



**Submission to the
Senate Committee on Fuel and Energy**

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The National Farmers Federation

The National Farmers' Federation (NFF) was established in 1979 and is Australia's peak national body representing farmers, and more broadly agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities. NFF does not have individual farmer members, but through its members represents the interests of approximately 100,000 farmers.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF. Each of these state farm organisations and commodity council's deal with state-based 'grass roots' issues or commodity specific issues, respectively, while the NFF represents the agreed imperatives of all at the national and international level.

In this context the NFF welcomes the opportunity to provide a submission to the Senate Select Committee on Fuel and Energy.

Introduction

Australian farmers and their communities are resilient, but they have struggled in recent times against a rising cost base and increasing environmental and economical pressure.

This problem is clearly highlighted by the Rural Industries Research and Development Corporation (RIRDC) which states, *"High fuel prices are already having an impact on agriculture, as the input costs increase for many businesses reliant on long distance transport. The outlook for petrol and diesel is one of a declining resource base coupled with increasing demand. The increased reliance on imported sources of energy also threatens Australia's economy, future competitiveness and national security. Farming systems have been partly buffered from increasing oil prices due to changes in the way the systems run (e.g. legumes reducing dependence on Nitrogenous fertilisers, minimum tillage etc) but are reaching limits and are increasingly 'energy exposed'. The challenge is to become more energy efficient and self-sufficient at a farm and regional scales."*¹

As seen in Table 1, energy and energy dependant activities comprise a considerable percentage of input costs to agriculture. Maintaining our agricultural production base is of primary importance to Australia in terms of economic as well as food and fibre needs, and an increase in fuel and energy costs such as that being experienced in recent times has already altered this balance.

Table 1: Energy and energy dependent farm input costs as a proportion of total farm input costs. Averages for 3 years ending 2006²

¹ Australian Government Rural Industries Research and Development Corporation. *Bioenergy, Bioproducts and Energy*, Sourced on 19th August 2008 <http://www.rirdc.gov.au/programs/bbe.html>

² Australian Farm Institute 2008; Derived from ABARE Data 2007

		Energy		Energy-dependent			
		Electricity	Fuel and oil	Crop contracts	Chemicals	Fertilisers	Freight
Wheat and cropping	Average costs (%)	\$ 2,819 0.75%	\$ 35,942 9.51%	\$ 12,537 3.32%	\$ 48,108 12.73%	\$ 54,794 14.50%	\$ 19,078 5.05%
	Subtotal	10.25%		35.59%			
Mixed livestock	Average costs (%)	\$ 2,104 0.81%	\$ 21,979 8.41%	\$ 10,549 4.04%	\$ 19,701 7.54%	\$ 31,117 11.91%	\$ 9,654 3.70%
	Subtotal	9.22%		27.19%			
Sheep	Average costs (%)	\$ 1,816 1.17%	\$ 10,415 6.89%	\$ 3,048 1.96%	\$ 3,882 2.49%	\$ 12,466 8.01%	\$ 4,563 2.93%
	Subtotal	7.86%		15.39%			
Beef	Average costs (%)	\$ 1,818 0.79%	\$ 13,155 5.72%	\$ 2,637 1.15%	\$ 1,801 0.78%	\$ 7,684 3.34%	\$ 7,624 3.32%
	Subtotal	6.51%		8.59%			
Sheep beef	Average costs (%)	\$ 2,082 0.94%	\$ 12,199 5.57%	\$ 4,096 1.87%	\$ 4,442 2.03%	\$ 16,435 7.51%	\$ 7,149 3.27%
	Subtotal	6.52%		14.68%			
All broadacre industries	Average costs (%)	\$ 2,099 0.84%	\$ 18,851 7.54%	\$ 6,552 2.62%	\$ 15,320 6.13%	\$ 23,783 9.51%	\$ 9,627 3.85%
	Subtotal	8.38%		22.11%			

Key statistics – Australian farming and the economy

There is a growing awareness of the importance of the Australian agricultural sector being coordinated along the supply chain, ensuring that productivity efficiency is maintained throughout all participating sectors. Therefore the Australian resource, food and fibre production communities have a strong vested interest in fuel and energy pricing with a view to increasing productivity and our competitiveness in world markets.

The Australian agricultural sector has been challenged to maintain a low cost base in order to remain competitive globally. Indeed, Australia's balance of payments is strongly dependent on this being the case. Australian farmers have been able to meet the terms of trade challenge and have remained internationally competitive largely through productivity growth. Over the last 30 recorded years (1974-75 to 2003-04), Australian farms have consistently achieved average multifactor productivity growth of 2.8%-a-year - no other industry, with the sole exception of information technology, comes close to this achievement.³ Therefore it is vital that efficiencies within the farm production sector are not constrained by inefficiencies in related sectors. In effect, our agricultural supply chain is only as strong as its weakest link and all sectors in the supply chain must be in line with world's best standards.

Despite the worst drought on record, Australia's farm exports earned the country \$27.6 billion in 2006/07. This represents 20% of total commodity exports and 16.3% of all Australian merchandise exports.⁴ Through developing new technologies, seizing environmentally-

³ Australian Government Productivity Commission, *Trends in Australian Agriculture 2005*

⁴ ABARE, *Australian Commodity Statistics, 2007*

sustainable farm practices, and improving efficiencies and competitiveness modern farming is essential to Australia's economic, environmental and social wellbeing and a vital source for Australia's food security and, increasingly, mounting world food needs.

Australian agriculture has important linkages with other sectors of the economy and, therefore, contributes to these flow-on industries. Agriculture supports the jobs of 1.6 million Australians, in farming and related industries, across our cities and regions – accounting for 17.2% of the national workforce⁵.

Agriculture is experiencing a rapidly increasing cost-base that is eroding margins and adding to the risk profile of the sector. On top of fertiliser and chemical prices, which comprise between 11% and 14% of total farm cash costs⁶ and have more than doubled in the past 12 months, additional cost increases faced by agriculture include:

- Labour wage rates have lifted on the back of 30 year lows in unemployment;
- Fuel prices have increased more than five-fold since 2003, recently punching through the US\$130/barrel level; and
- Official interest rates have lifted by 3% since 2002 (these have been combined with unilateral increases in rates issued by the major banks).

Combined, these factors comprise over 56% of total farm cash costs.⁷ The NFF recognises that the international price of oil is largely outside the ability of the Australian Government to influence – however, the unexpectedly high price of fuel and the escalating prices of energy and its potential flow-on effect onto the economy warrant the Government's attention to endeavor to develop alternatives.

The impact of higher fuel and energy prices on Australian farmers

Higher fuel prices are already having a significant and negative effect on Australian farmers. According to ABARE, the direct costs of fuel and lubricant comprise approximately 8-9% of total farm cash costs, the vast majority of which is diesel. Indirectly, the fuel price is also a key determinant of the following inputs which combined with the cost of fuel, comprise approximately 25% of total broadacre costs:⁸

- Fertiliser prices - 9-10% of broadacre costs;
- Crop contracting - 3% of broadacre costs; and
- Freight - 4% of broadacre costs.⁹

⁵ Modeling by Econtech, *Australia's Farm Dependent Economy Report, 2005*

⁶ ABARE Dec 2007 *Australian Commodities – December quarter, 07.04*

⁷ ABARE Dec 2007 *Australian Commodities – December quarter, 07.04*

⁸ ABARE, *Australian Commodities 2008*

⁹ ABARE, *Australian Commodities 2008*

Australian farmers' fuel costs increased by 15% in 2007-08 compared to year earlier levels, despite a failed winter grain crop that meant many farmers consumed significantly lower volumes of fuel during the winter harvest.¹⁰ Since the start of 2008, the international diesel cost has risen by approximately 40%.¹¹ The price of crude oil has approximately doubled in the last 12 months and now lies around US\$125/bbl.¹²

These sustained high prices have also had a slowing impact on the Australian and global economies, resulting in significant inflationary pressures that have placed upward pressure on interest rates, as well as slowing global and domestic demand.

While the cost of electricity is a much smaller component of most farmers' cash costs, there are now signs that the cost of this input is also beginning to escalate. With factors such as Emissions Trading Schemes and privatisation of state stationary energy sectors, costs have the potential to lift much further and bear significantly on the margins of farmers. Governments must ensure that decisions in this sector being made now have demonstrated long term benefits beyond increasing revenue from sale of assets or carbon credits and/or maintaining excessive government expenditure.

What can be done about fuel prices?

The NFF believes that concerted action is required in the following areas to address the issue of escalating fuel prices:

Alternative transport fuel development

The NFF recognizes that alternative fuels to petroleum and diesel such as biodiesel, ethanol, liquefied petroleum gas (LPG), and compressed natural gas (CNG) will play an increasing role in providing consumers with efficient and economic alternatives to petroleum and diesel fuels. The NFF supports the development of such alternatives, and encourages the government to invest in research and development in key areas to make these alternatives a viable reality for rural consumers. On this issue, the NFF believes that government should also examine utilizing the taxation system to drive change in fuel utilization. For example, extend the tax incentives for farmers and other commercial businesses to convert petrol or diesel powered vehicles for use with LPG. The existing *LPG Vehicle Scheme* is available to vehicles for private use only.

Genuine analysis and investment into transport fuel alternatives including, hydrogen, gas and biofuels that can provide consumers with genuine fuel alternatives. Lignocellulosic conversion to biofuels is just one example of potential alternatives that warrants further research and development. RIRDC's recently released report titled *Future Biofuels for Australia - Issues and opportunities for conversion of second generation lignocellulosics* supports this stating "Globally, there

¹⁰ ABARE, Australian Commodities 2008

¹¹ ACCC 2008, *ACCC focuses on soaring diesel prices*. Sourced on 19th August 2008. <http://www.accc.gov.au>

¹² Australian Institute of Petroleum 2008, <http://www.aip.com.au>, Sourced 19 August 2008

is a growing need for cost effective, plentiful and low CO2 emission transport fuels industry and second generation biofuels could supply a portion of the global need.”¹³

The NFF realises that commercial progress is being made toward biofuel from lignocellulosics both by the Australian and international research community, and this effort must continue if we are to be serious about making a change to our current oil dependence. While there is a lack of alternatives, rural Australians remain vulnerable to the whims of the Organisation of Petrol Exporting Countries (OPEC), whose members will continue to profit at Australian consumers’ expense as a result of a lack of genuine transport fuel alternatives.

Apart from the alternatives to petroleum based products listed above, the NFF also encourages further research into technologies such as the large scale extraction of liquid fuel from coal. For many years, technology has existed to extract liquid fuel from coal and advances in technology have improved this process making it cleaner and more efficient than in the past. As stated by the US Department of Energy “*One major benefit of coal-to-liquids fuels is their compatibility with currently existing vehicle technologies and fuel distribution systems. Coal-derived gasoline and diesel could be transported through existing pipelines, dispensed at existing fueling stations, and used to fuel today’s gasoline- and diesel-powered vehicles.*”¹⁴ The NFF notes that Australia has very substantial reserves of coal. If local industry was to substantially enlarge this extraction, Australia could enjoy the twin advantages of more abundant supply and of a high level of Australian fuel self sufficiency and security.

Associated R&D

The NFF recognises that the fuel and energy issues facing the nation affect a broad range of sectors, e.g. water, food, economic and environmental. As such, investment in the development of alternatives will be hugely beneficial to the long term sustainability (and in turn competitiveness) of Australian industry.

Extensive R&D is needed to specifically enable farmers to insulate themselves from the escalating cost of diesel, petrol and energy. This may include new technologies that help improve the efficiency of fuel use, (e.g. new engine design, new types of fuels, adoption of controlled traffic farming, and new technologies that enhance greater efficiency in public transport). The NFF welcomes the work conducted on alternative energy from hydrogen, wind, solar and biofuels, but notes that more is needed if these energy and fuel sources are to become a retail reality. Remembering that many fertilizers are also fuel based, this also includes research into alternative fertilizers that are not linked to the price of fuel, and increased investment in biotechnology research for Genetically Modified (GM) crops that are less reliant on fertilizer use.

¹³ RIRDC. *Future Biofuels for Australia - Issues and opportunities for conversion of second generation lignocellulosics*. July 2008

¹⁴ US Department of Energy. *Alternative Fuels and Advanced Vehicles Data Center Retrieved August 20, 2008, from http://www.eere.energy.gov/afdc/fuels/emerging_coal_liquids_what_is.html*

The NFF recognises that in some of these areas, private industry can play a major role in generating the required investment in finding solutions in these areas. However, the Australian Government can also make a major contribution by the provision of seed funding and ensuring that the regulatory environment is conducive to drawing further private investment.

On-farm biodiesel regulations

As noted by the Productivity Commission Review of Regulatory Burdens on Business (Primary Sector) on the issue of biodiesel, regulatory complications exist regarding the blending of diesel and biodiesel on-farm. The report notes the complexities that exist in this area of regulation, which may become an inhibitor to farmers and other businesses engaging in manufacturing this alternative transport fuel source:

“Under current regulations, blending diesel and biodiesel is considered to be manufacture of an excisable product and an excise license is required, even if it is simply adding newly purchased biodiesel to on-farm storage tanks containing standard diesel. The Excise Act 1901 allows for heavy penalties to be imposed on unlicensed activities. This regulation, if left unamended, could act as a serious deterrent for the purchase of biodiesel blends by the farm sector.”¹⁵

Examination is needed into the regulatory environment for on-farm biodiesel use to ensure that farmers can elect to set aside a portion of their oilseed production in order to meet their own bio-diesel needs through cooperative or on-farm manufacturing processes. Currently problems in adopting this alternative fuel include the high cost of licensing (approximately \$3000), restrictions to on-farm storage of biodiesel blends and the complicated taxation arrangements around the blending of fuels (diesel and biodiesel). Such impediments severely inhibit the uptake and growth of this part of the alternative fuels industry. While the NFF recognises that licensing requirements ensure some degree of quality control over the production process of biodiesel, there remains considerable scope for a government led initiatives and training programs to spur growth in this sector. Such initiatives would include the removal of fuel excise and onerous licensing requirements for on-farm biodiesel production.

To date, the on-farm manufacture of biodiesel for their own use has been largely uneconomic for farmers to engage in, yet with the price of fuel continuing to escalate, farmers must have the choice to engage in such practices should this change.

Competition issues

The NFF recognizes that currently the fuel industry is self regulating, with prices set by market conditions. This poses particular difficulties for rural communities where a lack of competition can result in significantly higher prices.¹⁶ There is reduced competition to supply fuel and the

¹⁵ Australian Government Productivity Commission
<http://www.pc.gov.au/data/assets/file/0009/68346/subdr060.rtf>.

¹⁶ ACCC 2007, *Petrol prices and Australian consumers, December 2007*

premiums charged tend to exceed any added delivery costs, as noted in the ACCC inquiry into the price of unleaded petrol.¹⁷

During the recent the ACCC inquiry into the price of unleaded fuel, the ACCC went to some length to explain how natural market forces have largely been held attributable to the disparity between city and country petrol prices. The findings of the report found that the five year city-country differential average in Australia was five cents per litre using a five-city average. These factors, the ACCC explains, include:

- The lag between movements in international prices and country retail prices; and
- Local specific factors such as smaller populations, greater distance from terminals, less competition and lower volumes.

The NFF does not dispute these findings however feels it is necessary to highlight that the cost issues faced by metropolitan petrol customers are exacerbated in country areas. Farmers are continually seeing their comparative purchasing power weakness being taken advantage of. For instance, some farmers have seen their bulk delivered diesel purchase price move to levels higher than those seen at retail outlets. It is therefore imperative that competition in the fuel sector remains as robust and vigorous as possible. This is particularly important considering that in recent times there appears to be an increasing disparity between the price of petrol and diesel in the Australian market for which there is no clear explanation.

The NFF notes that the ACCC inquiry into the price of unleaded fuel expressed concerns and several recommendations were made regarding the wholesale fuel market in Australia. These recommendations included:

- Aligning fuel standards with those of overseas to meet policy objectives regarding the environment,
- A more complete account of the buy-sell arrangements,
- An audit of current and future terminals for importing refined fuel and their leasing agreements and monitoring of these leases.¹⁸

The NFF questions the status of these recommendations.

What can be done about energy prices?

The NFF believes that concerted action is required in the following areas to address the issue of escalating energy prices:

Bioenergy research and development

¹⁷ ACCC 2007, *Petrol prices and Australian consumers*, December 2007

¹⁸ ACCC 2007, *Petrol prices and Australian consumers*, December 2007

Bioenergy (renewable energy derived from organic matter otherwise known as biomass) is an alternative energy source that has seen recent technological advances. According to a report produced by the Clean Energy Council, bioenergy in Australia can potentially play a significant role in supplying the nation with its energy needs. Their report titled *Australian Bioenergy Roadmap* states “Specifically for electricity generation it appears that all biomass crops and residues could together supply considerably more than 92 TWh (330 PJ) of Australia’s electricity in 2040, without competing with food production.”¹⁹

Historically Australians have experienced plentiful inexpensive supplies of electricity due to our abundant supply of high quality coal. As stated by the *Australian Bioenergy Roadmap* “there has been little commercial incentive to date to look seriously at alternatives such as bioenergy. This situation has now changed with the need to reduce GHG emissions.”²⁰ The benefits of bioenergy apart from its potential to reduce green house gas emissions are numerous and include elements such as enhanced energy security, minimal infrastructure costs, and its renewability.

An estimate given by the Australian Business Roundtable on Climate Change suggests that by 2050, between 19.8% and 30.7% of Australia’s electricity needs could be supplied by bioenergy.²¹ As shown in Table 2 and diagram below, bioenergy can play a considerable role in providing Australia with its energy needs well into the future.

Table 2: The potential long term bioenergy contribution to electricity generation by sector²²

Resource	Long term potential (GWh)
Agricultural related wastes	50,566
Sugarcane	7,800
Wood related wastes	5,060
Urban biomass (including urban timber wastes)	4,320
Landfill gas	3,420
Sewage gas	929
Energy crops	534
Total:	72,629

Renewable energy research and development

¹⁹ A Clean Energy Future for Australia 2004, *A study by Energy Strategies for the Clean energy future group*. Sourced 26th August 2008 from http://www.bioenergyaustralia.org/reports/Clean_Energy_Future_Report.pdf

²⁰ Clean Energy Council. 2008, *Australian Bioenergy Roadmap*.

²¹ Clean Energy Council. 2008, *Australian Bioenergy Roadmap*.

²² Clean Energy Council. 2008, *Australian Bioenergy Roadmap*.

Regional Australia is uniquely positioned to be utilised as a key contributor to the development of scale renewable energy. In general, regional and remote towns are the least efficient to supply with coal-fired electricity (because of transmission line costs and losses). They are also the easiest to supply with renewable electricity due to the availability of land for solar and wind generation facilities. The NFF believes that it would be strongly in the nation's interests to provide policy incentives for utility scale renewable power stations based in regional centres. These power stations could be associated with manufacturing facilities for renewable technology, further increasing local employment, and collocation with intensive agriculture and processing that would benefit from cheap renewable, power, steam and desalinated water (a byproduct of solar thermal plants).

Smaller scale renewables (e.g. methane conversion, solar industrial steam, cogeneration, biochar, organic recycling in fertiliser) can also help to radically reduce the emissions profile of regional Australia.

To facilitate this dialogue, the NFF requests the federal government to commission modeling of Australia's transmission line network and energy demand in regional centres so as to develop a robust integrated least-cost planning model for Australia's transition to solar, wind and other renewable energy supply.

Regional renewable power stations can also generate base load power for regional requirements and can feed any excess into the national grid. Early roll out of bulk renewable energy in regional Australia would also enable a smooth and more rapid transition from coal power to renewable power for urban Australia. It would also facilitate electrification of regional rail networks and, potentially, a transition to electric road transport and farm vehicles.

Policy measures that government should consider in this field include loan guarantees for the builders of utility scale renewable power stations and the strategy for investment in new transmission line infrastructure, and targeted R&D for support partnership and synergies between farming, regional communities and the renewable sector.

The role and activities of the petrol commissioner

The Australian Competition and Consumer Commission (ACCC) promotes competition and fair trade in the market place to benefit consumers, business and the community. It also regulates national infrastructure industries. Its primary responsibility is to ensure that individuals and businesses comply with the Commonwealth's competition, fair trading and consumer protection laws.²³ As the ACCC is the only national agency dealing generally with competition matters and the only agency with responsibility for enforcing the Trade Practices Act and the state/territory application legislation, the role of the petrol commissioner as the head of this agency is crucial to regional Australians if petrol and diesel price monitoring is to continue.

²³ ACCC 2008

The NFF welcomes the introduction of the role of the ACCC Petrol Commissioner as a means of protecting the rights of consumers, especially in rural areas where competition is not a driving force of price determination. The role of the Petrol Commissioner in maintaining and enforcing fair trading is particularly critical in regions where limited public transport options exist and consumers are therefore more exposed to the cost of transport fuel.

The impact of the CPRS on fuel and energy

The NFF believes that the Carbon Pollution Reduction Scheme (CPRS) Green Paper takes a prudent position regarding the coverage of agriculture within the CPRS. We support the position that *"the earliest that agriculture should enter the Carbon Pollution Reduction Scheme would be 2015, with a final decision on inclusion or exclusion to be made in 2013 in the light of progress in overcoming practical difficulties and after extensive consultation with the industry."* Like the Garnaut Draft report and the Productivity Commission submission to the Garnaut review, the NFF is pleased that the Green paper has recognised the practical difficulties surrounding the coverage of agriculture within the CPRS and recognises that more clarity is required before a definitive decision on this issue can be made.

However, it must be recognised that even as an uncovered sector, agriculture will still be affected by higher costs of fuel and energy. As stated by ABARE, *"The indirect and initial impact of the proposed domestic emissions trading scheme is likely to flow on to the agriculture sector through increases in the on-farm costs of energy and emissions intensive inputs – for example, fuels, energy, fertilisers and other farm chemicals – and also through increases in transport related costs"*²⁴

According to the CPRS Green paper, using a carbon price of \$20 per tonne of carbon dioxide equivalent, the projected price effects for the energy sector are estimated to increase substantially. The *Department of Climate Change* estimates that a price of \$20 per tonne of carbon dioxide will result in an increase in price for electricity of 16%, and an increase in gas and other household fuels by 9%.²⁵ The NFF also points to *Department of Environment, Water, Heritage and the Arts* analysis on the carbon emissions from fuel combustion in deriving potential flow through impacts of higher fuel prices from the CPRS. This analysis notes that combustion of a litre of petrol produces 2.4 kilograms of CO₂, and a litre of diesel produces 2.7 kilograms of CO₂.²⁶ This equates to a potential emission cost of between 2.4c and 2.7c per litre per \$10 of greenhouse emission cost and demonstrates the direct impact that the CPRS can have on this resource utilization.

Therefore, in light of the enormous escalation in the price of oil in recent times and the significant shock that this is having on all sectors of the Australian economy, including agriculture, the NFF is supportive of the CPRS Green Paper's recommendation that fuel price impacts from the CPRS be offset for at least the first three years of the scheme. The offset recommendation is particularly welcomed by the NFF considering that the majority of our

²⁴ ABARE *Australian commodities > vol. 14 no. 3 > September quarter 2007*

²⁵ Department of Climate Change 2008, *Carbon Pollution Reduction Scheme Green Paper*

²⁶ Department of Environment, Water, Heritage and the Arts, *Reducing Greenhouse gas emissions*,

<http://www.environment.gov.au/settlements/transport/fuelguide/environment.html>, sourced on 26 August 2008

members are located in regional areas, which have less access to public transport, and are therefore more exposed to the cost of fuel.

The NFF also appreciates that an equivalent rebate will also be delivered for the agriculture sector which will help to ensure that equity between agriculture and the rest of the community is maintained. We would welcome the opportunity to work with Government in determining the most appropriate mechanism for delivering this offset to the agriculture sector while ensuring that transaction costs incurred are minimized.

However, the NFF questions the CPRS Green Paper recommendation to offset the fuel costs for heavy vehicle road users for only one year from the commencement of the scheme prior to review, and not the three years offered to other major transport fuel user groups. For industries such as agriculture, which exports approximately 70% of everything it produces, freight transport is a significant cost in the supply chain. Heavy vehicles play a vital role in this freight transport task. Indeed, it should be recognised that the majority of the agricultural freight task is not contestable between road and rail. Supporting this is the Productivity Commission report on *Road and Rail Freight Infrastructure Pricing* that states that even substantial increases in road user charges are unlikely to have any significant impact on rail's modal share of freight.²⁷ For many agriculture and food businesses, particularly those which are perishable or time-sensitive, trucking is the only option for transporting their goods and will remain so. However, commodities such as grain, which use rail for approximately 84% of its export freight task, depend upon rail to get their produce to market.²⁸ It is also commonly the case that both modes are effectively used in conjunction.

Therefore, it is clear that many Australian farmers have limited options to reduce their utilisation of heavy vehicles as part of the process of getting produce to their markets, most of which are located overseas. The NFF therefore believes that the offset for heavy vehicles should also be offered for at least three years to give farmers and other trade exposed industries appropriate time to adjust their operating systems.

During the period that fuel price increases from the CPRS are offset, the NFF encourages Government to examine alternative complimentary policies in areas such as taxation, infrastructure and renewable energy to ensure that equity for regional communities is maintained once the rebate is removed.

Taxation arrangements for fuel

In 2005, the Australian Government announced a major program of reform to modernise and simplify the fuel tax system. The reform aimed to lower compliance costs, reduce tax on business and remove fuel tax from thousands of businesses and households.²⁹ A number of

²⁷ Australian Government Productivity Commission 2006, *Road and Rail Freight Infrastructure Pricing*

²⁸ ABARE, Australian Commodities, June Quarter 2006

²⁹ The Treasury 2005 *Fuel Tax Credit Reform Discussion Paper*

key legislative changes were made to the Australian fuel tax system as a result of the review including the following:

- The Fuel Tax Credits scheme replaced the Energy grants Credit scheme on 1 July 2006 for fuel used in heavy vehicles and in a range of other business activities. Similar fuel tax schemes for off road diesel use have existed since fuel excise was introduced in 1957.
- Eligibility was expanded on 1 July 2008 as part of a gradual implementation up to 1 July 2012 to cover taxable fuels used in other business activities, machinery, plant and equipment.
- Businesses now claim their fuel tax credits through the Business Activity Statement.
- Fuel tax relief continues to be provided for fuel consumed in road transport by allowing partial fuel tax credits for all taxable fuels consumed on road for all business purposes in registered vehicles with a gross vehicle mass of 4.5 tonnes or more.³⁰

The NFF has been supportive of the Fuel Tax Credit scheme and the changes made through the most recent fuel tax reforms. We continue to work with Treasury and the Australian Taxation Office to ensure that the fuel tax policy and administration of the Fuel Tax Credit scheme is delivering an optimal outcome for both Australian farmers and the broader economy.

Conclusion

Fuel and energy costs are a vital input for farm businesses, comprising a significant portion of the total farm cost of production. Recent escalation in these prices, particularly for fuel, have placed increasing pressure on farm operating margins and have reinforced the need for further action to develop fuel and energy alternatives and more effective utilization of the existing resource. This is even more important in the context of the Carbon Pollution Reduction Scheme which will place a price on carbon emitting products and see the price of fuel and energy lift even further.

The NFF therefore believes that further effort from both Government and industry is required in areas including:

- Alternative transport fuel development
- Associated R&D
- On-farm biodiesel regulations
- Bioenergy development
- Competition issues

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