

17 November 1997

The Manager  
Australian Black Coal Industry Inquiry  
Locked Bag 2  
Collins Street East PO  
MELBOURNE VIC 8003

Dear Sir

**Australian  
Coal  
Association**

**SECRETARIAT**

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**Chairman:** Dr Chris Rawlings

Queensland Mining Council  
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The enclosed reports on the international and domestic coal markets are an important complement to those issues-based submissions. The expert analyses by Barlow Jonker and ACIL show the intense competitive pressures facing Australian coal suppliers both at home and overseas. The producers cannot look to price improvement to ameliorate the imperatives of substantially improved productivity and reduced infrastructure costs highlighted in the state association submissions.

In regard to national policy issues, ACA wishes to draw the Commission's attention to two of particular importance to the coal industry.

The first is diesel fuel excise rebate. In concert with the rest of the Australian mining industry, coal producers had to defend the eligibility of mining activities for rebate in each of the 1995 and 96 federal government budget reviews. The last successful defence came only at the cost of a tightening of rebate eligibility rules and ongoing monitoring of the size of rebate scheme 'outlays'.

These defensive campaigns should not have been necessary. The rebate is not a subsidy, but rather a refund of overpaid taxes, and only a partial one at that. It is wholly consistent with other measures for minimising the taxation of business inputs -

like wholesale sales tax exemptions for manufacturers - which are especially important for firms operating in the competitive traded goods sector.

## **Inquiry Submission**

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You have already received submissions from the Queensland Mining Council and the NSW Minerals Council on state-specific issues bearing upon the competitiveness of the coal industry.

The main reason for the apparent rise in recent years of budget expenditure attributed to the rebate scheme is the very large increases in excise over the past decade. Without the rebate, the cost of diesel to Australian mines would be more than double that in the USA, Canada and Indonesia. With the rebate Australian mines pay 3-4¢ per litre more than in those competitor countries.

In its 1994 inquiry into petroleum products, the Industry Commission demonstrated that abolition of the rebate scheme would cause a net reduction in Australian GDP - the addition to government revenue would be outweighed by the welfare costs to the economy as a whole. The Commission recommended that the scheme be preserved and that the rate of rebate be increased to 100% to be consistent with the full rebate applying to agriculture.

ACA is looking to the Commission in this inquiry for confirmation of the case for relief for mining activities from diesel excise. Further, we ask that you support a return to a straight out excise exemption arrangement as applied prior to the introduction of the rebate system in 1982. It is this over-payment/ rebate approach which creates the impression of a subsidy and makes the scheme an easy target come budget review time.

The second national policy matter is that of overseas coal protection. Of the internationally traded mineral commodities, coal is perhaps the most affected by the existence of tariffs, import bans and quotas and domestic production subsidies in European and Asian markets.

It is important that the federal government, through multilateral and bilateral interventions, maintain pressure on our trading partners for the winding back and eventual elimination of these market distorting measures. Unencumbered coal trade can only advantage both Australian suppliers and overseas consumers, especially those developing countries which will rely heavily on low cost energy to fulfil their significant growth aspirations.

Thank you for the opportunity to contribute to this important inquiry. Please do not hesitate to contact me if you need clarification or elaboration of any aspect of our submission.

Your sincerely

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Michael Pinnock

CBK:sm