

# Fossil fuel subsidies

Using public money to make climate change worse

When governments subsidise fossil fuels—coal, gas, diesel, petrol—they not only waste public money, they also make climate change worse. Subsidies and tax breaks make fossil fuels cheaper, making it harder to switch to renewable energy and cleaner technologies. Ending fossil fuel subsidies is common sense and good policy.

In 2023–24, Australian governments provided \$14.5 billion in subsidies to coal mines, oil and gas operations and major fossil fuel users. This is equal to \$27,581 for every minute of every day of the year, more than is spent on the army or the air force.<sup>1</sup>

Economists and scientists have long called for fossil fuel subsidies to be stopped, as have international forums like the International Energy Agency, the G20 and the Organisation for Economic Cooperation and Development (OECD).

## Examples of fossil fuel subsidies

There are a range of different fossil fuel subsidies in Australia. These are provided in different ways—some are direct payments, some involve governments building infrastructure for coal and gas companies, and others take the form of tax breaks.

### Direct payments

Examples of payments made to fossil fuel companies include:

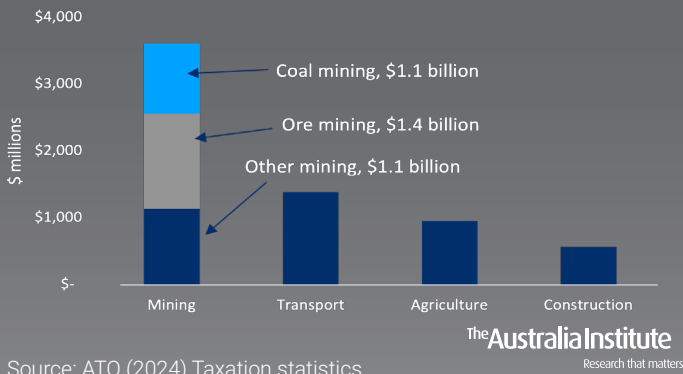
- The Queensland Government program paying \$21 million to gas companies trying to “unlock” new gas fields.<sup>2</sup>
- The Federal and Victorian Governments giving \$15 million to Japanese companies that use brown coal to make hydrogen in the Latrobe Valley.<sup>3</sup>

### Infrastructure construction

Some examples of governments footing the bill for construction of fossil industry infrastructure include:

- The Northern Territory has a \$215 million program to build roads specifically for gas fracking projects.
- In NSW, \$113 million was spent in 2022–23 on upgrading coal railways to help miners make the most of “high prices for thermal coal”.<sup>4</sup>

Figure 1: Main industries receiving Fuel Tax Credits (2022–23)



Source: ATO (2024) Taxation statistics

## Tax breaks

Australia's biggest fossil fuel subsidies, however, come via tax breaks. While most Australians pay a fuel tax of \$0.47 per litre of diesel or petrol they use, some or all of this tax is refunded to major diesel users. Not having to pay the tax makes industrial diesel users less likely to switch to electric or more efficient vehicles and equipment.

Known as the Fuel Tax Credit Scheme, this refund reduces government revenue by over \$10 billion each year, making it Australia's most expensive fossil fuel subsidy.

## The Fuel Tax Credit Scheme

The Fuel Tax Credit Scheme is controversial because of its cost and climate impacts.

However, the Australian Government opposes to any change to the Scheme because, as with most fossil fuel subsidies, the industries that benefit from it are politically powerful, particularly the mining industry. While transport (largely trucking) and agriculture gain some benefit from the scheme, the biggest benefits go to multinational coal and iron ore mining corporations, as shown in Figure 1.

The mining corporations defend this subsidy by claiming that fuel tax is used to fund roads, and that because mining equipment is not used on public roads, miners should not pay the tax.

This is incorrect. Fuel tax revenue helps fund all services, not just roads. It has not been devoted to road funding since the 1950s.<sup>5</sup> Taxpayers cannot pick and choose the taxes they pay based on the services they do or do not use.

## How to cut Australia's fossil fuel subsidies

Calls to phase out Australia's fossil fuel subsidies are widespread, as are proposals on how to do it. The OECD, has specifically called for the Fuel Tax Credit Scheme to be "reduced or eliminated".<sup>6</sup> This could be done by reducing refund rates,<sup>7</sup> excluding some industries, or by placing a cap on how much fuel tax can be refunded to a single company.<sup>8</sup>

While the Labor Government and Liberal-National Opposition are opposed to fossil fuel subsidy reform, minor parties and independent MPs are pushing for change.

In particular, independent members of parliament including Kate Chaney, David Pocock and Allegra Spender have said they will push for reform if re-elected in 2025.<sup>9</sup>

1 The Australia Institute (2024) *Fossil fuel subsidies in Australia 2024*

2 Business Queensland (2024) *Frontier gas exploration grants program*

3 Federation Funding Agreement – *Hydrogen Energy Supply Chain Project*

4 For more details, see The Australia Institute (2024) *Fossil fuel subsidies in Australia 2024*

5 The Australia Institute (2024) *Australia's Fuel Tax Credits and the debate over fossil fuel subsidies*

6 OECD (2024) *Achieving the transition to net zero in Australia*

7 Grattan Institute (2023) *Fuelling budget repair: How to reform fuel taxes for business*

8 Climate Energy Finance (2024) *Reforming the Fuel Tax Credit Scheme*

9 Rabe (2024) "Crossbench MPs eye tax credit overhaul on major miners", *Australian Financial Review*

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