THE SENATE

A NEW TAX SYSTEM (GOODS AND SERVICES TAX) BILL 1998

A NEW TAX SYSTEM (GOODS AND SERVICES TAX IMPOSITION—EXCISE) BILL 1998

A NEW TAX SYSTEM (GOODS AND SERVICES TAX IMPOSITION—CUSTOMS) BILL 1998

A NEW TAX SYSTEM (GOODS AND SERVICES TAX IMPOSITION—GENERAL) BILL 1998
A NEW TAX SYSTEM (GOODS AND SERVICES TAX ADMINISTRATION) BILL 1998

A NEW TAX SYSTEM (GOODS AND SERVICES TAX TRANSITION) BILL 1998

A NEW TAX SYSTEM (AUSTRALIAN BUSINESS NUMBER) BILL 1998

A NEW TAX SYSTEM (AUSTRALIAN BUSINESS NUMBER CONSEQUENTIAL AMENDMENTS) BILL 1998

A NEW TAX SYSTEM (END OF SALES TAX) BILL 1998

A NEW TAX SYSTEM (PERSONAL INCOME TAX CUTS) BILL 1998

A NEW TAX SYSTEM (COMPENSATION MEASURES LEGISLATION AMENDMENT) BILL 1998

A NEW TAX SYSTEM (BONUSES FOR OLDER AUSTRALIANS) BILL 1998

A NEW TAX SYSTEM (INCOME TAX LAWS AMENDMENT) BILL 1998
A NEW TAX SYSTEM (AGED CARE COMPENSATION MEASURES LEGISLATION AMENDMENT) BILL 1998

A NEW TAX SYSTEM (TRADE PRACTICES AMENDMENT) BILL 1998

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) BILL 1999

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS—CONSEQUENTIAL PROVISIONS) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX IMPOSITION—GENERAL) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX IMPOSITION—CUSTOMS) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX IMPOSITION—EXCISE) BILL 1999
A NEW TAX SYSTEM
(LUXURY CAR TAX) BILL 1999

A NEW TAX SYSTEM (LUXURY CAR TAX IMPOSITION—GENERAL) BILL 1999

A NEW TAX SYSTEM (LUXURY CAR TAX IMPOSITION—CUSTOMS) BILL 1999

A NEW TAX SYSTEM (LUXURY CAR TAX IMPOSITION—EXCISE) BILL 1999

A NEW TAX SYSTEM (INDIRECT TAX ADMINISTRATION) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX AND LUXURY CAR TAX TRANSITION) BILL 1999

Second Reading

SPEECH

Tuesday, 20 April 1999

BY AUTHORITY OF THE SENATE
Senator ALLISON (VIC) (10.11 am)—On behalf of the Democrats, and in my contribution to this debate on A New Tax System (Goods and Services Tax) Bill 1998 and related bills, I want to take up the environmental and public health consequences of the new tax package. A very significant part of the package is the $3.5 billion in cuts to the diesel fuel excise. This measure is neither responsible nor smart, and the Democrats regard major changes as being absolutely essential, changes without which we could not support the tax package.

As the Senate Environment, Communications, Information Technology and the Arts Committee discovered, there are profoundly disturbing reasons why changes are necessary, and the reasons are as much economic as they are about public health and the protection of the environment. It is very clear to us that, like so much of the tax package, this was developed by Treasury in a policy and consultative vacuum—and I must say that it shows. Neither the Australian Greenhouse Office nor Environment Australia, nor any other department, was invited to assist with the drafting of the legislation. In fact Environment Australia admitted to the committee that it was looking into the environmental effects but would not be reporting back until June this year—so much for a whole of government approach!

The Democrats and the Senate environment committee have, as usual, filled that vacuum, and I think we have found a way to achieve the government's stated objective of reducing regional transport costs by that promised $1 billion. We have done this in an intelligent way which will not put Australia back decades in ecological terms and will not worsen our already serious problem with air pollution in this country.

There were in fact very few supporters of this package amongst those who made submissions to and appeared before the committee. Almost all said they had no argument with tax reform per se, including a GST, but they were strongly critical of the part of the package relating to diesel cuts. The Australian Railway Association, Rail 2000, the National Rail Corporation, Queensland Rail, the Bus Industry Confederation, Streamliner Supershuttle Ferries Pty Ltd and the Australian Rail, Train and Bus Industry Union all attacked the diesel cuts. The gaseous fuel industry came out in force against the cuts, as did oil recyclers, conservation groups, the sustainable energy industry and public transport users. The Australian Medical Association warned that the package would see more people dying from fine particulate air pollution as a result of the increased use of diesel.

The fact is that the government missed a rare opportunity to reform the tax system for positive environmental outcomes. Australia is one of the few countries in the OECD which has not implemented ecological tax reform and, rarer still, has proposed that there be a significant reduction in the price of fuel. Italy, for example, has just introduced ecological tax reform, and the price of most fuels will progressively increase until the year 2005. The money that that generates will be used for employment and antipollution initiatives. At the same time the cost of LPG will fall. Germany has embarked on a comprehensive program of ecological tax reform, and even in the US announcements have been made recently about tax credits for energy saving homes, appliances and vehicles.

I remind the Senate that Australia has signed international obligations and agreements to limit its greenhouse gas emissions—the International Framework Convention on Climate Change and the Kyoto Protocol. Australia was in fact given an extraordinarily generous deal at Kyoto, but this tax package may encourage the international community to further question the seriousness of Australia's commitment to that protocol. The reduction in diesel fuel excise by 25c a litre, according to the Australia Institute, will be responsible for Australia increasing its greenhouse gas emissions by five million tonnes a year.

The Senate will no doubt recall the Prime Minister's commitment to sourcing two per cent of our energy needs from renewables by the year 2010, thereby reducing CO₂ emissions in this country by 5.5 million tonnes a year. According to the many submissions made to the inquiry, this package virtually wipes out any potential gains made by this measure. Furthermore, it sends a very strong message to the international community that Australia does not consider greenhouse issues to be of central importance to the nation's future or, for that matter, the world's future.
The Democrats accept that there are benefits for rural Australia in these cuts to diesel excise and for business, particularly the road freight transport sector, but the question which has to be asked is: at what cost? Environment Australia had to defend the package, arguing that the robustness of economic sectors delivered through the tax package would enhance the capacity of business to manage any economic adjustment in response to environmental policies—policies which, I must say, we have yet to see. But the reality is that there are no significant government policies which will offset this measure beyond the very small amount of assistance—$3.8 million over three years—which is being provided to establish fuelling stations for compressed natural gas. That is so far the best the government seems able to come up with.

The most serious problem associated with this package is the consequential increase in the consumption of diesel. We already have in this country a serious problem with pollution from diesel. The National Environment Protection Council estimates that 1,062 people die each year from diesel particulate exposure. Those who die are predominantly young children, the elderly and those affected by cardiovascular and respiratory illness.

Air quality is a factor in triggering asthma problems. About 1.4 million Australians have asthma, including one in five children under the age of 12. Asthma killed 825 people in 1994 and the medical cost of asthma to Australia is about $320 million a year, plus $400 million in lost work productivity. So the problem is economic as well as environmental.

The problem with diesel is that the unburnt particles, particularly the smallest, invisible particulates, have the capacity to carry toxins deep into the respiratory system. The Californian Air Resources Board recently listed 40 diesel substances as toxic air contaminants. Particulate emissions from diesel in Australia are 100 times greater than those from the cleaner fuels such as compressed natural gas.

The National Environment Protection Council noted in its 1997 air quality paper that air pollutants in our cities act on the lungs, nose, eyes, throat, blood, heart, central nervous system and other parts of the body. Impacts can range from premature death and hospitalisation to a range of less severe health effects, including increased asthma, eye irritation, sore throat, cough, headache and the activation of respiratory problems.

There are four main reasons why the consumption of diesel will increase as a result of its reduced cost. The first is a shift in freight transport from rail to road, estimated to be somewhere between 10 and 20 per cent, and results from the differences in the proportion of costs attributable to fuel in the two transport modes, which gives road a significant competitive advantage over rail. The more highly contestable lines, such as Melbourne to Adelaide, will likely close altogether. Because rail is three to five times more efficient in terms of fuel per tonne per kilometre than road transport, any shift will increase overall consumption. For instance, a 10 per cent shift on the Adelaide-Melbourne line alone would see an additional 200 semitrailers every day, and they would consume an extra 50,000 litres of diesel. The University of Wollongong estimated that a 20 per cent loss of interstate rail freight would result in the consumption of an extra 50 million litres of diesel every year.

The second area is the displacement of cleaner gas fuels. The small relative cost advantage gas has over diesel would be lost and with it any incentive to convert to gas—something which the government has previously said it wanted to promote. The Australian Gas Association, the Australasian Natural Gas Vehicles Council, the Australian Liquefied Petroleum Gas Association and others all condemned the fact that this tax package would cause the demise of the industry and with it any real chance of providing the transport industry with better choices and of reducing pollution and greenhouse gas emissions.

A bus fleet the size of Brisbane's fuelled by compressed natural gas rather than diesel would generate 28 per cent less carbon dioxide and lower emissions of dangerous particulates. Heavy transport is now available which can run either dedicated CNG or with dual fuel options. But this package would discourage any move towards the use of these vehicles.

This industry is in its formative stages and many transport operators which were on the verge of making decisions to go down the gas path are changing their minds and opting to stick to diesel. International Trucks Australia said publicly that the government’s reduction in diesel price negated the economic advantages of using natural gas and they would not therefore continue with further CNG use until there were more favourable conditions for CNG use. The inquiry heard dozens of other examples of industry and public transport moving back to diesel.

The cut in the diesel fuel excise will act as a very powerful incentive to switch from petrol to diesel, especially for vehicles at the lighter end of the range. Already there are three four-wheel drive vehicles which are over the
government's weight threshold of 3.5 tonnes. That lower threshold acts as an incentive to increase the size and therefore the fuel efficiency of vehicles.

There have been some improvements in fuel efficiency with new diesel engines, but vehicles in this country are still on average 10 years old. Australia has one of the oldest fleets in the OECD. The diesel cut, coupled with our low emission standards and ever more stringent standards overseas, will encourage the dumping of old vehicles in this country, which is itself a reason why diesel use will be increased. The last reason for diesel consumption increase is the so-called just in time manufacturing. Inventory management is moving away from keeping stocks of goods on site towards last-minute deliveries and any cost savings, the committee heard, through the diesel excise cuts are likely to be put to even faster and more competitive services.

So our task in dealing with this legislation is to find ways to ensure that not only do we avoid using more diesel but also we actually reduce consumption in favour of other cleaner fuels whilst at the same time delivering lower transport costs to rural Australia. To do this, we will be putting forward amendments which will retain the current excise system on petrol and diesel, including the existing 100 per cent diesel rebate for all agricultural off-road use. We will extend that 100 per cent rebate to rail, acknowledging that it too is an off-road use. The total amount of the rebate for other off-road use we argue should be capped at the 1999-2000 levels and provided at a flat pro rata amount for all off-road use. This cap would encourage a shift to cleaner fuels and bring into the scheme industries such as tourism which have not so far benefited from off-road rebates.

We will move to more tightly target the cuts to heavy, genuinely long haulage road transport and away from urban based trucking. To do this, we propose to raise the weight threshold from 3.5 tonnes to 20 tonnes. This measure will pick up 90 per cent of the freight on our roads. For agricultural use, we will drop that threshold to eight tonnes. This way, our farmers benefit across-the-board, from rail and road freight, both of which will be considerably cheaper. We will build into that rebate a sliding scale of incentives to move to cleaner and renewable fuels. On top of the rebate, we propose to maintain the current exemption from excise for compressed natural gas and liquid petroleum gas and to provide grants of up to 50 per cent of the cost of converting heavy vehicles to gas use and for the additional capital cost of new gas fuelled vehicles, giving high priority to public transport vehicles.

The Democrats were surprised and appalled to hear that vehicle emission standards in this country were some four to five years behind European and American standards and that in this country there is no system of measurement or monitoring of the emissions of vehicles, regardless of the standards we have here. Furthermore, the sulfur content of diesel fuel used in this country is around 10 times higher than what is allowed overseas. The newest diesel engines have catalytic converters which reduce particle emissions, but these only work effectively with low sulfur fuel. We want to see the sulfur content linked to the level of excise as a means of encouraging the use of cleaner diesel. Sulfur can be removed from diesel in the refining process, but so far the petroleum industry has resisted any moves to oblige the supply of low sulfur diesel.

The Democrats will not support a GST on public transport. With a GST, bus and rail will become more expensive in actual as well as relative terms. New cars will be cheaper and the drop in wholesale sales tax on petrol would hold it at its current retail price, except for rural areas, where it may increase marginally. The result would be that our already low level of public transport patronage compared with other OECD countries would drop further. We also propose to extend the government's proposed sales tax on luxury cars to include fuel inefficient cars.

In the government's package, solar hot water services would rise in price by around four per cent relative to the price of similar gas or electricity hot water systems. The world leadership that Australia currently has in solar energy development and the potential for that industry to generate revenue in excess of $1 billion per year would be at risk by applying a GST to this equipment, and we propose to zero rate renewable energy equipment.

The reduction of the diesel fuel excise would bankrupt the oil recycling industry, leaving at least 150 million litres of lubricating oil unable to be recycled every year. Oil which is not recycled or re-refined will be burnt or dumped, releasing the many toxic chemicals in sump oil such as zinc, phosphorus, barium, calcium, magnesium, silicon, sulfur, iron, chromium, nickel, aluminium, copper, tin, chlorine and lead into the air or into the soil, the water table and eventually waterways. Either way, the consequences are very serious. We will move to see a levy imposed on lubricating oil to ensure that there are funds available to pay for the cost of re-refining sump oil and removing those dangerous contaminants.

In the view of the Democrats, the $2.5 billion in petrol and diesel tax cuts could be saved by these measures and the remaining $1 billion in fuel tax cuts used to take Australia into the new millennium in a way which
is environmentally responsible and economically sound and which protects the health of so many Australians. The Democrats have for some time held the view that real benefits to business and jobs will come about by reduction in payroll tax, and reducing the fuel excise cuts by $2.5 billion will provide the opportunity to fund such reductions.