



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/52**

## **SUBSIDIES – PETROLEUM PRODUCTS**

Prepared for the Commission's 2003 Conferences on Draft Assessments

**AUGUST 2003**

## **NOTE**

**Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.**

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## INTRODUCTION

1. This paper presents a draft assessment for the Subsidies – Petroleum Products category for the 2004 Review. This was considered a no change category. It was not covered in any discussion paper issues during 2002.

### *Background*

2. Until 1997, the States imposed business franchise fees on petroleum. The High Court threw doubt on the constitutional validity of these taxes and they were abolished. To protect State revenues, the Commonwealth imposed surcharges on its taxes on these products and returned the additional revenue to the States as revenue replacement payments.

3. To ensure that the tax burden remained unchanged as a result of the new arrangements, States funded subsidies out of their revenues. Those subsidies replicated the concessional treatment applied to some activities under the business franchise fee system. The subsidy rates differ between the States.

4. Changes to Commonwealth-State financial arrangements (introduced with the GST) meant the business franchise fee replacement grants from the Commonwealth ceased. States, however, continue to provide most of the previously provided subsidies. Subsidy rates differ between the States.

5. This category was introduced in the 2000 Update to take into account State needs relating to the payment of subsidies on petroleum products after revenue replacement payments for petroleum products ceased on 1 July 2000. It is relevant to the relativities for use in distributing the GST and Health Care Grants pool only.

6. Prior to the introduction of the GST (and since then for the relativities for use in distributing the notional Financial Assistance Grant and Health Care Grant pool) a separate assessment was not necessary because the subsidies were offset against the revenue replacement payments.

## THE 2003 UPDATE ASSESSMENT

7. This category comprised subsidies for on-road use of diesel and petroleum provided to petroleum wholesalers and retailers by the States. Under the new tax reform arrangements, responsibility for subsidies for off-road use of diesel fuel was transferred from the States to the Commonwealth.

8. An equal per capita (EPC) assessment was made for all States because differences between States in their policies relating to subsidy schemes were the dominant cause of differences in per capita expenses.

9. Table 1 shows the gross standard expenses for the years 1996-97 to 2001-02. In 2001-02, this category represented 0.54 per cent of total gross standard expenses.

**Table 1** GROSS STANDARD EXPENSES — SUBSIDIES — PETROLEUM PRODUCTS, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
\$pc	28.73	23.99	27.38	27.84	26.99	27.81
% of total gross standard expenses	0.76	0.61	0.59	0.59	0.54	0.54

## 2004 REVIEW PROPOSED CATEGORY DEFINITION AND STRUCTURE

### *State views*

10. Queensland said that some State governments provided higher petrol subsidies to regional or rural areas compared to their urban counterparts. This was largely to compensate for imperfect competition.

11. Tasmania argued that the EPC approach did not take into account the differences in the consumption of fuel per capita in each State. Tasmania noted that State policy decisions directly affected the level of subsidy per litre, but that the level of subsidy was not sufficiently different to have a significant impact on the level of consumption of petroleum products.

12. Tasmania suggested that the assessment method would be improved with an adjustment that reflected the interstate differences in consumption of petroleum products per head of population. The easiest measure would be to use the ratio of each State's consumption of petroleum products to the national average. If a State's consumption was above the national average, the State would incur above average subsidy costs (assuming a uniform policy of the average rate of subsidy per litre applied).

### *Analysis*

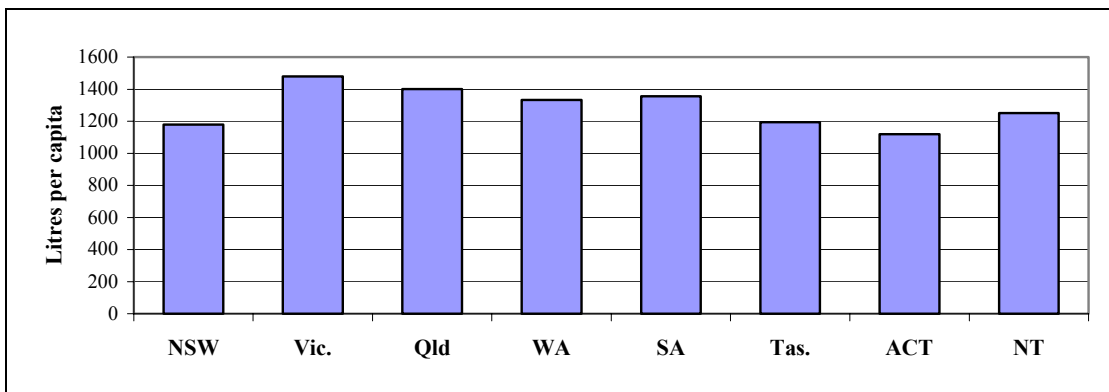
13. **Regional differences.** Staff examined the State policies on subsidies paid and found that:

- (i) New South Wales paid higher subsidies in five northern zones, which are close to the Queensland border. It did this to allow sellers of petroleum products to compete with sellers in Queensland who receive a greater subsidy;
- (ii) South Australia had different subsidy rates across three zones. The zones reflect zonal tax arrangements that applied prior to the cessation of the petroleum franchise fees; and
- (iii) no other State provided different subsidy levels across regions in the State.

14. Overall, we conclude that the standard policy is for States to have one subsidy rate for the entire State.

15. ***Differing petroleum consumption.*** Figure 1 and Table 2 provide ABS data on total fuel consumption per capita.

**Figure 1** FUEL CONSUMPTION BY STATE – LITRES PER CAPITA, OCTOBER 2000 TO OCTOBER 2001



**Table 2** TOTAL FUEL CONSUMPTION, BY TYPE OF FUEL, 12 MONTHS ENDED 31 OCTOBER 2001

State/Territory of Registration	Leaded Petrol (millions of litres)	Unleaded Petrol (millions of litres)	Total Petrol (millions of litres)	Diesel (millions of litres)	LPG/CNG/dual fuel (millions of litres)	Total fuel types (millions of litres)	Litres per capita
New South Wales	565	4 942	5 506	1 918	409	7 833	1 179.5
Victoria	549	4 110	4 659	1 653	870	7 182	1 479.3
Queensland	573	2 781	3 354	1 661	126	5 141	1 400.6
Western Australia	299	1 335	1 635	868	56	2 559	1 334.1
South Australia	245	1 039	1 284	518	256	2 058	1 355.2
Tasmania	102	296	398	159	7	565	1 194.1
ACT	30	260	290	45	26	361	1 118.8
Northern Territory	10	105	114	129	7	250	1 250.4
Australia	2 373	14 867	17 240	6 951	1 757	25 948	1 323.9

Source: ABS 9210.055.001 Survey of Motor Vehicle Use Australia – Data Cube – 2001.

16. Figure 1 and Table 2 indicate that there are differences in the per capita level of fuel consumption between the States. However, it is difficult to know why. It does not appear to be related to population dispersion. For example, Victoria has the highest level of total per capita fuel consumption.

17. There are many likely influences on petrol consumption such as price and availability of petroleum, average number of vehicles per capita, the quality of the road networks, price and availability of alternative transport, urban sprawl and the placement of facilities and services. It would be difficult to disentangle the effects of the various causes and to then determine whether they are policy influenced.

### *Commission decisions*

18. The level of subsidy does vary across regions in some States. However, the standard policy is to provide the same level of subsidy across the whole of each State. The Commission is not convinced that the differences from the standard policy reflect the effects of disabilities. Therefore it is not convinced that a conceptual case exists for making allowances for different rates of subsidy in different regions in the States. It has decided not to make such allowances.

19. Per capita consumption of petroleum products does vary across States. Those variations arise for many reasons stemming from policy and non-policy influences. There may be a conceptual case that allowances should be made for the variation that stems from non-policy causes. However, the Commission does not know whether the non-policy influences would be material. It is not possible to identify them or measure their effects

with an any level of confidence. The Commission therefore does not propose to make an allowance for interstate differences in per capita consumption of petroleum products.

20. The Commission has decided to retain the EPC assessment.

### SUMMARY OF RESULTS

21. Table 3 compares the category factors for the 2003 Update and the 2004 Review draft assessments. Because an EPC assessment has been adopted these category factors are 1.0 for all States.

**Table 3** CATEGORY FACTORS, 2003 UPDATE AND 2004 REVIEW DRAFT ASSESSMENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Draft Assessment - 2004 Review	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

22. Table 4 shows the standardised expenses for this category for 2001-02 in the draft assessment compared with those assessed in the 2003 Update. The changes in standardised expenses between the 2003 Update and the 2004 Review draft assessment reflect variations in the data included in the equalisation budget on the level of expenditure incurred in some States.

**Table 4** ESTIMATED, STANDARD AND STANDARDISED EXPENSES, 2001-02 SUBSIDIES PETROLEUM PRODUCTS

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2003 Update Actual Expenses</b>									
\$ per capita	27.81	5.65	6.65	119.67	2.17	10.65	26.54	0.00	15.74
<b>2003 Update – Standardised Expenses</b>									
\$ per capita		27.81	27.81	27.81	27.81	27.81	27.81	27.81	27.81
<b>2004 Review Actual Expenses</b>									
\$ per capita	26.6	5.8	7.2	114.3	1.5	9.5	17.8	0.0	14.2
<b>2004 Review Draft Assessment - Standardised Expenses</b>									
\$ per capita		26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6

23. Figure 2 shows the estimated gross expenses per capita in each State for 2001-02, together with each State's standardised expenses and the gross standard expenses.

24. Because an EPC assessment was applied in both the 2003 Update and the 2004 Review draft assessments, this category has not caused any change in the relativities. The EPC assessment method means that this category made no contribution to the differences between the EPC distribution of the GST revenue and the equalisation distribution implied by the application of Commission relativities.

**Figure 2** SUBSIDIES – PETROLEUM PRODUCTS – GROSS EXPENSES PER CAPITA – ACTUAL AND STANDARD, 2001-2002

