CLIMATE ENERGY FINANCE

DIESEL FOSSIL FUEL SUBSIDY MUST BE SLASHED TO DECARBONISE MINING, BOOST PRODUCTIVITY; FORTESCUE BACKS REFORM

A new report by independent public interest think tank Climate Energy Finance (CEF) finds that Australia's largest taxpayer-funded fossil fuel subsidy – the diesel Fuel Tax Credit (FTC) Scheme – is entrenching dependence on imported high-emissions diesel to power mining operations, undermining climate targets, damaging productivity and draining tens of billions from the federal budget.

CEF argues that the Scheme, mostly benefitting big miners, needs urgent reform – a proposal backed by iron ore giant and FTC recipient Fortescue (see quote from CEO, Fortescue Metals, below, and the Fortescue report which cites its support of our reform proposal, Incentivising Diesel Decarbonisation).

CEF proposes that companies be required to reinvest any fuel tax credits above a $50m annual cap into clean energy diesel alternatives, or forgo these credits (top FTC recipient companies currently claim hundreds of millions of dollars in credits annually).

The current Scheme disincentivises our world-leading mining industry from shifting capital into decarbonisation and electrification here, such as electric mining trucks and renewables infrastructure.

FTC SCHEME FAST FACTS

The FTC Scheme rebates the full federal fuel tax of 51.6 cents per litre on imported diesel used off-road in industry. The fuel tax does not fund roads – it is industry assistance – so the argument of some mining operators that they should not be liable for the tax because they do not use public roads is not credible.

The Scheme currently costs $11 billion a year, projected to climb to $13 billion by decade's end. Mining giants – including iron ore producers and foreign-owned coal majors – are the main FTC beneficiaries, receiving $57.5bn since the Scheme's inception in 2007. This will exceed $84bn by 2030. Overall, the Scheme has cost taxpayers a massive $122.7 billion – rising to $184.3 billion by 2030.

In FY24 alone, the top 15 diesel users – including iron ore majors Fortescue, BHP, Rio Tinto, and Hancock Prospecting and foreign-owned coal miners Glencore, Peabody Energy, Yancoal, Mitsubishi, Whitehaven and Anglo American – collected $2.9 billion in FTC subsidies.

The top 15 burned nearly 6 billion litres of fuel in FY24, and emitted 16.2 million tonnes of CO2 equivalent. The Scheme has subsidised over 815 million tonnes of CO2 since inception, nearly twice Australia's current annual emissions.

The FTC carbon subsidy (~$190/tonne of CO2) is 5x the carbon penalty under the government's flagship emissions reductions policy, the Safeguard Mechanism (av. $30–40/t), driving continued diesel use.

THE REFORM NEEDED

CEF's new report, *Transition Tax Incentive: Reforming Fuel Tax Credits into a Decarbonisation Tailwind*, recommends a revenue-neutral reform which would leave farmers, road transport operators, small and medium businesses, and sole traders entirely unaffected:

- Cap FTC claims at $50 million per corporate group annually.
- Allow claims above the cap only if reinvested in electrification and decarbonisation projects such as electric haulage trucks and renewable energy infrastructure.
- Direct tax revenues recouped from this reform into a Diesel Decarbonisation Fund to support decarbonisation of smaller-scale mining operators whose claims are below the proposed cap.

CEF's proposed Transition Tax Incentive would have mobilised $2.2 billion for clean capital investment in FY24 alone, and $13.6 billion to 2030 – without impacting the budget.

PRODUCTIVITY GAINS

The reform would boost national productivity by replacing inefficient, combustion-based diesel systems with capital-intensive, electrified infrastructure. It would deepen capital investment in future-facing industries, accelerate renewable energy deployment, and position Australia to lead in high-value green exports such as green iron, while strengthening budget sustainability and economic resilience. *See page 10-11 of the report for further details on how this reform aligns with the government's productivity objectives.*

CEF FOUNDER AND DIRECTOR TIM BUCKLEY SAID:

> "The FTC Scheme is a relic of unsustainable, regressive policy that directly undermines Australia's fiscal and climate goals and acts as a massive headwind to mining sector decarbonisation. Reforming the FTC into a decarbonisation incentive would not only cut emissions, it would drive the greening of the Australian mining industry – including underpinning capacity building of our workforce and even domestic battery manufacturing capacities – boosting productivity, bolstering energy security, and aligning taxpayer spending with Australia's climate, budget and economic resilience objectives."

REPORT LEAD AUTHOR, MATT POLLARD, CEF NET ZERO TRANSFORMATION ANALYST SAID:

> "Our proposal aligns directly with Treasurer Chalmers' Productivity Roundtable priorities. 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 against shifting global markets increasingly penalising high-carbon products."

FORTESCUE METALS AND OPERATIONS CEO, DINO OTRANTO, SAID:

> "We back the work Climate Energy Finance is doing to shine a light on how Australia can cut diesel use and get serious about decarbonising heavy industry. Many miners want to make the shift, but the reality is the current system subsidises burning diesel. The Fuel Tax Credit, in its current form, encourages fossil fuel use – so it's no surprise companies keep burning it.

"Right now, there's a significant gap between the cost of putting carbon into the atmosphere and the reward companies get for using diesel. Under the Safeguard Mechanism, an ACCU costs around $37 a tonne, but the diesel rebate is worth the equivalent of about $191 a tonne. That's a five-times incentive to keep burning diesel.

"If we're serious about reducing emissions and building industries like green iron, we need incentives that reward cleaner, smarter choices. There are plenty of ways to fix this – the key is getting on with it."

CHARLIE CARUSO, GENERAL MANAGER (WA), SMART ENERGY COUNCIL, AND NATIONAL BUSINESS DEVELOPMENT MANAGER AT ZERO CARBON HYDROGEN AUSTRALIA SAID:

"This reform transforms a costly handbrake on progress into a powerful engine for Australia's clean energy future. Redirecting billions in diesel tax credits into mine electrification and renewable infrastructure will cut emissions, lift productivity, and secure our position as a global leader in low-carbon exports—without costing taxpayers a cent or undermining the fiduciary duties of our heaviest diesel users."

JOHN GRIMES, CEO, SMART ENERGY COUNCIL, SAID:

"Continued government handouts subsidising the use of fossil fuels to power Australia's resources industry is wasteful, counterproductive policy that slows progress on climate goals and stifles innovation. It makes absolutely no economic sense to be disincentivising the mining sector from shifting to efficient clean energy technology. For Australia to honour its international climate commitments, accelerate the transition to zero-emissions energy, and attract investment in clean, renewable industries, it must reform incentives that make the choice to pollute more attractive than clean alternatives."

"CEF's proposal would transform the FTC Scheme so that tax credits are reinvested into clean energy operations on mine sites, such as electric haulage trucks and renewables infrastructure. This is exactly the kind of policy impetus we need to see if Australia is to grasp its generational opportunity to reposition as a renewables-powered green resources leader.

MEDIA ENQUIRIES

Tim Buckley is available for interview via Annemarie on 0428 278 880 annemarie@climateenergyfinance.org or direct on 0408 102 127 tim@climateenergyfinance.org (Sydney AEST)

Report lead author Matt Pollard is available for print and online on 0402 556 221 and matt@climateenergyfinance.org (Brisbane AEST)