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PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

EXCISE TARIFF AMENDMENT BILL 1988

EXPLANATORY MEMORANDUM

(Circulated by Authority of the Minister for Industry,
Technology and Commerce, Senator the Honourable John N. Button)

EXCISE TARIFF AMENDMENT BILL 1988

OUTLINE

The main purpose of this Bill is to amend the Excise Tariff Act 1921 ("the Act") to incorporate into the Act previously notified excise tariff alterations which:

- (a) alter the excise duty on naturally occurring liquefied petroleum gas (LPG) with effect from 1 October 1987 in accordance with the Government's long-standing policy of calculating the excise duty on the basis of 60% of the amount by which the realised price for the gas (calculated as a weighted average of the prices received from exports and local sales of LPG) exceeds \$147 per tonne (clause 3);
- (b) alter the excise duty on refined petroleum products following movements in the import parity price on stabilised crude oil in October 1987 and December 1987, in accordance with Government policy (clauses 4 and 5);
- (c) increase the amount of excise duty on aviation gasoline with effect from 1 January 1988, to cover the cost of Terminal Navigation and Rescue & Firefighting services at Essendon, Coolangatta and Launceston airports (clause 6); and
- (d) limit the total excise indexation increases for August 1987 and February 1988 to 6 per cent, fulfilling the Prime Minister's commitment of 13 March 1987 in this regard (clause 7).

Financial Impact Statement

(a) Liquefied Petroleum Gas:

The 1 October 1987 increase in the excise rate for naturally occurring LPG is estimated to result in an increase of \$9.5 million in excise receipts in 1987-88;

(b) Import Parity Price:

The alterations in refined petroleum product excise rates due to the changes in the Import Parity Prices effective from 17 October 1987 and 14 December 1987 are expected to have the following impact on revenue in 1987-88;

- the increase in refined petroleum product excise rates effective 17 October 1987 is expected to increase revenue by about \$121 million,
- the decrease in refined petroleum product excise rates effective 14 December 1987 is expected to decrease revenue by about \$66 million.

These changes in the excise rates following the above changes to Import Parity Prices are intended to exactly offset the forecast changes in revenue from crude oil excise and royalties.

(c) Aviation gasoline surcharge

The measure has no direct financial implications, as it has been designed only to recover the revenue which will be by forgone the Commonwealth as a result of the removal of the Terminal Navigation and Rescue & Firefighting components of the landing charges levied at Essendon, Coolangatta and Launceston airports; aircraft using aviation gasoline ceased to be charged for these services from 1 January 1988, the date of effect of the surcharge;

(d) Limitation of total excise indexation to 6 per cent

The financial impact of imposing a 6% ceiling on excise duty rate increases for 1987/88 is estimated to result in revenue forgone of \$25 million for that financial year.

Notes on Clauses

Short title etc.

Clause 1 provides for the citation of the Act, and identifies the Excise Tariff Act 1921 as the Principal Act for the purposes of this Act.

Commencement

Clause 2 provides for the Act to commence on the day on which it receives the Royal Assent, with the exception of:

- a. clause 3, which is deemed to have commenced on 1 October 1987, and which alters the excise duty on naturally occurring liquefied petroleum gas (LPG) from that date;
- b. clauses 4 and 5, which are deemed to have commenced on 17 October 1987 and 14 December 1987 respectively, and which follow movements in the import parity price for stabilised crude oil on the first day of those months;
- c. clause 6, which is deemed to have commenced on 1 January 1988, and which increases the amount of excise duty on aviation gasoline;
- d. clause 7, which is deemed to have commenced on 3 February 1988, and which limits the total excise indexation increases for August 1987 and February 1988 to 6 per cent;

Amendment of Schedule having effect from 1 October 1987

Clause 3 alters the excise duty on naturally occurring liquefied petroleum gas (LPG) with effect from 1 October 1987 in accordance with the Government's long-standing policy of calculating the excise duty on the basis of 60% of the amount by which the realised price (ie. calculated as a weighted average of the prices received from exports and local sales of LPG during the immediately preceding 6 months) exceeds \$147 per tonne.

- . the effect of the amendment is to increase the excise rate on LPG from \$5.02 per kilolitre to \$13.21 per kilolitre, reflecting higher export prices for LPG in the relevant 6 month period;
- . since the excise only applies to offshore fields, the only field affected is Bass Strait;
- . no excise is payable on refinery-produced LPG;

Amendments of Schedule having effect from 17 October 1987 and 14 December 1987

- Clauses 4 and 5 amend the excise duties on certain refined petroleum products as a consequence of changes in the import parity price of crude oil on 17 October 1987 and 14 December 1987 respectively;
- clause 4 increases the excise duty following downward movements in world oil prices;
- clause 5 decreases the excise duty to reflect higher world oil prices;
- . with the deregulation of crude oil marketing from 1 January 1988, and the resulting absence of the import parity pricing mechanism from that date, the Government has decided to discontinue the practice of offsetting changes in crude oil revenue by changes in product excise rates. As a result, it is expected this will be the final occasion on which the Import Parity Price of crude oil will be taken into account in its present manner in setting the excise rates on refined petroleum products;

Amendment of Schedule having effect from 1 January 1988

- Clause 6 increases the amount of excise duty on aviation gasoline by 0.5 cents per litre, with effect from 1 January 1988, to cover the cost of Terminal Navigation and Rescue & Firefighting services at Essendon, Coolangatta and Launceston airports;
- . aircraft using aviation gasoline ceased to be charged for those services at those airports with effect from that date;
 - .. the excise duty does not include the Airport Facility component of Landing Charges. That component continues to be levied by the Federal Airports Corporation at all primary airports, which includes these three.

Amendment of Schedule having effect from 3 February 1988

- Clause 7 limits the total excise indexation increases for August 1987 and February 1988 to 6 per cent;
- . this fulfils the Prime Minister's commitment of 13 March 1987 in this regard, made during the Ruby Hutchison Memorial Address at the National Press Club on 13 March 1987;

- . the amendments effectively decrease the rates of duty applying immediately prior to the February 1988 indexation adjustment, so that when the legislative provision for the automatic indexation of excise rates is applied (Section 6A of the Act, which alters rates by the published consumer price index (CPI)), the resultant indexation increase is 2.5 percent. This increase, when combined with the August 1987 indexation adjustment (3.5 percent), yields the desired total indexation adjustment for 1987/88 of 6 percent.

