Fortescue™

DIESEL FUEL TAX CREDIT REFORM

April 2026

EXECUTIVE SUMMARY

The mining industry is a major contributor to the Australian economy, but it also uses a growing share of Australia's imported diesel and produces significant greenhouse gas emissions.

Recent global events – including the 2026 conflict in the Middle East, following COVID-19 and the war in Ukraine – have shown how vulnerable Australia is to supply disruptions due to its heavy reliance on imported fuel. Reducing this dependence is critical not just for the environment, but for our economic resilience and national security.

In a world challenged by an overreliance on imported fuels, it makes little sense for the Australian Government to continue subsidising the mining industry to use imported diesel. Yet in this year's Federal Budget, $10.8 billion has been allocated to Fuel Tax Credits (FTCs), with $4.6 billion going to the mining industry alone.

FTCs were the 16th largest single expense in the 2025/26 budget – larger than both Army and Air Force capabilities.

The FTC scheme also weakens government policies aimed at reducing emissions, including the Safeguard Mechanism, making it harder for Australian Government to meet its emission reduction targets.

In short, current policy settings are costly and continue to favour the use of imported diesel over reducing dependence on it.

While more than 180,000 businesses receive FTCs – including small transport operators, fishers and farmers – the largest cash refunds go to a small number of major mining companies, with individual payments worth hundreds of millions of dollars each year.

To strengthen Australia's energy security and support one of its most valuable export industries, the biggest diesel users should be encouraged to invest in locally produced energy and new technologies to reduce diesel use.

There are several ways to fix this. Fortescue recommends capping the fuel tax handout. This model will protect small businesses while discouraging very large mining companies from continuing to burn more diesel.

INTRODUCTION

IN 2023/24, THE MINING SECTOR CONSUMED 9.6 BILLION LITRES OF DIESEL – OR 35% OF ALL DIESEL USED IN AUSTRALIA – AN INCREASE OF 90% SINCE 2010/11.[1]

Nationally, emissions from fuel use in mining have also doubled over that period, reaching 21.8 million tonnes in 2022/23. Coal mining accounted for 48% of these emissions, while iron ore contributed 26%.[2]

In Western Australia, rising diesel use is a key factor behind increasing emissions. By 2023/24, the State's emissions were 17% higher than 2005 levels, compared to a 26% decline nationally over the same period.[3]

In the Pilbara, iron ore operations alone were using around 2.5 billion litres of diesel a year in 2023/24 – roughly a quarter of all diesel consumed by the mining sector – generating close to 7 million tonnes of CO_2 emissions annually.[4]

Australia's dependence on imported diesel

As at 2025 Australia imports around 30 billion litres of diesel per year – more than three times the level in 2010/11.[5] Over the same period, domestic refinery production of diesel has sharply declined, almost halving to 4.6 billion litres following the closure of 10 of Australia's 12 refineries, largely due to competition from large-scale refineries in Asia.[6]

Australia also holds relatively low fuel reserves, with around 32 days of diesel stock[7] – well below the International Energy Agency's recommended 90 day stockholding benchmark.[8]

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[1] Cutting Australian mining's diesel emissions, page 2
[2] As above
[3] State and Territory greenhouse gas inventories: 2023 emissions - DCCEEW
[4] CEF_Transition Tax Incentive Report FINAL_20August2025
[5] Australian Petroleum Statistics 2025 | energy.gov.au
[6] atse-decarbonising-diesel-industries-report-250827-final.pdf, page 11
[7] Minimum Stockholding Obligation - DCCEEW
[8] Oil Stocks of IEA Countries – Data Tools - IEA

This leaves the nation, including the mining sector, exposed to supply disruptions and price volatility during global crises. We saw this in in 2020 during COVID, in 2022 when oil supplies were disrupted following the Russian invasion of Ukraine, and again in 2026 with the Middle East conflict and the closure of the Strait of Hormuz.

In response, some mining companies, including Fortescue, have begun reducing their reliance on diesel. In September 2022, Fortescue announced a US$6.2 billion plan to achieve "Real Zero" Scope 1 and Scope 2 emissions across its terrestrial Pilbara iron ore operations by 2030 – eliminating diesel use at source rather than relying on offsets.

That transition is now well underway. Fortescue has built more than 480km of its planned 620km high-voltage transmission network, with solar, wind and battery projects well progressed. The company has deployed 15 electric excavators and two battery electric locomotives, each saving around 1 million litres of diesel per year. The first 240-tonne battery electric haul trucks will enter service this year, with several hundred to be replaced over time.

Together, these initiatives are expected to replace around 700 million litres of diesel annually – reducing exposure to supply shocks and improving operational resilience. Even before recent price volatility, the economics of this transition were strengthening due to falling technology costs and scale efficiencies. Fortescue expects to avoid US$100m in fossil fuel costs next year through decarbonisation and is targeting operating cost reductions of US$2-4 / wet metric tonne once the decarbonisation program is completed.

However, the scale of investment required remains significant, and Australia's current policy settings do little to support reducing reliance on imported diesel or lowering emissions. The key barrier is the Fuel Tax Credit scheme.

Fuel Tax Act 2006

Under the Fuel Tax Act 2006, certain businesses receive credits on the tax paid for liquid fuels such as diesel and petrol. For off-road users, the credit is currently 52.6 cents per litre (indexed to CPI), while heavy vehicles operating on public roads receive 20.6 cents per litre after deduction of a Road User Charge (RUC).[9] Other businesses and households do not receive these credits. In light of the fuel crisis, fuel taxes were halved from 1 April 2026 for three months, also changing the FTC rates.[10] While it is often argued that FTCs are not a subsidy, major international bodies – including the OECD, IMF, IEA and IISD – classify the scheme as Australia's largest fossil fuel subsidy.[11]

[9] From 1 July 2025 to 30 June 2026 | Australian Taxation Office
[10] Fuel excise halved for three months | Prime Minister of Australia
[11] See for example OECD Data Explorer • Fossil Fuel Support - Detailed Indicators

In the Federal Budget, FTCs are treated as a direct expense rather than a reduction in revenue. In 2025-26, this expense was forecast to reach $10.805 billion, rising to $13.107 billion by 2028-29.[12] Over the same period, total fuel tax revenue was expected to rise from $27.3 billion to $30.3 billion.[13] According to Treasury, this growth is largely driven by increased use of fuels eligible for the credits.

It is widely believed that fuel tax credits are used for road funding. This was once the case, but these days fuel taxes are paid into general revenue and there has been no formal link with road spending since 1992.[14]

The mining industry is the largest beneficiary of FTCs and in 2023/24 received $4.5 billion in refunds.[15] In that year, the 15 largest claimants – all in iron ore and coal mining and mining freight – received almost $3 billion in credits.[16] In the following year, the 18 largest claimants – all in iron ore and coal mining and coal freight – received more than $3 billion in credits.[17]

Some large mining companies, including Fortescue, have committed to reducing or eliminating diesel use. However, the current FTC scheme creates a strong disincentive to invest in alternative energy sources. It encourages continued reliance on diesel, rather than supporting locally produced energy or reducing Australia's dependence on imported fuel.

The FTC scheme discourages investment in local alternatives

Subsidising diesel use in the mining industry encourages its continued use and makes it harder to make the economic case for investing in alternatives. By effectively lowering the cost of diesel, the scheme reduces the financial benefits from decarbonisation projects, making the business case for these projects less attractive.

For example, a large mine using 100 million litres of diesel per year at $1.50 per litre would receive around $50 million annually through the FTC (based on a rebate of roughly 50 cents per litre).

If that same mine invested $1 billion to eliminate diesel use, it would forgo that $50 million in annual rebates – reducing the expected savings and extending the payback period by around 2.5 years, as shown in Figure 1.

[12] Budget Paper No. 1 | Budget 2025–26, page 136
[13] Budget Paper No. 1 | Budget 2025–26, page 103
[14] Parliamentary Budget Office, Fuel Taxation in Australia, page 1
[15] Based on ATO data from 2023/24 as reported in Taxation Statistics 2022-23 - Excise - Table 4 - Data.gov.au
[16] CEF_Transition Tax Incentive Report FINAL_20August2025, page 28
[17] FY2025/CY2025 Estimated Fuel Tax Credits - FY25 Matt Pollard, Climate Energy Finance 16 April 2026 Post LinkedIn

Figure 1

Impact of the DFTC on returns from decarbonisation investment

Payback analysis , *AU$ p.a.*	With FTCs	Without FTCs
Diesel usage p.a.	~100M litres	
Diesel price	$1.0/L	$1.5/L
Diesel savings p.a.	**~$100m**	**~$150m**
Example investment	$1b	
Implied payback (post-tax, real)	**~12.4 yrs**	**~9.9 yrs**
Return on investment (post-tax, real)	**5.5%**	**10.4%**

Removing the FTCs would increase savings resulting from decarbonisation investment by 50 per cent and significantly increase return on investment.

1. Assuming the FTC rate remains constant – in practice, it is expected to increase over time.
2. Rate of return is calculated as an Internal Rate of Return (IRR) in post-tax, real terms calculated on a simplified basis, assuming a $1 billion upfront investment and consistent annual diesel savings each year, with no additional benefits or costs included.

CONFLICT WITH FUTURE MADE IN AUSTRALIA PLAN AND EMISSIONS REDUCTION POLICIES

The FTC scheme undermines key Federal government policies, particularly those aimed at building a domestic low-carbon liquid fuels industry and reducing emissions.

The Future Made in Australia Plan, launched in 2024, set out a vision for Australia to become a renewable energy superpower, adding value to our resources and strengthening economic security. A key part of this plan is developing a domestic low-carbon liquid fuels industry, supported by the 10-year, $1.1 billion Cleaner Fuels Program to boost local production of low carbon liquid fuels such as renewable diesel and sustainable aviation fuel.[18]

However, the FTC scheme makes imported diesel artificially cheaper by refunding 52.6 cents per litre for eligible users, particularly in mining. This makes it harder for locally produced low-carbon fuels to compete. While these fuels can still play a role where emissions or energy security are priorities, the FTC slows their uptake, keeping costs higher for longer, and reinforces Australia's reliance on imported diesel. It is a legacy policy that no longer aligns with today's fuel security and decarbonisation goals.[19]

The FTC scheme also conflicts with Australia's primary policy for reducing industrial emissions – the Safeguard Mechanism. This policy requires large industrial facilities emitting more than 100,000 tonnes of CO_2-e per year to reduce emissions in line with legislated targets known as baselines.

Facilities that exceed their baseline must purchase and surrender Australian Carbon Credit Units (ACCUs), while those that reduce emissions below their baseline can generate Safeguard Mechanism Credits (SMCs), which can be surrendered, traded or banked for future use.

Currently, ACCUs and SMCs are both priced at around $37 per tonne of CO_2-e [9] – equivalent to roughly 10 cents per litre of diesel. In comparison, the FTC provides a benefit of around 50 cents per litre for diesel use.

In effect, the incentive to keep using diesel is around five times stronger than the incentive to reduce emissions under the Safeguard Mechanism.

ACCU/SMC prices would need to be around five times higher to offset the FTC.

Figure 2

Safeguard Mechanism Analysis (Hypothetical Example)

Safeguard Mechanism Analysis, *AU$ p.a.*	Example
Diesel usage	~1.0b litres
FTC rate	$0.526/L
FTC value	**~$526 m**
Carbon emissions from diesel	2.7Mt CO_2-e
Carbon disincentive (FTC value)	**~$194/t CO_2-e**
ACCU price	**$37/t CO_2-e**
Carbon disincentive: ACCU price	*5.2x*

[18] Fueling the future: $1.1 billion to power cleaner Aussie fuel production | Ministers

[19] Refined Ambitions Exploring Australia's Low Carbon Liquid Fuel Potential - Clean Energy Finance Corporation, see especially page 40

CAPPING THE FTC SCHEME

Fortescue believes government policy should be aligned with the goal of reducing both diesel consumption and emissions. Without reform, Australia's reliance on imported fuels – and overall emissions – will continue to rise. At the same time, it is important to recognise that more than 180,000 businesses access FTCs, many of them small and medium-sized businesses. Any reform must avoid unintended impacts on those businesses, particularly given ongoing fuel supply and cost-of-living pressures.

Our preferred approach consistent with the work by Climate Energy Finance is to introduce a $50 million cap on FTCs for consolidated groups. Funding above this level could be converted to a Transition Tax Incentive (TTI), that can only be used for mine electrification and decarbonisation investments in Australia.[18]

However, the fuel crisis has seen new priorities and Fortescue recently proposed that these funds be put towards the cost of halving the fuel excise for three months. Based on 2024-25 data, capping FTCs at $50m per company would save the government around $2.45 billion per year compared with the $2.55 billion estimated cost of halving the tax for all drivers for three months.[19]

Other spending priorities that would directly benefit Australians include cost-of-living relief, as well as investments to strengthen national resilience and energy security across the economy, such as national EV charging infrastructure and locally produced energy including renewable energy and low carbon liquid fuels. Of course, heavy industry could also be supported to pursue decarbonisation and electrification. As the largest consumers of liquid fuels in Australia, the decarbonisation of mining is a significant opportunity to reduce Australia's exposure to international oil shocks.

Under this $50 million cap model, the 18 largest consumers of diesel would still receive a combined total of $900 million per annum in FTCs. Importantly, the cap would ensure that farmers, fishers, transport operators and smaller mining businesses would not be affected. At the same time, it would encourage large companies to move ahead with decarbonisation plans, while creating new opportunities for Australian industries to supply low-carbon fuels, equipment and services.

Capping FTCs would also provide clearer, more consistent signals for investment decisions, replacing current signals that discourages change.

A CAP COULD BE PHASED IN OVER TIME

Overall, Fortescue considers this to be the most practical and balanced reform option – addressing the disincentive created by the FTC scheme while protecting smaller businesses that rely on the scheme.

[18] CEF_Transition Tax Incentive Report FINAL_20August2025

[19] Based on 2024-25 data, capping FTCs at $50m per company would save the government around $2.45 billion per year compared with the $2.55 billion estimated cost of halving the tax for all drivers for three months. Footnote: Matt Pollard, Climate Energy Finance Post | LinkedIn

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