

TITLE: Fuel tax indexation: the pressure is on

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In 2001, John Howard announced the end of fuel excise indexation, a decision that has cost the Commonwealth budget around \$42 billion in the intervening 13 years.

If the excise had remained indexed since 2001 then, this year alone, the government would have collected an extra \$5.5 billion, about as much money as would be raised by increasing the GST by 1 per cent.

Howard's decision to scrap indexation had nothing to do with good policy, and certainly had nothing to do with helping the poor. Rather, it had everything to do with the looming 2001 federal election; an election which, until the Tampa arrived, most people thought John Howard would lose.

Without the regular indexation of fuel excise, the rate of tax on petrol falls every year. This is because the legislation specifies the tax in cents per litre, and as the price of petrol rises with inflation, the percentage rate of tax falls.

In this year's budget the reintroduction of fuel excise indexation was scheduled to begin in August 2014 and would have raised \$280 million in 2014-15, rising to \$1.85 billion per annum in 2017-18 for a total of \$4.2 billion over the forward estimates. While the Government's attempts to get its budget measures through the Senate have been ham-fisted to say the least, it is easy to understand why the Government assumed this measure would pass.

Back in 2006, the Greens included the abolition of fuel tax indexation on their list of the top ten budget mistakes made by John Howard. Indeed, they rated it number 1. In 2006, they also called for the reintroduction of fuel tax indexation to fund a climate disaster fund. And in 2010, they had the reintroduction costed by the Parliamentary Budget Office (PBO) as part of their election platform.

Leaving aside the Greens' long history of calling for the reintroduction of indexation, the Government no doubt took heart when Greens leader Christine Milne stated her intention to support the budget measure. However, for reasons best known to her, she quickly reversed that position and has spent the past few months arguing that her party's long standing policy is inequitable and unsupportable.

The Greens have come under significant pressure to do a second u-turn on petrol tax. The Government's desperate need for revenue to fund its rapidly growing defence spending meant that the Greens were in a good position to negotiate improved policy outcomes in other areas. A number of groups had pushed them to propose a 'RET for petrol' deal in which the government locked in the existing Renewable Energy Target in return for the Greens support on petrol. But instead of trying to negotiate a win/win outcome, Milne continued to reaffirm her determination to sit on her hands.

On Tuesday, however, the Government effectively called the Greens' bluff. The Government has announced that it will increase fuel excise from November 1 and spend the next 12 months seeking parliamentary approval for that decision. If, after 12 months, the Senate still refuses to pass the petrol tax increase, the Government will be forced to refund the tax. Not to the motorists, but to the fuel companies who collected it.

Australia has some of the lowest rates of petrol tax in the developed world and, thanks to the abolition of indexation, it is getting lower each year. While there is no doubt that low income earners spend a larger share of their income on petrol than average, there is also no doubt that a steadily falling rate of petrol tax would have to be among the least effective ways to address poverty in Australia.

It is estimated that the indexation will cost around 40 cents per week for the typical household. While every cent counts for Australians who have to make do on meagre benefits such as Newstart, such benefits are actually indexed to the CPI, which ensures people on Newstart and other payments are compensated from any flow-on price increases.

If the Greens or Labor aren't just playing politics by resisting excise indexation, and they really are concerned about the mispending of the revenue it collects, or the cost of living impact, there's an easy way to show it. Insist the money be put into funding the social assistance programs the Government maintains it can't afford. Use it to keep the Schoolkids Bonus, or the age pension in its current form, or to scrap the Government's draconian and burdensome Newstart reforms.

The pressure is now on the Greens and, to a lesser extent, the ALP. It will be interesting to see who blinks first.

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