

Operation of the *Product Stewardship for Oil Program* and the *Product Stewardship (Oil) Act 2000*

This annual report is prepared in accordance with section 35 of the *Product Stewardship (Oil) Act 2000*, and covers the operation of the Act and the operation of the Product Stewardship for Oil Program from 1 July 2007 to 30 June 2008.

Purpose of the program

The Product Stewardship for Oil Program came into effect on 1 January 2001. The program's objectives are to:

- provide economic incentives to increase the uptake and appropriate recycling and use of used oil
- encourage the environmentally sustainable management and re-refining of used oil and its reuse
- support economic recycling options for used oil.

The program aims to develop different forms of recycling and a diverse range of products and markets for recycled oil, to help ensure the long-term viability of the used oil recycling industry in Australia.

Features of the program

The Product Stewardship for Oil Program consists of an economic incentives package (levy/benefit scheme) and a transitional assistance grants package.

The product stewardship oil levy was introduced on 1 January 2001 and is currently set at 5.449 cents per litre of lubricant oil produced or sold in Australia. The levy applies to both domestic and imported oils and is paid by oil producers and importers. Under the levy arrangements: no 'eligible' lubricant escapes the levy; imported and domestic oils are treated equally; and exported oil is not levied. The levy is collected as an excise by the Australian Taxation Office and as customs duty by the Australian Customs Service.

While the levy is intended to offset the cost of payments made under the Product Stewardship for Oil Program, it is not directly connected to benefit payments.

Product stewardship benefits are paid to recyclers as a volume-based incentive to encourage increased oil recycling. Benefits are provided at different rates, depending on the type of product—the lowest benefits are provided for basic burner fuels, and the highest for full recycling into as-new, re-refined base oil. Table 1 shows the 2007–08 benefit rates.

Benefit rates do not directly reflect the comparative effort involved in recycling or the environmental benefit achieved. Rates were set by determining the amount of incentive required for industry to undertake and increase each form of recycling. Some forms of recycling require more incentive than others.

Table 1: Product stewardship benefit rates in 2007–08

Category	Benefit (cents per litre)	
1.	Re-refined base oil (for use as a lubricant or a hydraulic or transformer oil) that meets the prescribed criteria ¹	50
2.	Other re-refined base oils (for example, chain bar oil)	10
3.	Diesel fuels that comply with the Fuel Standard (Automotive Diesel) Determination 2001, as in force from time to time	7
4.	Diesel extenders: (a) that are filtered, de-watered and de-mineralised; and (b) that, if combined with diesel fuels, would produce a combined fuel that complies with the determination mentioned in category 3	5
5.	High grade industrial burning oils (filtered, de-watered and de-mineralised)	5
6.	Low grade industrial burning oils (filtered and de-watered)	3
7.	Industrial process oils and process lubricants, including hydraulic and transformer oils (re-processed or filtered, but not re-refined)	0
8.	Gazetted oil consumed in Australia for a gazetted use	5.449
9.	Recycled oil mentioned in category 5 or 6 that has been blended with a petroleum product that meets the criteria mentioned in schedule 2 of the Regulations of the Act ²	9.557
Additional benefit 1 July 2007 to 30 June 2008 ³		6.7
Additional benefit 1 July 2006 to 30 June 2007 ⁴		10.057

Notes:

¹ The Regulations specify a health, safety and environment standard for re-refined lubricants that is consistent with the current requirements for 'virgin' products. The basic requirement of this standard is to produce a non-carcinogenic and non-toxic product. Source: Product Stewardship (Oil) Regulations 2000.

² Category 9 ceased as of 30 June 2006. Claims may still be submitted if the used oil was recycled and sold for use (or used by the claimant) prior to 30 June 2006.

³ The additional benefit is separate from categories 1 to 9. All category 5 and 6 claimants are eligible to claim the additional benefit.

⁴ The 10.057 cent per litre additional benefit ceased as of 30 June 2007. Claims may still be submitted if the used oil was recycled and sold for use (or used by the claimant) prior to 30 June 2007.

Transitional Assistance funding

In establishing the Product Stewardship for Oil Program, transitional assistance funding of \$34.5 million over seven years (2001–2007) was allocated to stimulate the uptake of environmentally sustainable management and re-use of used oil. The funding complemented the levy/benefit arrangements and was an interim measure to engender change that would help ensure the long-term viability of Australia's oil recycling industry.

Funding also covered the operating costs of the Product Stewardship for Oil Program, including the relevant running costs of the department and the Oil Stewardship Advisory Council.

A total of \$22 million was provided from July 2000 to June 2007 in grants for:

- used oil collection infrastructure
- raising public awareness
- developing technology
- remote and Indigenous projects
- developing markets for used oil products.

The implementation of a small number of projects funded by transitional assistance grants is continuing and all projects will be completed by mid-2010.

Legislative basis of the program

The program is underpinned by a package of legislation and associated Regulations:

- The *Product Stewardship (Oil) Act 2000* is the primary piece of legislation that establishes the general framework and benefit entitlements. The policy settings for the stewardship arrangements are established and governed by the Minister for the Environment, Heritage and the Arts. The Act also establishes the Oil Stewardship Advisory Council (see Table 2).
- The *Product Stewardship (Oil) Regulations 2000* prescribe the product stewardship benefit rates.
- The *Excise Tariff Amendment (Product Stewardship for Waste Oil) Act 2000* and the *Customs Tariff Amendment (Product Stewardship for Waste Oil) Act 2000* and associated Regulations, establish the product stewardship levy.
- The *Product Stewardship (Oil) (Consequential Amendments) Act 2000* contributes to the establishment of the levy and the general administrative provisions in the *Product Grants and Benefits Administration Act 2000*.
- The *Product Grants and Benefits Administration Act 2000* sets out eligibility criteria and establishes the administrative mechanisms used by the Australian Taxation Office to pay benefits to recyclers.

Amendments to the *Product Stewardship (Oil) Act 2000*

The *Product Stewardship (Oil) Act 2000* was amended in September 2007 to:

- Replace the term 'waste oil' throughout the Act with the term 'used oil', which is considered to be more consistent with the objectives of the Act.
- Allow regulations made for the purpose of determining eligibility for product stewardship (oil) benefits, to adopt or incorporate oil testing methods or laboratory accreditation standards, as in force or existing from time to time.
- Provide that the members of the Oil Stewardship Advisory Council, other than the members appointed to represent the Commonwealth and the Commissioner for Taxation, will be appointed on the basis of their knowledge of, or experience in, a range of prescribed subject areas relevant to product stewardship arrangements for oil. This will enable the appointment to the Council of members from a wider range of fields of expertise than is the case at present.
- Provide that the members of the Oil Stewardship Advisory Council appointed to represent the Commonwealth and the Commissioner for Taxation will become non-voting members.

This will remove the potential for these members to have a conflict of interest between their roles as Commonwealth employees and as members of the Council.

- Provide clear and more rigorous procedures for the disclosure of direct and indirect pecuniary interests by members of the Oil Stewardship Advisory Council and for ensuring that any such interests held by members do not compromise the advice provided by the Council.

Amendments to the Product Stewardship (Oil) Regulations 2000

The Product Stewardship (Oil) Regulations 2000 were amended in March 2008. The amendments modified the testing and accreditation requirements for Category 1 re-refined base oil to ensure that the testing regime is one with which claimants can reasonably comply. The amendments removed the requirements for testing laboratories to be accredited by the National Association of Testing Authorities and to use prescribed test methods. Instead, testing laboratories are required to have appropriate facilities, resources and expertise to conduct the necessary tests and to be independent of the claimant. Consultation was undertaken with businesses that claim Category 1 benefits and with the Australian Taxation Office, which administers the payment of benefits.

Oil Stewardship Advisory Council

The Oil Stewardship Advisory Council provides advice to the Minister for the Environment, Heritage and the Arts on the product stewardship mechanisms and their operation, on the oil recycling and oil production industries, and on markets for recycled used oil products. Part 3 of the *Product Stewardship (Oil) Act 2000* establishes the council. Members are drawn from a range of backgrounds so that the oil producing and recycling industries, state and local governments, consumers, and other non-government organisations, can contribute to formulating advice on the Product Stewardship for Oil Program. The Department of the Environment, Water, Heritage and the Arts and the Commissioner of Taxation represent the Australian Government.

Table 2: Membership of the Oil Stewardship Advisory Council as at 30 June 2008

Member	Representing
Mr Mike Williamson	Chair
Mr Rory Collins	Commissioner of Taxation
Ms Kelly Pearce	Department of the Environment, Water, Heritage and the Arts
Mr Paul Barrett	Australian Institute of Petroleum
Mr Bob Pullinger	Australian Oil Recyclers Association
Mr Gary O'Connor	Environment Protection and Heritage Council
Mr Mark Borlace	Royal Automobile Association of South Australia
Mr Paul Howlett	Waste Management Association of Australia
Mr Harold Grundell	Additional member (oil recycler)
Mr Fred Wren	Additional member (oil recycler)
Mr Tim Rose	Additional member (oil recycler)

The Council last met on 6 June 2007 in Canberra.

Financial information

This section reports on the financial arrangements for the Product Stewardship for Oil Program for the period 1 July 2007 to 30 June 2008, including levy collections and benefit payments.

General operation

The Department of the Environment, Water, Heritage and the Arts, the Australian Taxation Office and the Australian Customs Service continued to work together to ensure that the program is simple to administer and understand. Administration of the program is progressing well. There were 5 applications for registration during 2007–08 across a range of categories: two under category 1; one under category 2; one under category 3; one under category 5; three under category 6 and one under category 8. There were 82 recyclers registered for benefits, and 43 active recyclers, as at 30 June 2008.

The Australian Taxation Office audit program from previous years continued, with one audit finalised in 2007–08.

Information on registering for benefit payments can be obtained from the Australian Taxation Office fuel schemes website at www.ato.gov.au/businesses.

Product stewardship levy

In 2007–08 total revenue collected from the product stewardship levy was \$27.6 million, comprising \$20.8 million in excise collection on domestic production and \$6.8 million in customs duty on imported oils. An amount of \$2.5 million was paid back to clients in the form of drawbacks (for export) and refunds, bringing the balance of revenue from the levy to \$25.1 million.

Levy collections are recorded against a number of categories based on the type of oil, and customs duty is recorded under international customs classifications. Tables 3 and 4 show excise and customs tariff collections for 2007–08 by category.

Product stewardship benefits

A total of \$36 million was paid as product stewardship benefits in 2007–08, with \$34 million paid to recyclers for recycling used oil. This is an increase of \$3.3 million in benefits for recycling compared to 2006–07.

The volume of oil on which benefits were paid in 2007–08 was 253 million litres, compared to 219 million litres in 2006–07. Figure 1 shows the annual volume of used oil recycled since the program began. Industry estimates that 150–165 million litres of oil were being recycled annually before the Product Stewardship for Oil Program began in 2001.

Table 3: Product stewardship levy collection (excise) by category

Item number	Category	Levy collected
15.1	Lubricant base oils	\$19,259 186
15.2	Lubricant base oils (recycled)	\$1,168 186
15.3	Petroleum based greases and their synthetic equivalents	\$399,776
	Total	\$20,827,148

Table 4: Product stewardship levy collection (customs tariff) by category

Item number	Category	Levy collected
27101991	Petroleum based oils including lubricants, hydraulic fluids and transformer oils	\$3,285,584
27101992	Petroleum based greases	\$519,298
27109191	Petroleum based oils including lubricants, hydraulic fluids and transformer oils	\$27,779
27109192	Petroleum based greases	\$3,273
27109991	Petroleum based oils including lubricants, hydraulic fluids and transformer oils	\$47,256
27109992	Petroleum based greases	\$14,448
34031110	Preparations for the treatment of textiles, containing petroleum oils, solid	\$1,855
34031190	Preparations for the treatment of textiles, containing petroleum oils, liquid	\$6,485
34031910	Other preparations (for example, cutting oil, anti-corrosion) containing petroleum oils, solid	\$37,812
34031990	Other preparations (for example, cutting oil, anti-corrosion) containing petroleum oils, solid	\$506,221
34039110	Preparations for the treatment of textiles, containing petroleum oils, solid	\$6,407
34039190	Preparations for the treatment of textiles, not containing petroleum oils, solid	\$18,988
34039910	Other preparations (for example, cutting oil, anti-corrosion) not containing petroleum oils, solid	\$93,610
34039990	Other preparations (for example, cutting oil, anti-corrosion) not containing petroleum oils, liquid	\$305,604
38112110	Additives for lubricating oil, containing petroleum oils, solid	\$95,439
38112190	Additives for lubricating oil, containing petroleum oils, liquid	\$1,778,093
38190000	Hydraulic brake fluids	\$90,887
	Total	\$6,839,039

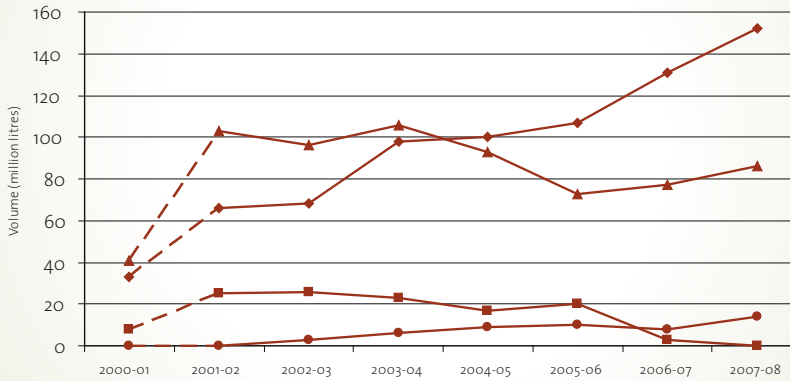
Figure 1: Annual volume of oil recycled since the Product Stewardship for Oil Program began



Note: The pre-PSO program value is an industry estimate. Program benefits commenced in January 2001, therefore the 2000-01 value was derived from only six months data.

Figure 2: Annual volume of recycled oil in each category since the Product Stewardship for Oil Program began

Category 1 Category 3 Category 5 Category 6



Note: Volumes reported for Categories 2 and 4 are too small to chart. To avoid double counting, Categories 8 and 9, and the additional benefit do not contribute to the overall volume of used oil recycled. Program benefits commenced in January 2001, therefore the 2000-01 value was derived from only six months data.

Figure 2 shows the annual volume of used oil claimed in each category since the program began. Table 5 provides a breakdown by product category for 2007–08, indicating volumes recycled and benefit payments.

The volume of used oil claimed in category 1 in 2007–08 increased by 6 million litres on the amount recycled during 2006–07. The volume claimed in category 5 continued to increase as it has each year since the program began while the volume in category 6 increased only slightly. The cessation of category 3 claims is attributable to changes to the definition of category 3 and introduction of the additional benefit for categories 5 and 6. It is likely that these changes have led to recycled oil previously claimed under category 3 now being claimed under categories 5 or 6.

Table 5: Product stewardship benefit payments by category in 2007–08

Category	Benefit payments	Litres
1. Re-refined base oil (for use as a lubricant or a hydraulic or transformer oil) that meets the specified criteria	\$7,239,188	14,478,375
2. Other re-refined base oils (for example, chain bar oil)	0	0
3. Diesel fuels that comply with the Fuel Standard (Automotive Diesel) Determination 2001, as in force from time to time	0	0
4. Diesel extenders: (a) that are filtered, de-watered and de-mineralised (b) that, if combined with diesel fuels, would produce a combined fuel that complies with the determination mentioned in item 3	0	0
5. High grade industrial burning oils (filtered, de-watered and de mineralised)	\$7,619,253	152,385,060
6. Low grade industrial burning oils (filtered and de-watered)	\$2,587,642	86,254,733
7. Industrial process oils and lubricants, including hydraulic and transformer oils (re-processed or filtered, but not re-refined)	0	0
8. Gazetted oil consumed in Australia for a gazetted use 1	\$2,099,202	38,524,539
9. Recycled oil mentioned in item 5 or 6 that has been blended with a petroleum product that meets the criteria mentioned in schedule 2 of the Regulations of the Act 1	0	0
Additional benefit 1 July 2006 to 30 June 2007 2	\$2,007,862	19,964,825
Additional benefit 1 July 2007 to 30 June 2008 2	\$14,496,285	216,362,468
Amount of used oil recycled (excludes categories 8 & 9 and the additional benefit)		253,118,168
Total	\$36,049,432	527,970,000

Notes:

1 To avoid double counting, benefits paid under categories 8 and 9 and the additional benefit do not contribute to the overall volume of used oil recycled.

2 The additional benefit is separate from categories 1 to 9. All category 5 and 6 claimants are eligible to claim the additional benefit.

Operating expenses

The department's 2007–08 operating costs for the Product Stewardship for Oil Program, including staff salaries and allowances, consultancies, advertising and other related expenses, were \$357,000.

The Australian Taxation Office's operating costs for the program were \$88,500. Services provided by the Australian Taxation Office include processing registrations and claims for benefits, compliance monitoring and client liaison.

Monitoring and evaluation

Two consultancies were undertaken in 2007–08. The first focused on the oil recycling industry in Australia, including collection, recycling and end-use markets for recycled used oil, with particular focus on end-use markets. The second assessed the effectiveness of the Product Stewardship for Oil Program following the abolition of the energy grants credits scheme and the implementation of the fuel tax credits system.

An independent review of the Transitional Assistance element of the Product Stewardship for Oil Program was undertaken in 2007–08. The report is expected to be made available in late 2008.

An independent legislative review of the *Product Stewardship (Oil) Act 2000* commenced in June 2008. This review is expected to be completed before the end of 2008 and will be tabled in parliament. Once tabled, the report will be made public and will be available at www.oilrecycling.gov.au. The Australian Government will respond to the recommendations made by the independent legislative review in due course.