2013 Federal Election Policy Priorities

1. Exploration Tax Credit (Flow through Shares) Scheme – SACOME recommends that the Federal government implement an Exploration Tax Credit (Flow Through Share) scheme to encourage further investment in the exploration sector.

2. Infrastructure for Resource Development – SACOME recommends that the federal government utilise bodies such as, but not limited to, Infrastructure Australia and EFIC to provide funding arrangements to stimulate Infrastructure where a market failure exists for Resources projects.

3. Petroleum Resource Rent Tax (Contiguous Licences) – SACOME recommends that contiguous licences be included for the purposes of deductibility ensuring associated exploration expenses are eligible to be deducted against production revenue.

4. Petroleum Resource Rent Tax (Low Profit Offset) – SACOME recommends that the Petroleum Resource Rent Tax (PRRT) should have a low profit offset mechanism whereby profits below $50 million are not subject to the PRRT.

5. Minerals Resource Rent Tax (MRRT) – SACOME recommends that the MRRT be rescinded due to the negative impacts upon emerging iron ore miners in South Australia.

6. EPBC Act – SACOME recommends that bilateral agreements for assessment and approvals be established under the EPBC Act to accredit the environmental approvals process under South Australian mining legislation.

7. Native Title Tribunal – SACOME recommends that the federal government increase the resources and funding available to the Native Title Tribunal and Federal Court to efficiently and effectively resolve outstanding Native Title claims.

8. Climate Change Policy – SACOME recommends that the current fixed price mechanism be abolished and any market based policy for addressing climate change must be consistent with the principles in the policy document.

9. Immediate Deduction of Exploration Expenditure – SACOME recommends that the deductibility of the acquisition of rights by a third party retains the immediate deductibility as was the case before the 14th May 2013.

10. Diesel Fuel Credit – SACOME recommends that the Fuel Tax Credit scheme be retained as a means to ensure the business inputs are not taxed and that the policy purpose is maintained as a way for road users to contribute towards the cost of roads.
1) EXPLORATION TAX CREDIT (FLOW THROUGH SHARES) POLICY

Policy Recommendation

SACOME recommends that the Federal Government implement an Exploration Tax Credit (Flow Through Share) scheme to encourage further investment in the exploration sector.

Overview

Junior resource companies typically have huge upfront exploration costs and little or no revenue. That means they are unable to access the tax deductions they accrue as income-generating companies. The ability to issues shares with the tax deductions to “flow through” to investors would be an incentive for further shareholder investment which will increase the capacity of companies to finance exploration.

With recent downtrends in exploration expenditure (ABS; Cat. 5368), softening commodity prices (Bloomberg), and constrained capital markets (Ernst & Young; Business risks in mining and metals 2013-14) junior resources companies are facing significant pressure to develop deposits into economical projects. Policies such as a Flow Through Shares scheme will allow junior companies to access extra funds for capital raising via shareholders.

Policy Discussion

Any flow-through share policy should:

1. Not be distortive between existing companies and IPOs, or between new and existing shareholders.
2. Reward risk takers in small companies, so that providing capital to risky exploration companies is more attractive. The most risky companies are often the smallest, which have fewer projects across which risk may be spread. This risk concept also fits best with the policy behind the R&D concession, which the ETC seeks to emulate in the conceptual base for this proposal.
3. Be easy to implement and easy to regulate/monitor.
4. Ensure that a credit is only allowed for exploration expenditure actually incurred, so that only genuine exploration is being rewarded. This is why the credit would only be available after the expenditure is incurred, rather than upfront (say, at the time of a share subscription) or based on expected expenditure (say, based on IPO budgets).
5. Be practical for the companies to implement. A franking-account-like mechanism, where the companies themselves choose when to pass out the credits, ensures that small amounts of eligible expenditure could be accumulated and then passed out in later years when enough had been spent to make the distribution cost effective.
6. Use existing definitions as far as possible, to assist with compliance costs for both companies and the ATO.
7. Not distinguish between minerals. In practice this is very difficult anyway, as different minerals occur together and knowing in advance which mineral might ultimately be discovered is uncertain at best.
8. Deal with disallowed exploration expenditure efficiently and effectively, preferably at the corporate level rather than the individual shareholder level.
9. ETCs would only be allowed for Australian exploration expenditure, with the broadest definition of Australia and its offshore resources being used. These definitions already exist and are well understood.
2) INFRASTRUCTURE FOR RESOURCE DEVELOPMENT

Policy Recommendation

SACOME recommends that the Federal Government utilise bodies such as, but not limited to, Infrastructure Australia and EFIC to provide funding arrangements to stimulate Infrastructure\(^1\) where a market failure exists for Resources projects.

Overview

In 2005, 2009, 2010, 2011, and 2012 the Resources and Energy Sector Infrastructure Council (RESIC) released reports on the state of South Australia’s infrastructure, future requirements, and recommendations to the government and stakeholders. These reports identified key infrastructure requirements for logistics, energy and water for the resources industry.

The Department of Planning, Transport and Infrastructure (DPTI) in partnership with Deloitte initiated the Regional Mining and Infrastructure project. This project will identify the key infrastructure solutions for the Far North, Eyre and Western, and Yorke and Mid-North/Braemar regions. The study initiated by DPTI is welcome, considering that the assessment will include environmental and social factors.

Policy Discussion

Whilst there have been three major studies from RESIC outlining the infrastructure requirements for the resources industry in South Australia in terms of logistics, energy and water; the consistent priorities are the need for a deep water port and upgraded transmission infrastructure.

The reports have highlighted the need for both transmission upgrades in key regions and a deep water port capable of handling greater than 20 Mtpa in bulk commodity. The critical issue for the South Australian industry is the ability of the junior resource companies to afford the upfront costs of large infrastructure projects. Alone these companies cannot develop these large infrastructure projects alone but can invest in multi user infrastructure projects of comparable size.

The recent Ernst and Young ‘Business risks in mining and metals 2013-2014’ report identifies the main risk for emerging mining companies is capital allocation and access. Where there is a need to develop export and related mining infrastructure in South Australia in an environment where proponents of the infrastructure face capital raising challenges due to tight capital markets there will exist a market failure that will require third party assistance to remedy.

Two key examples are the need to develop multi-user deep water ports in the lower and upper Eyre Peninsula and the upgrade of the transmission network along the eastern flank of the Eyre Peninsula. The first example is due to the higher capital risks associated with junior companies and investment into billion dollar ports and the second is due to the Australian Energy Regulator limiting the amount of investment to be passed onto customers with respect to transmission upgrades and future power loads.

A recent successful example is the Federal and State governments assisting Nyrstar by arranging a funding agreement utilising the Export Finance and Insurance Corporation (EFIC) to upgrade the Port Pirie Smelter to benefit the local community through lessened environmental impacts and ensuring the longevity of the plant.

\(^1\) The infrastructure projects identified in Industry and State Government Infrastructure studies such as RESIC and Deloitte respectively.
3) PETROLEUM RESOURCE RENT TAX (Contiguous Licences) POLICY

Policy Recommendations

SACOME recommends that contiguous licences be included for the purposes of deductibility ensuring associated exploration expenses are eligible to be deducted against production revenue.

Overview

As a part of the Tax reform agenda the Australian Government announced in July 2011 the PRRT was amended to capture the North West Shelf and onshore petroleum production including shale oil. The PRRT Bills introduced in late 2011 amended the Petroleum Resources Rent Tax Assessment Act (PRRTAA) 1987. Since the PRRT commencement date, 1st July 2012, the industry has identified two key policy initiatives to improve the PRRT. The first policy is outlined in this section (contiguous licences) and the following section (profit threshold).

Policy Discussion

SACOME has determined that the current mechanism to combine PRRT projects as detailed in Section 20 of the PRRTAA is insufficient for the nature of oil and gas operations in South Australia. In the Explanatory Memorandum, page 36, example 2.13, the following is stated:

“A fundamental feature of the PRRT is that projects defined with reference to production licence areas. Accordingly, although it is appropriate in certain circumstances for projects to be combined, where they are sufficiently related, it is not appropriate for projects to be separated”

Due to fragmented ownership of the onshore oil and gas industries the emphasised statement above does not allow for this aspect of ownership. This is the case where companies hold a wide range of interests in different petroleum production and retention licences, but the production from these licence is processed through multiple downstream facilities. Particularly for minority interest holders, as exist in the Cooper Basin, where their interests will be stranded from where their product will be processed in a respective facility.

Furthermore the impact of such a distinction will have negative impacts upon current investments due to the retrospective imposition of the PRRT. A company in such a scenario where their interest will be stranded from production will not have considered such an impost during their feasibility studies.

To remedy this imposition upon companies who have ‘fractured’ ownership the Government should institute a legislative change to the current PRRTAA Bill to allow companies to combine the totality of their interest into a single project, and that it is essential that interests in one production licence are able to be split into separate combined projects for PRRT purposes.

SACOME understand that this position is consistent with the Australian Petroleum Production and Exploration Association’s submission on this matter, and that SACOME fully endorses the recommendations made in the APPEA submission to Treasury on the PRRTAA Bill.
4) PETROLEUM RESOURCE RENT TAX (Low profit offset) POLICY

Policy Recommendations

SACOME recommends that the Petroleum Resource Rent Tax (PRRT) should have a low profit offset mechanism whereby profits below $50 million are not subject to the PRRT.

Overview

South Australia has recently identified key basins where there is significant potential for unconventional oil and gas production. In the Cooper Basin alone there is a potential for 29 billion barrels of oil and a further 2.6 trillion cubic meters of gas. In the Cooper Basin as well as other key onshore basins in South Australia large oil and gas companies operate alongside with junior companies. It is imperative that the junior oil and gas companies have the economic environment where they can expand and diversify into other fields and basins.

Policy Discussion

The importance of the junior sector is critical to the further development of the oil and gas industry in South Australia. The Australian Petroleum Production and Exploration Association (APPEA) state:

“The diversity in size and activity in the Australian petroleum industry has been a major contributor to its success. A number of Australia’s major oil and gas discoveries have resulted from the innovative and pioneering work undertaken by junior exploration companies, while the prospectivity of some basins has been established by the work undertaken by small independent companies at the frontier stage of the exploration cycle. Of more recent times, junior explorers have underpinned [...] the growth of shale gas activities.

The challenges confronting small to mid-sized Australian companies in raising capital to fund exploration have been long standing, but have increased markedly over recent years.”

The continued discoveries in South Australian basins rely on a strong junior sector to pioneer into underexplored basins. In recent years however the cost of drilling has increased reflecting in higher exploration expenditure in official statistics and low meters drilled. A low profit offset will assist the junior sector in leveraging funding for further exploration programs.

Low profit offset mechanism is currently utilised in the Mineral Resources Rent Tax (MRRT) to shelter junior miners with low profits from the effects of the MRRT. This mechanism in isolation is one that the wider industry supports as a form of assistance to the junior sector as indicated in the Policy Transition Group discussions on the MRRT, and also outlined in the PTGs report to the Australian Government in December 2010 (p. 75-77).

A low profit offset shelter needs to be introduced to junior companies to assist them in completing wells in conventional projects where the cost per well can be in the range of $2 to $7 million and unconventional projects where the cost per well ranges from $10 to $14 million per well. While the PRRT does allow for this expenditure to be deductible against a PRRT liability a low profit offset will enable junior companies a profit buffer of $50 million in which to leverage further development.
5) MINERAL RESOURCES RENT TAX (MRRT) POLICY

Policy Recommendation

SACOME recommends that the MRRT be rescinded due to the negative impacts upon emerging iron ore miners in South Australia.

Overview

The Mineral Resources Rent Tax (MRRT) was announced on the 2nd of July 2012 after negotiations with mining companies, the Prime Minister, and Treasurer. The MRRT is levied on the profits of Iron Ore and Coal mining operations within Australia at an effective rate of 22.5% after the extraction factor (25%) is taken into account on the announced 30% rate. This rate is applied after Mining expenditure, Royalty and Mining Loss allowances are taken into account.

Industry bodies have identified that the Minerals industry in Australia contributes its fair share to State and Federal taxes. In the past decade alone the Resources industry has contributed $124 billion in royalties and company taxes. The South Australian Iron ore industry is one that is re-emerging and comprised of junior resource companies with higher risk portfolios.

Policy Discussion

Magnetite

The MRRT captures as a taxable resource Iron Ore, Coal, Coal Seam Gas, and any product produced from a process that consumes or destroys these minerals. Furthermore in the Explanatory Memorandum in section 3.74 it states:

“Every form of Taxable iron ore and coal is a taxable resource. The legislation makes no distinction, for example, between hematite and magnetite or between black coal and brown coal.” (p. 40)

The failure to distinguish hematite and magnetite illustrates the first issue for South Australian Iron Ore operators. SACOME through each submission has noted that there is a difference between hematite direct shipping ore and magnetite operations where magnetite generally requires beneficiation to produce a saleable product. Due to the location of the taxing point, at the run-of-mine pad, the value of magnetite at this point is valueless. Thus, unnecessary compliance burden is placed upon the magnetite industry for no or negligible taxation gain once the arm’s length calculations are completed to determine a calculated value at the ROM pad for magnetite.

This point has been also supported by MagNet who represents magnetite miners in Western Australia, and during questioning in the Senate Economics Legislation Committee hearings. Furthermore in the final report form the Senate Economics Legislation Committee it states (sections 5.87-5.89):

“The committee accepts that magnetite producers are unlikely to incur significant tax liabilities in the first few years of the MRRT’s operation and that magnetite differs considerably from hematite ore. However, what the magnetite industry is seeking is, in effect, a permanent exemption form the MRRT...[it] would create an unwise and unwarranted precedent, and accordingly is not supported.” (p. 83)

Industry differences have been recognised however the bolded justification lies in the fact that in the future hematite operations will shift to magnetite operations (from hearing evidence3) and as such there will be reduced MRRT liability in the first years of operations but will increase over the life of the operations.

3 Mineral Resources Rent Tax Bill 2011, Economics Legislation Committee, Australian Senate, p. 83 [in footnote]
SACOME does not share this justification, considering the emerging magnetite industry in SA, due to no distinction between the two ore types and the secondary impacts on emerging and junior miners discussed below. SACOME outlined these issues in submissions to Treasury and selected MPs on the legislation.

Emerging and Junior Miners

Juniors starting operations after the 2nd May 2010 mining project interest threshold. Secondly, the inherent complexity of valuations in the MRRT legislation and compliance burden on junior and emerging miners. Aside, it should be noted that junior miners are those that are defined as such by their relative operation and market size compared to the well-established mature larger miners who have multiple operations. Emerging miners are those who are shifting from exploration to operating mine(s) for the first time.

Through submissions made during the MRRT consultation process, and during both House and Senate committee hearings from Iron ore operators, and peak industry bodies there is an apparent disparity between the effective taxation between those with operations before the 2nd May 2010 threshold and after this date. Dr Pietro Guj from the University of Western Australia highlighted in a report that the MRRT is not competitively neutral and as such it benefited miners with established operations prior to the 2nd of May 2010.

The compliance burden is an issue for those miners not expected to pay MRRT. The inherent complexity in the MRRT with respect to valuation of downstream assets, the valuation methodology, and the tax in general is an issue noted by SACOME members through direct consultation and the Australian Tax Office.

Other Issues

SACOME also raised a point with regards to the extraction allowance, now extractive factor, reflect actual industry extractive efforts in terms of strip ratios rather than an arbitrary 25% factor to reduce the MRRT to 22.5% effective rate.

The royalty arrangements outlined in the MRRT legislation detail that all State royalties are to be credited back to the miner. There has been contention over this issue as States can raise their royalty rates and the Commonwealth government will have to credit the increase back to the miner thus impacting on MRRT revenue figures. SACOME notes this issue in relation to future amendments that may be proposed during the MRRT review period to be conducted within 5 years.

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3 'Is MRRT competitively neutral?', Dr. Pietro Guj, Research Professor, Centre for Exploration Targeting, UWA, 2012, p. 1-8
6) ENVIRONMENT PROTECTION and BIODIVERSITY CONSERVATION (EPBC) Act 1999

BILATERAL AGREEMENTS

Policy Recommendation

SACOME recommends that bilateral agreements for assessment and approvals be established under the EPBC Act to accredit the environmental approvals process under South Australian mining legislation.

Overview

Bilateral agreements are prescribed in Part 5 of the EPBC Act, allowing the Commonwealth, subject to certain requirements, to delegate to the States and Territories the responsibility for assessing and/or approving development proposals following the prescriptions of the EPBC Act. This currently applies to developments that fall under the Development Act 1993 (SA) with environmental aspects that require Commonwealth assessment and approval (matters of national environmental significance).

In April 2012, the Council of Australian Governments (COAG) discussed the establishment of standards for accrediting state based environmental approvals in order to satisfy requirements under the EPBC Act.

To date, COAG has been unable to come to an agreement on accreditation standards and thus this policy, originally scheduled to be endorsed in April 2013 has been shelved temporarily. This is a missed opportunity to improve efficiency by removing process duplication, reducing project costs and approval timeframes and also to provide greater investment clarity and certainty.

Policy Discussion

Efficiency of the environmental approvals process

SACOME is seeking bilateral agreements to accredit the Program for Environmental Protection and Rehabilitation (PEPR) under the Mining Act 1971 and the Statement of Environmental Objectives (SEO) under the Petroleum and Geothermal Energy Act 2000. This would streamline the environmental approvals process, eliminate process duplication, reduce assessment and approval timeframes and provide decision-making clarity and consistency where matters of national environmental significance arise. Additionally, process streamlining reduces costs and makes investment more attractive.

Bilateral agreements will not ‘devalue’ environmental protection as state processes would need to be consistent with the EPBC Act to gain accreditation. A single process will streamline environmental assessments and approvals while upholding the prescriptions of Commonwealth law.
7) NATIVE TITLE FUNDING POLICY

Policy Recommendation

SACOME recommends that the Federal Government increase the resources and funding available to the Native Title Tribunal and Federal Court to efficiently and effectively resolve outstanding Native Title claims.

Overview

SACOME has had an active role in assisting and supporting the use of Indigenous Land Use Agreements (ILUA) in South Australia. These documents offer an alternative to a Part 9B where there exists a Native Title claim. In determining Native Title the opportunity to streamline and determine ILUAs to ensure resource companies understand their requirements in accessing the land will improve the timely access to resource rich land.

Policy Discussion

In 2011 the Federal Government undertook a review of Native Title respondent funding scheme. It has been the government's policy that the funding would cease at the end of 2012. This would limit the capability of SACOME and other state bodies to assist and determine ILUA's with native title claimants thus causing delays in establishing an effective Native Title system.

The Federal Government released an exposure draft at the end of 2012 to amend the Native Title Act. The amendments of interest to the industry include the definition of ‘good faith’ and amendments to the ‘right to negotiate’ provisions that enable parties to disregard historical extinguishment of native title in areas such as parks and reserves thereby streamlining the ILUA process.
8) CLIMATE CHANGE POLICY

Policy Recommendation

SACOME recommends that the current fixed price mechanism be abolished and any market based policy for addressing climate change must be consistent with the above principles.

Overview

The Australian Government mechanism for carbon pricing has been in effect since July 1 2012 as part of Clean Energy Act (2011). The key feature of this policy is to make a shortfall charge for greenhouse gas emissions (Carbon dioxide, nitrous oxide, per fluorocarbons, methane) that exceed 25,000 tonnes per annum, payable by “liable entities” or those with operational control over them.

Liable entities include facilities (including electricity-generating and waste/landfill) and suppliers of natural gas. For the first three financial years (beginning July 2012), credits for carbon (carbon units) are issued at a fixed charge ($23, $24.15, $25.40 respectively). From July 2015, the Australian carbon pricing scheme will link to the European Union Emissions Trading Scheme (EU ETS), which operates as a market mechanism. The carbon permit import quota will be set at 50%.

Policy Discussion

Australian resource companies operate in a global market and the impost of a price on greenhouse gas emissions would put Australian resources companies at a competitive disadvantage against competitors that do not operate under comparable schemes. Under various programs prescribed in the Clean Energy Act, trade exposed industries are provided with Government assistance in the form of free permits and grants to assist in energy efficiency improvements, emissions reduction and energy independence (i.e. Small scale solar installations).

The following are the principles that SACOME have determined to provide a fairer carbon pricing scheme for the resources industry:

- A simple, transparent and economically efficient market based framework in line with the EU ETS, among other international developments, requiring the removal of the fixed price mechanism and an adjustment to liability criteria and assistance schemes (including trade exposed industry assistance) consistent with the EU ETS model at a comparable point in time.
- The cap and trade scheme should provide certainty on long term emissions trajectories.
- A lessening in the scope of emissions covered under the scheme, with a gradual phase in of nitrous oxide and per fluorocarbons as per the developments of the EU ETS over time.
- Cultivation of Government/Industry partnerships to develop new technologies and necessary infrastructure for emissions reduction, energy efficiency, and electricity system management.
- A carbon pricing scheme should complement and deliver on strategic energy policy and deliver a vision for a transitioned energy sector where all options are considered without compromising security and reliability. This means that in addition to gas and renewable expansion, nuclear energy must be considered in future strategies.
- 100% of the carbon pricing revenue goes into transitioning the economy by supporting trade exposed industries, low and fixed income households, energy sector transition, innovation, infrastructure development, incentives for low or zero carbon energy options, incentives for energy efficiency.
- A comprehensive suite of abatement opportunities should be permitted in any market based carbon pricing scheme including links to international carbon trading schemes, revisiting Carbon Capture and Storage technology, and farming techniques for land owners to provide opportunity for carbon abatement.
9) EXPLORATION DEDUCTIBILITY

Policy Recommendation

SACOME recommends that the deductibility of the acquisition of rights by a third party retains the immediate deductibility as was the case before the 14th May 2013.

Overview

Changes to the immediate deductibility rules will detail that the cost of exploration rights and the purchase of exploration information are no longer be immediately deductible. The cost of purchasing an exploration right and information first used for exploration will be written off over the shorter of 15 years or the effective life of the mine that it leads to, whichever is shorter.

Where the exploration is proven not to be successful, the balance will be written off when it is established it will not lead to a mine. The cost of mining rights or information will remain immediately deductible if acquired directly from the Commonwealth, State or Territory Governments. Other exploration expenditure will retain immediate deductibility. These changes come into effect on the 14th May 2013.

Policy Discussion

The immediate deductibility of exploration expenditure acknowledges that:

- Such expenditure is an ongoing, necessary and ordinary business expense of a minerals company
- There are high levels of risk associated with exploration
- There is a need to encourage discovery of new deposits (where exploration has both public good and positive externality attributes)
- Typically, there will not be a successful mine resulting from most exploration expenditures and
- A competitive fiscal regime is a policy imperative for future mineral resource development.

Analysis commissioned by the Standing Council on Energy and Resources, comprising State and Federal Energy and Resources Ministers, noted correctly in April 2012 that: “Policies that are ignorant of the realities of exploration risk will cripple the industry and drive away investment”.

Treasury and the Australian Taxation Office have officially detailed the measures for deductibility of exploration expenditure that have come into effect on the 14th May 2013, these are as follows:

There is no change for:
- Tangible depreciating assets.
- Intangible depreciating assets pertaining to exploration, geoscience, mining, quarrying, or prospecting information, or rights from an issuing government entity.

Changes to:
- Mining, quarrying or prospect rights acquired by a third entity.
  - The expenditure will now be deductable over the shorter of 15 years or the effective life of the mine, quarry or petroleum field for acquisition of rights
  - However, where the right is acquired by a third party in a ‘farm-in, farm-out’ arrangement it is still eligible for immediate deduction.

The objective of the changes is to halt the erosion of the immediate deductibility for exploration rules during the acquisition of mining rights from a 3rd party, whereas rights acquired from a government issuing body are still considered able to be immediately deductable. This according to the Treasury department will improve the sustainability of the concession.

However the change to the acquisition of rights lowers the investment attractiveness of a junior explorer that does not wish to develop a mine to sell the rights of the deposit or field to a 3rd party.
10) DIESEL FUEL CREDIT

Policy Recommendation

SACOME recommends that the Fuel Tax Credit scheme be retained as a means to ensure the business inputs are not taxed and that the policy purpose is maintained as a way for road users to contribute towards the cost of roads.

Overview

The diesel fuel rebate is designed to credit mining companies with the 38.143 cent per litre excise that is included in Diesel fuel as this excise is intended to pay for maintenance of the Nation’s roads. As mining companies primarily operate off-road this excise is refunded as a rebate.

Policy Discussion

Tax excise on diesel was introduced to help pay for public roads. The mining industry builds and maintains its own roads. Fuel tax credits ensure that fuel, as a key business input, is rebated. Rebates for fuel excise are a long standing feature of Australia’s tax system, existing in various forms for diesel since 1957. The current fuel tax credit system – where tax on diesel is paid and later credited – is simply a means of streamlining government tax administration.

Fuel Tax Credits are not a “subsidy”, as such. Like the GST system, fuel tax credits reimburse taxpayers for tax paid on a key business input. The purpose of the scheme is to remove the effect of fuel tax on business inputs to ensure that production decisions are not distorted. Treasury has stated unequivocally that:

“Fuel Tax Credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business off road or in heavy on-road vehicles” (Treasury briefing, released under FOI, 2012).