The Hon Dr Jim Chalmers MP
Treasurer of Australia
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CC: The Hon Anthony Albanese, Prime Minister of Australia: A.Albanese.MP@aph.gov.au
The Hon Katy Gallagher, Minister for Finance: senator.katy.gallagher@aph.gov.au
The Hon Chris Bowen, Minister for Climate Change and Energy: Chris.Bowen.MP@aph.gov.au

14 November 2026

Subject: Reforming diesel fuel tax credits for the coal and gas industries

Dear Treasurer,

Environmental Advocacy in Central Queensland (**EnvA**) is writing to encourage the Australian Government to review the Fuel Tax Credit Scheme, with a view to progressively removing or substantially reducing fuel tax credits available to coal mining and oil and gas extraction projects.

At a time when the Government is facing considerable budgetary pressures and considering ways to reduce expenditure, we believe there is a strong economic, environmental, fuel security and fiscal case for reconsidering the level of public financial support provided to fossil fuel industries through diesel fuel tax credits.

A significant cost to the public purse

The scale of fuel tax credits claimed by the mining industry is substantial. According to the Parliamentary Budget Office (PBO), mining accounted for approximately $4.5 billion, or 47%, of all fuel tax credit claims in 2023–24, making it the largest industry recipient of these credits.

The PBO's June 2026 analysis, *Reduce the rate of fuel tax credits*, also demonstrates the considerable budgetary implications of reform. It estimates that a 25% reduction in fuel tax credit rates across all eligible industries would improve the underlying cash balance by approximately $7.7 billion over the forward estimates and $30.6 billion over the medium term.

While this modelling applies to the broader Fuel Tax Credit Scheme rather than specifically to coal and gas projects, it demonstrates the potential fiscal benefits of reform. We encourage the Government to commission specific modelling of the savings that could be generated by progressively removing or reducing fuel tax credits for the coal, oil and gas industries.

Removing incentives to remain dependent on diesel

There is also a compelling environmental and economic rationale for reform.

Coal mines and gas operations are significant consumers of diesel, using it to power heavy machinery, haul trucks, generators, pumps and other equipment. This consumption contributes to operational greenhouse gas emissions additional to the significant fugitive emissions and emissions resulting from the burning of coal and gas.

The mining and gas industries need to accelerate their transition towards electric machinery, renewable energy and other lower-emissions technologies. Battery-electric haul trucks, electric

mine equipment, renewable-powered operations and improved energy efficiency all have a role to play. The existing tax credit arrangements reduce the cost of diesel consumption for these industries, potentially weakening the financial incentive to invest in alternative technologies and electrify operations.

Removing or reducing fuel tax credits would help change the economic signals facing the coal and gas sector. Rather than continuing to provide financial support that reduces the cost of diesel consumption, government policy should encourage investment in cleaner technologies and more efficient operations.

We acknowledge that electrification of some large mining equipment presents technological, infrastructure and capital investment challenges. However, maintaining financial incentives for diesel consumption does little to accelerate the development and deployment of alternatives. A clearly signalled, phased reduction would give industry time to plan and invest while establishing a stronger incentive to transition.

Fuel security and protecting essential industries

The recent disruption to international fuel supplies resulting from the war in the Middle East has highlighted Australia's vulnerability to events beyond our control and the importance of reducing our dependence on imported petroleum products.

Earlier in 2026, Australia experienced significant fuel supply pressures, with regional distributors rationing deliveries and some businesses struggling to secure adequate diesel supplies. Farmers faced uncertainty about whether they would have sufficient fuel to undertake essential planting operations, while some smaller mining operations were also affected by rationing.

These events demonstrated how quickly international conflict and disruptions to global supply chains can affect Australian businesses and communities. Although national fuel stocks have subsequently recovered to healthier levels, the underlying vulnerability remains. Diesel prices in early November 2026 were still approximately $1 per litre above pre-conflict levels.

Diesel is particularly important to sectors such as agriculture, road freight, construction, forestry and essential services. Many of these industries have limited practical alternatives to diesel in the short term, particularly in regional and remote Australia.

It is therefore worth considering whether Australia's limited and potentially vulnerable diesel supplies should continue to be used to power activities that could increasingly be electrified.

Coal mining and gas operations are major industrial users of diesel. Accelerating the electrification of their operations would progressively reduce overall diesel demand, reduce Australia's exposure to international supply disruptions and help ease competition for available fuel during periods of shortage.

Importantly, this could help protect the availability of diesel for industries and services that are more difficult to electrify and are essential to Australia's food production, transport networks and regional economies.

This is not simply an argument for reducing fuel consumption. It is about making better use of Australia's energy resources, reducing unnecessary dependence on imported fuels and improving the resilience of our economy to future geopolitical and supply chain disruptions.

Redirecting public resources towards the energy transition

Reforming fuel tax credits would provide the Government with an opportunity to redirect public resources towards areas that deliver longer-term economic, energy security, social and environmental benefits.

The direction being articulated by Australia's Minister for Climate Change and Energy, Chris Bowen, at COP31 provides a particularly relevant context for this reform.

In his opening plenary address on 10 November, Minister Bowen highlighted the importance of accelerating electrification, powered by clean and resilient energy systems. He identified a global ambition to increase electricity's share of final energy consumption to 35% by 2035, arguing that electrification would strengthen energy security, reduce emissions and help protect households and businesses from volatile energy prices and supply disruptions.

In his address to the COP31 Leaders Plenary on 12 November, Minister Bowen further emphasised the need to improve energy sovereignty, reliability and security through more diverse forms of energy that are less reliant on fragile supply chains. His call to "electrify what can be electrified" recognises that reducing dependence on fossil fuels is not simply an emissions reduction strategy, but an important component of economic and national security.

We believe these principles should also be reflected in Australia's domestic taxation and spending policies.

The recent disruption to international fuel supplies has demonstrated the risks of continued dependence on imported petroleum products. Accelerating the electrification of industrial operations, including coal mines and gas projects, would reduce diesel consumption, lessen exposure to international fuel price shocks and help preserve fuel supplies for sectors such as agriculture, freight and construction that have fewer immediate alternatives.

At the same time, reducing financial incentives for diesel consumption would provide a stronger economic signal for businesses to invest in electrification, renewable energy and energy storage.

There is an opportunity to translate the direction being promoted by Australia at COP31 into practical domestic policy. Rather than continuing to financially support diesel-dependent operations, government policy should encourage businesses to adopt the technologies needed to deliver a more secure, efficient and lower-emissions economy.

Savings from fuel tax credit reform could help maintain and expand investment in:

- Renewable energy generation, battery storage and electricity transmission infrastructure.
- Electrification of industrial operations, including mining, gas extraction and mineral processing.
- Electric vehicles, charging infrastructure and cleaner public transport.
- Research, development and commercial deployment of zero-emissions industrial equipment.
- Regional workforce development and economic diversification as Australia transitions away from fossil fuel dependence.

At a time when governments are considering ways to slow or reduce expenditure on clean energy and transport incentives, it seems reasonable to first examine whether public funds are being directed towards activities that are inconsistent with Australia's longer-term economic, energy security and emissions objectives.

There is little logic in reducing incentives for households and businesses to adopt cleaner technologies while continuing to provide substantial financial support that makes fossil fuel consumption cheaper for some of Australia's largest industrial users.

Reforming fuel tax credits would therefore provide a practical opportunity to align Australia's taxation settings with the energy transition objectives being promoted internationally, while

generating additional government revenue and reducing Australia's vulnerability to future fuel supply disruptions.

Our recommendations

EnvA recommends that the Australian Government:

1. Progressively phase out fuel tax credits for diesel used in coal mining, oil and gas exploration, extraction and processing operations.
2. If immediate removal is not considered feasible, introduce a substantial staged reduction in the credit rate, with a clearly defined timetable for its eventual removal.
3. Commission the Parliamentary Budget Office to quantify the potential budget savings from targeted reform of fuel tax credits for the coal, oil and gas industries, including the likely implications for fuel consumption, business investment and Australia's fuel security.
4. Establish complementary measures to encourage and support the electrification of mining and gas operations, particularly in regional areas where renewable energy resources and storage could provide opportunities for more efficient and lower-emissions operations.
5. Direct a proportion of the resulting budget savings towards clean energy, transport electrification, industrial decarbonisation and regional economic diversification.
6. Consider the contribution that reducing diesel consumption in large industrial operations could make to protecting fuel availability for essential industries, particularly agriculture, transport and regional communities during future supply disruptions.

We recognise the importance of Australia's resources sector to regional employment and the national economy. However, this should not mean that government policy must continue to provide financial incentives that favour diesel consumption and reinforce dependence on fossil fuel infrastructure.

The recent fuel supply disruptions have provided an important reminder that energy security is not simply about maintaining sufficient fuel stocks or finding alternative overseas suppliers. It is also about reducing our dependence on imported fuels wherever practical alternatives exist.

The transition to a lower-emissions economy requires consistent policy signals. Public financial support should be directed towards technologies and industries that will contribute to Australia's future economic resilience, rather than perpetuating reliance on high-emissions energy sources.

We encourage you to give this proposal consideration as part of the Government's ongoing budget and taxation reform agenda.

Yours sincerely,



Dr Coral Rowston
Director
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