivery of assistance through lower excise rates is likely to prove a more efficient delivery mechanism than the payment of subsidies. The abolition of indexation of the excise on petroleum-based oils and greases thus removes an anomaly in that excise on petroleum fuels is not subject to indexation.

More broadly, the abolition of indexation raises the issue of how to adjust excise rates. The Hawke Government introduced indexation of petrol and diesel excise rates in the 22 August 1983 Budget because inflation was eroding the 'real' value of the rates. With the abolition of indexation, erosion of the real value of excise is again occurring. The [Fuel Taxation Inquiry](#) recommended the reintroduction of indexation. But on Budget night 2002, the Government announced that it had rejected the Inquiry's recommendations. The Government thus passed up an opportunity to rationalise the taxation of fuels. The decision will also be costly in terms of revenue forgone. When indexation was abolished, the revenue forgone was estimated to rise from \$425 million in 2002-03, to \$785 million in 2003-04 to \$1135 million in 2004-05.<sup>1</sup> The rejection of the indexation recommendation

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also flies in the face of policies to reduce consumption of petroleum fuels on environmental grounds.

## Endnotes

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- 1 Budget Measures 2001-02, Budget Paper No. 2, p. 40.

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