The Canberra Times
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Call to screw the cap on $11 billion diesel subsidy

By Jennifer Dudley-Nicholson | August 20 2025

The top 15 companies using the tax credit scheme burned nearly six billion litres of fuel last year.

Australia is being urged to put a $50 million cap on industry subsidies for diesel fuel, and turn the scheme into a "transition tax incentive" to encourage renewable energy investments.

Climate Energy Finance issued the recommendations in an analysis of Australia's Fuel Tax Credit Scheme on Wednesday.

It says the scheme costs taxpayers $11 billion a year while discouraging firms from investing in environmentally friendly projects.

The reforms, which would mostly affect large mining companies, have been endorsed by Fortescue Metals.

Fortescue says many miners want to shift to renewables but the current system subsidises diesel.

The Climate Energy Finance report into the Fuel Tax Credit Scheme found the policy had cost $122.7 billion since its introduction in 2007, and would cost $184.3 billion by 2030.

The scheme gives tax credits to businesses for their use of diesel fuel in vehicles, machinery, plants and equipment on private land, and is claimed in industries including mining, transport, farming, forestry and fishing.

The program incentivised fossil fuel use and stifled efforts to invest in clean technology such as electric vehicles and green fuels that could cut emissions, Climate Energy Finance director Tim Buckley said.

"This is a massive subsidy that is a headwind to decarbonisation in Australia," he told AAP.

"It's the 16th biggest item in the Australian budget."

The report recommends capping annual fuel tax credits at $50 million per corporate group, and allowing businesses to claim rebates beyond the cap only if they reinvest the funds in decarbonisation projects.

The Fuel Tax Credit Scheme is the 16th biggest item in Australia's budget, Tim Buckley says.

Additional money recouped from the scheme could be kept in a "diesel decarbonisation fund", the report said, to support changes in small-scale mining operations.

Agricultural and small-to-medium enterprises would be unaffected by the reforms as they would not meet the $50 million cap, Mr Buckley said.

The change could see $2.2 billion invested in green projects based on last year's figures, without requiring further spending from the government, lead author Matt Pollard said.

"Our proposal aligns directly with Treasurer (Jim) Chalmers' productivity roundtable priorities," he said.

"Electrifying mining operations and replacing imported diesel with domestic renewable energy will make Australia's economy more efficient, resilient and competitive, while future-proofing our export industries."

The reforms would not affect agricultural and smaller firms as they don't meet the $50 million cap.

The proposed changes would make more decarbonisation projects financially viable for heavy industry, Fortescue Metals chief executive Dino Otranto said.

"Many miners want to make the shift but the reality is the current system subsidises burning diesel," he said.

"If we're serious about reducing emissions and building industries like green iron, we need incentives that reward cleaner, smarter choices."

Green iron has been tipped as a major export opportunity for Australia, with The Superpower Institute estimating it could generate as much as $386 billion a year by 2060.

But its production would require green hydrogen, which has been slower to develop than anticipated due to high costs, with two major Australian proposals cancelled in July.

The report found the top 15 companies using the Fuel Tax Credit collected $2.9 billion in subsidies in the last financial year, and burned nearly six billion litres of fuel.

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