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**FUEL TAX INQUIRY
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Introduction:

This submission briefly discusses:

1. The current fuel tax regime and the negative effect on regional development in Australia, particularly in the total north and central region of the country.
2. A restructuring of the fuel tax is also proposed based on the developmental requirements of the nation in terms of:
 - Strategic Regional Development (Economic and Defence).
 - Creation of Wealth Through Improved Tourism Facilities.
 - Improved Employment.
 - Increased Private Capital Investment.
 - Higher Overall Taxation Revenue.
3. Suggested Fuel Tax formula.
4. Substantiation of Formula Payback.

1. The Current Fuel Tax Regime and the Negative Effect on National Development.

International comparisons are often presented in representing Australian Fuel Tax as being sensible and well thought out. However in taking into account all factors such as GDP/Population, Geographic elements, population spread, and domestic to imported fuel ratios, very few countries are realistically comparable. The only country which Australia can truly be matched is Canada. Canada's fuel tax format is very similar to Australia, but this can in no way imply that it provides the best outcome for Australia, or indeed Canada.

Comparison with European nations is not realistic in terms that almost all of Western Europe has a far more evolved rail system (often electric), supported by ferry services, an established road network through extremely frequent and higher density population centres, representing many times the Australian population over a significantly smaller area.

Domestic oil production is limited to the North Sea fields. Higher taxation on fuel in Europe has been permissible due the factors outlined above.

The United States of America is comparable to Australia in many ways, but established internal infrastructure and much larger population base alter the equation somewhat.

To some degree the USA fuel tax format probably represents a fairer cost to the consumer, as opposed to being utilised as a wholesale "milking cow" by the national government.

In Australia and Canada, both countries are of a similar size, with a similar population spread.

The major difference with Australia and Canada however, is that Australia's undeveloped areas have every scope of being habitable. Much of Canada's undeveloped areas will never be developed due to the latitudes or mountainous terrain.

Nearly the entire basic infrastructure in North America is complete.

This is not the case in Australia. Much regional infrastructure is simply non-existent.

It is in Australia's interest to encourage development, particularly in the Northern half of the country.

During the late 1960's and 1970's much development was established in the North West of Australia to service the rapidly growing mining industry. This was followed by development of the NW Shelf and Timor gas and oil fields.

The Kimberly irrigation potential was starting to literally bear fruit.

Darwin was expanding dramatically as an administrative centre, with the Northern Territory gaining self-government in 1978.

Mining activity also increased in Queensland, together with the international tourism market in that state.

Prior to, and during that time, fuel costs to all consumers were considered "reasonable" and could be factored in as an integral part of doing business.

By contrast today fuel costs are often the expense that will break a business.

This is compounded by a multiplier effect in regional Australia. Fuel costs are reflected in all facets of modern living.

Transport of consumables to the North of Australia is the first consideration, then there is the cost of aviation, the cost of operating private vehicles for rural Australians is often overlooked by city-based bureaucrats. A trip to the city for health reasons is often two days solid driving. A drive to the next town and back being several hundred kilometres. A recreational drive being a major financial consideration for a family day out. These extra costs of doing business and living in the North have also increased the occurrence of the number of “fly in – fly out” operations substantially by resource companies; Further hammering a nail in the coffin of Northern Australian development.

The result has been that conducting business and living in the Northern and more remote parts of Australia has evolved to the necessity of performing as little activity as possible locally, and out-sourcing every possible service from the Southern cities.

So despite a higher proportion of the nation’s wealth being derived from the northern part and regional Australia, the population base does not reflect this.

This fact by itself may not be seen as any significant problem for Australia.

However due to this disproportionate and unbalanced development policy, Australia is:

- **Missing significant taxation revenue from new private business activities.**
- **Placing unnecessary strain on Southern resources.**
- **Exposing important national assets to strategic risk.**
- **Causing most of the Australia to be inaccessible to Australians due to an unacceptably high cost of living.**

FUEL TAX REFORM CAN BE USED TO REVERSE THIS TREND AND CREATE A NEW ERA OF DEVELOPMENT FOR NORTHERN AND REGIONAL AUSTRALIA.

The current fuel tax regime is the largest contributor to impeding the necessary infrastructure development in regional Australia. Presently most infrastructure is financed by Federal and State funds, simply because the critical mass of private enterprise is not present in Northern and Central Australia. This represents a huge outlay of government financial resources.

2. Restructuring of the Current Fuel Tax Based on Australian Developmental Needs.

As opposed to utilising the fuel tax as a general revenue source, it is advisable that the fuel tax structure recognises the role fuel and energy costs play in developing infrastructure in the scenario as presented by Australian geography, topography and population spread.

The objective of this proposal is to utilise fuel tax reform to address the lack of development in regional Australia. This should not be seen as development for development's sake, but with serious consideration to national interests.

Strategic Regional Development (Economic).

While South East Asian nations have experienced dramatic economic growth in the last two decades, Australia's growth has been steady. Globally, the South and Eastern Asia have been recognised as being a powerhouse of economic growth for the first half of this century.

While Australia may see itself as part of the Pacific Rim action, the cultural and geographic reality of Australia's economic power base is far removed from the scene.

The Australian economic establishment is based in the far south-eastern corner of the nation; Which is about as far from Asia as one can go without leaving the mainland.

To be genuinely part of the Asian (and particularly the South East Asian) scene, Australia must be seen to be literally close to our regional neighbours.

This can be achieved by utilising our northern Asian proximities as actively and locally participating in the larger Australian economy. Presently any economic activity of any significance in these regions is "remote controlled" from the South.

Strategic Regional Development (Defence).

Defence of Northern Australia has long been an issue with the addition of extra permanent defence personnel and bases in the north in recent years.

In simple terms, improved civil infrastructure means improved defence support.

Australia already hosts leading generators of balance of payment exports in the north of Australia. In respect to the national population spread, majority of these assets are in "remote locations". A greater population presence in the vicinity of these assets is highly desirable in defence terms.

In many ways the modern resource projects are the "Crown Jewels" of Australian wealth. Superior civil infrastructure is a requirement for efficient defence. The very nature of Australia's present southern-based infrastructure is a major logistical problem for defending the area most likely to receive any threat. In fact, it is highly debatable whether Australia is even presently capable of defending the northern region of Australia.

Creation of Wealth Through Improved Tourism Facilities.

Tourism has become an increasingly important asset to the Australian economy.

By nature some of Australia's greatest tourist assets are located at great distances from each other, and additionally away from the larger population centres.

The domestic tourism market has improved, but simultaneously the cost of travel, particularly by private vehicle has made the exercise of an across country holiday extremely unattractive.

While the baby-boomer retiree market yearns to see Australia, for most it is not possible.

Indeed, it is easier and cheaper to travel to outside Australia for a holiday destination.

Many Australians simply cannot afford an Australian holiday. Nor are there adequate facilities in the tourist destinations.

Sentiments aside, this is not good for Australia.

The International tourism market is more complex. It is however, a very relevant driver to the fuel tax equation. Not so much directly, but as a result of indirect requirements.

Although Australian fuel costs are generally cheaper than many of the country of origin of Australia's international tourists; this is easily offset by the vast distances required to enjoy the Australian experience. This is further compounded by the necessity of many travellers to supply their own transport in regional areas, due to the lack of flexible alternatives.

Currency exchange rates can also play a factor determining the number of visitors from various markets. So what may be a reasonable vacation cost one year, may not be true for the next. Australia needs to provide a consistency of value for the international tourist market to ensure high volume. Lower internal travel costs are one way to achieve this.

The infrastructure to support high volumes of tourist in many parts of Australia is not existent, simply due to costs, and failure to provide adequate returns on investment by private operators.

Higher volumes of tourism does not necessarily mean compromising the pristine wilderness and vastness of space that many tourists pay to experience. Good management practice will ensure this. The industry does understand this.

To support the higher volumes, private enterprise will provide the infrastructure with government maintaining the basic utilities.

The tourism market itself will allow other service industries to spawn and grow, as has occurred in Queensland coastal region over the last two and a half decades. This is a proven formula to support development and create national wealth.

Improved Employment.

As can be seen from Queensland's tourism experience, new employment was created with new training opportunities requiring a world standard of service and product to be successful.

As newer industries move into regional Australia, attracted by a more equitable cost of living and conducting business, employment and training will follow.

There already exist many reasons for businesses and industries to move into regional Australia. Some are logical business reasons, other are social, with northern parts of Australia offering a comfortable climate. What needs to be removed is the excessive financial cost.

Increased Private Capital Investment.

As outlined in the foregoing, the reduction of costs are a key to attracting business and population to regional Australia. Scenarios have been outlined above that demonstrate the climate that will attract private capital to invest in Australia. There is no shortage of capital available, but investment needs to be justified and guaranteed reasonable risk.

Higher Overall Taxation Revenue.

Although the restructuring of the Fuel Tax will result in slightly less revenue from that source, the additional taxation revenue sourced by reducing fuel costs in regional areas will allow an overall increase in taxation revenue from many other sources.

In the longer term this will be quite dramatic.

Consideration is required that the current regime is detrimental to total taxation revenue by severely limiting business activity in areas where it would otherwise prosper.

Suggested Fuel Tax Formula.

- Fuel Tax needs to be adjusted to a lower rate comparable to the USA.

- The consumer price is required to be steady.

- The tax component needs to be adjusted on a regular basis with the objective holding the fuel prices steady while the international oil price fluctuates.

By this method the cost to the consumer remains static.

Therefore assuming the consumer price remains constant (CPI adjusted); The taxation component fluctuates with the crude oil price.

* Fuel Tax needs to be reduced for Regional and Remote Australia.

This is achieved by a formula based on distance from large population centres.

* Full Fuel Tax is payable within 500km of a centre with a population greater than 50,000 people.

* 50% Fuel Tax is payable 500km to 1000km from a centre of >50,000.

* 0% (zero) Fuel Tax is payable at a distance greater than 1000km from a centre of >50,000.

Quantity limitations will apply, with larger consumers required to record justification and these consumers and quantities recorded. Not difficult with today's technology.

Substantiation of Formula Payback.

Majority of fuel will still be consumed in areas where full Fuel Tax is payable.

The quantity of fuel presently consumed in the affected regional areas needs to be ascertained.

The various Regional Development Authorities are required to survey random businesses in their areas to determine current fuel costs, and also to question the effect of reduced fuel costs on the business. Will this lead to business expansion? What new opportunities will be presented as a result reduced Fuel Tax at the rate as suggested above? How will this affect the local community? What will be the social benefits?

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In conclusion, Fuel Tax reform as proposed herein offers Australia a unique opportunity to introduce a cost-effective energy incentive program to further Australia's development. This proposal offers true economic hope to Regional Australia at all levels of society. The proposal is also a genuine solution to problems caused by centralised urbanisation at the expense of rural Australia. This will bring greater equity between the city and remote areas, while providing substantial growth opportunities.