



AUSTRALASIAN RAILWAY ASSOCIATION INC

**Review of Business Taxation  
Discussion Paper 2  
A Platform for Consultation -  
Building on a strong foundation**

SUBMISSION

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## The Australasian Railway Association

The Australasian Railway Association Inc (ARA) is the peak industry body for the rail sector in Australia and New Zealand. The ARA is a unique rail association. It represents the interests of both private and government owned rail operators (both freight and passenger); track owners, manufacturers of locomotives, rollingstock, signalling and communications; equipment suppliers; maintenance and construction companies; freight forwarders, investment banks, lawyers, service providers, consultants and unions. The Association was founded in 1994 and currently has a membership of 120.

Members of the Association employ over 75,000 workers in virtually all parts of both countries. The rail industry in Australia provides significant economic benefit to the country of around \$7 billion per year. Association members are also large exporters of goods and services and their rail expertise is widely recognised in the region as being of the highest quality. The Australian rail industry presently holds overseas contracts worth over \$500 million, primarily in Asia.

The majority of members (90%) are in the private sector and are profitable enterprises trading in highly competitive domestic and international markets. The Association is entirely funded by its members through membership fees.

### About this submission

This submission focuses on the following Chapters of the Review of Business Taxation Discussion Paper 2 'A Platform for Consultation - Building on a strong foundation' in addressing specific issues concerning the rail industry:

#### **Chapter 8 - Towards a new policy framework for leases and rights**

Our submission deals with Private investment into the Railway Industry and contains recommendations for tax reform of Section 51AD and Division 16D. Attachment 1 refers.

#### **Chapter 38 - Towards a better regime for taxing fringe benefits**

Our submission focuses on the following two issues which are detailed in Attachment 2:

- the disparity of FBT on employer-provided motor cars and public transport fares
- FBT on employer-provided housing for rail employees engaged in the mining industry

#### **A New Tax System - Proposed changes to Diesel Fuel Excise**

Of paramount importance to the ARA, however, are the proposed changes to diesel fuel excise under the New Tax System.

The Federal Government's proposed New Tax System is aimed at improving Australia's international competitiveness and creating a favourable climate for growth, investment and job-creating exports.

Transport costs are an important consideration to the business community. A significant issue affecting the rail industry is the proposed 18 cents per litre diesel fuel excise under the New Tax System. *Whilst this issue does not readily fall within any defined section of the Review of Business Taxation Discussion Paper 2, it is considered that it will have a serious adverse effect on regional transport costs.*

The New Tax System will reduce diesel fuel excise paid by rail and heavy road transport (vehicles over 3.5 tonnes) to 18 cents per litre.

However, this has been nominated by the National Road Transport Commission as a road user charge and recognised as such by the Bureau of Transport Economics, the National Farmers Federation and the Road Transport Forum, the peak trucking industry body. Applying it to rail effectively removes two thirds of present road user charges (fuel tax and registration).

If the proposed 18 cents per litre diesel fuel excise is a common tax on rail and road fuel use and not a road user charge, then all users of diesel fuel must pay it and a road user charge for heavy



vehicles must be introduced. This charge must cover the costs of road use in the same way that rail pays an access charge for use of the rail network.

Rail, unlike road, pays genuine mass distance based track access fees. These typically comprise 20–30% of rail operating costs.

If the 18 cents per litre is a road user charge, then payment by rail is inequitable and discriminatory. All other off-road business users of diesel fuel (including marine business use) will qualify for a full credit of diesel fuel excise.

As an ‘off-road’ user, rail must also be exempt.

#### Impact of Reduced Fuel Costs

The proposed reduction of diesel fuel excise to 18 cents per litre for rail and road will benefit road transport more than rail resulting in an undesirable modal shift from rail to road.

Road transport requires three times more fuel for the same freight task than rail. Fuel costs represent 15–20% of rail operating costs, but over 30% of long distance road transport costs. Cheaper fuel will benefit road more than rail because the relative costs for road will be reduced more than those for rail.

Modal shift of freight from rail to road will increase transport costs because of increased road construction and maintenance costs, fuel use and greenhouse gas emissions.

#### Removal of excise from rail

Completely exempting rail from diesel fuel excise will improve export competitiveness and increase rail’s competitiveness in the general freight market. It will also lower passenger operators’ costs.

The Industry Commission in its 1994 report *Petroleum Products* found that complete removal of diesel fuel excise from rail would result in a net increase in Australia’s GDP of \$120 million per year. Australia’s balance of trade would improve by \$40 million per year and export volume would increase by 0.19% per year.

The net annual increase to GDP of \$120 million includes economic benefits across a range of sectors as well as that arising from modal shift to rail.

Coal producers could benefit by \$20 million per year and producers of wheat and other grains could benefit by \$40 million per year.

Operators of diesel powered rail passenger services would save nearly \$25 million per year.

Lowering of rail costs by complete removal of diesel fuel excise on rail will flow through to the economy via lower costs to users. This includes farmers, miners, manufacturers and shipping companies.

The National Farmers’ Federation estimates that the retention of 18 cents per litre fuel excise on rail will cause the cost of grain transport to be 80 cents per tonne higher than without the excise. Nationally, this will cost grain farmers \$20 million per year.

Retention or growth in rail’s market share will result in greater direct tax returns from privately owned railways and greater proceeds from the sale of railways to the private sector.