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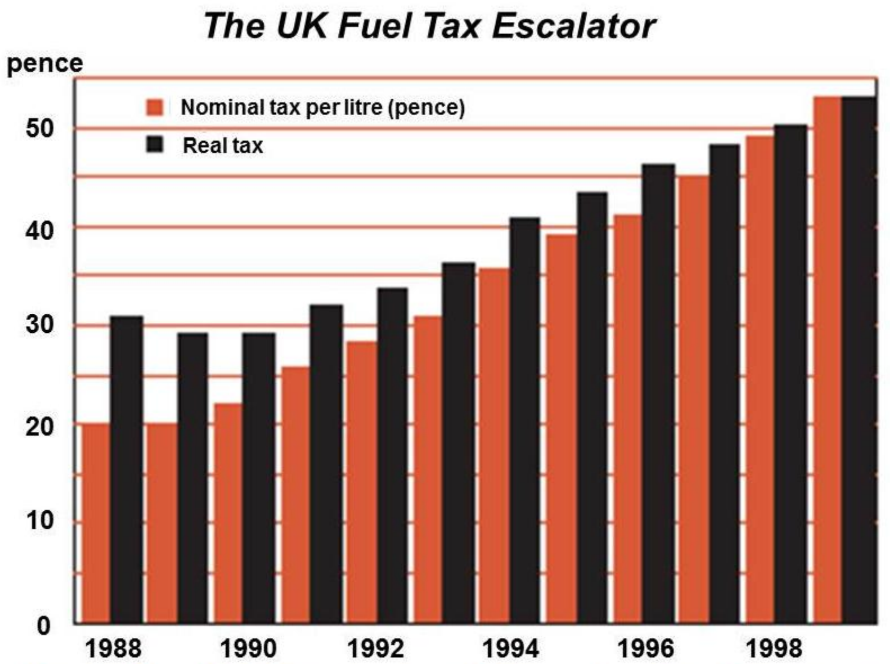
Inquiry into the provisions of the:
Exercise Tariff Amendment (Fuel Indexation) Bill 2014
Customs Tariff Amendment (Fuel Indexation) Bill 2014
Fuel Indexation (Road Funding) Bill 2014
Fuel Indexation (Road Funding) Special Account Bill 2014

Australia's serious oil vulnerability greatly strengthens the case for fuel excise indexation

The proposed indexation is a crucial first step, but in addition we should go much further.

Australia should follow the lead of a past UK Conservative Government and increase fuel excise on a fuel-tax escalator by CPI plus 5% or so.

The additional fuel excise raised should not be hypothecated to ever more roads, but used for education, hospitals, aged care and all the other services which are not properly funded.



Australian fuel taxes should be raised to European levels on a fuel tax escalator

Britain's policy brought UK fuel up to general European fuel prices, which substantially reduced the costs of their oil imports. UK oil usage has been roughly constant since circa 1988, while Australia's has almost doubled in that time. Germany, for instance, has high fuel taxes, and a thriving automobile industry and a healthy general economy. High fuel taxes will not bring the end of civilisation as we know it, but would help shield us from future oil shocks and an ever-growing oil-import bill, and provide vital funds for crucial government services.

The main reason for a fuel tax escalator is to give people advance notice that fuel is a valuable non-renewable resource which is likely to become increasingly scarce, probably within five or ten years.

The 2006 Senate Inquiry into Australia's future oil supplies was held just prior to the sharp oil price rise to almost $150/barrel which may have triggered, or contributed to the Global Financial Crisis. The inquiry was warned about the forecasts of declining world production (Peak Oil) by, amongst others, Iranian oil expert Dr Ali Samsam Bakhtiari. However, the Inquiry was reassured by the ABARE director, economist Dr Brian Fisher, that "*If the price of eggs is high enough, even the roosters will start to lay"* and that long term oil prices are likely to revert to $35-$40/barrel due to substitution by alternatives like coal-to-liquids etc.

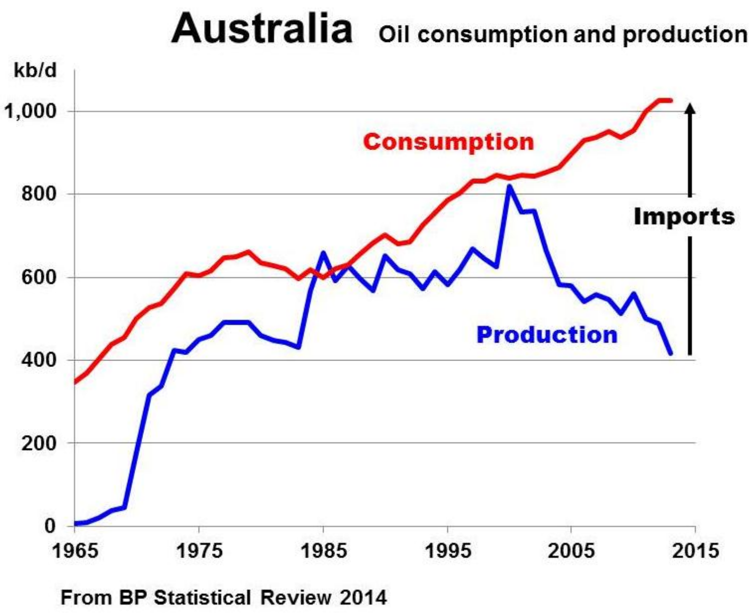
However, oil prices are now above $100/barrel, and the cola-to-liquids process is not in any way a significant contributor to world transport fuels. High oil prices have indeed encouraged exploration and the successful use of technology like fracking in the US. However, global production is not substantially higher than it was in 2005. Indeed studies have shown that since 2005 oil production has been very largely independent of oil prices.

Geologists recognise that many of the world's giant oilfields were discovered perhaps 50 to 60 years ago. Their production has been declining, by about 6% pa according to estimates from the International Energy Agency.

New fields are still being brought into production and more are still being discovered, but most of them now are small rather than the super-giants which have supplied the world for the last half-century or more. The new fields are not matching the ever-increasing demand from China and India and the other developing countries. The IEA has estimated that the world will need extra production equivalent to four additional Saudi Arabias just to support current consumption levels for the next decade and a half. The chances of finding another one are slim, let alone four. The investment required just to hold production steady is enormous *"Compensating for output declines absorbs more than 80% of upstream oil and gas spending"*

The NSW automobile club, NRMA, has warned in two hard-hitting reports by Air Vice Marshall John Blackburn that Australia's oil vulnerability is increasing. Already 91% of the fuel that powers our cars, trucks and planes is imported, directly or indirectly. If imports are interrupted for any reason, Australia has only about three weeks of fuel on hand. Essential deliveries to supermarkets, pharmacies, hospitals and everywhere would rapidly grind to a halt. Farmers could be short of fuel for seeding, harvesting and transporting grain.

Australia's oil production reached its peak in 2000 and has been declining ever since. Bass Strait oil has been very largely exhausted and the NW Shelf production has been falling steadily. Much of the oil we produce is exported (resulting in the 91% imported fuel total). The growing net import balance is shown below.



Federal and State decision-makers have been systematically turning a blind eye to the risks of our growing oil vulnerability. Successive Federal Energy White Papers have looked in detail at our surfeit of coal and natural gas, and largely ignored the very substantial risks to the availability of liquid transport fuel. We recommend that the current Federal Energy White Paper process be split to prepare two separate White Papers, one on Stationary Energy and the other and more important one on Transport Energy.

The major independent oil companies, like Shell, BP and Exxon are all facing dwindling oil reserves and rapidly increasing costs of exploration and production. Major oil producing countries are using more and more of their oil domestically, leaving less to be exported. Indonesia, for instance, was for years a significant exporter and member of OPEC. Dwindling production and increasing domestic consumption means that Indonesia is now an oil importer, and has left OPEC.

The US has increased production from its shale oil boom in fracking tight oil formations, but forecasts from the US Energy Information Agency suggests that rather than solving the world's problems, US oil imports will start rising again within a few years. The EIA recently revised downwards, by a whopping 96%, its glowingly optimistic forecast of how much shale oil would be produced from the Californian Monterey shale. So California's predicted shale oil boom will not eventuate, This cuts the estimate of producible shale oil in the U.S. by 60 percent.

The hype from US shale oil even reached Australia. A small Queensland company reported shale oil under Coober Pedy in quantities close to the reserves of Saudi Arabia. Sadly, not even their own shareholders seemed to believe them judging by the share price fall not long after the announcement.

The current inquiry into Fuel Excise Indexation is not likely to have time to conduct an update of the 2006/07 Inquiry into Australia's future oil supplies. We recommend that in the near future the Senate does hold another inquiry into Australia's future oil supplies, given the gravity of our current oil vulnerability. However, it is important that the risks posed by our serious oil vulnerability are raised now in this inquiry, and that the future benefits of the proposed indexation or a higher level of increase to a fuel tax escalator are recognised. The main benefit is to warn Australians that the current low fuel prices are not likely to last, and they should prepare for far higher prices and perhaps rationing in the future. The benefits to the Federal budget are also considerable, to provide increased funding for the many services that governments would like to provide.

Putting Australia on a significant fuel-tax escalator is a very effective way of helping people plan for the probable oil-constrained future. A CSIRO Future Fuels Forum economic study had a worst-case scenario of $8/litre fuel in ten years if global oil shortages eventuate as forecast. When people are buying a house, or a car they should be considering probable future fuel prices and availability, not the current costs. A fuel tax escalator will open a window to enable them to see a probable future.

We could wait for OPEC and global markets to send signals of large price rises, but we will not have had time to adapt and all the price increase will be exported to oil producing countries. If we follow the UK and European examples, we will have more time to adapt and the extra tax will stay in Australia to help provide Government services like education, hospitals, aged care and all the other things where needs are high and funds are low.

There has been a lot of information and half-truths published in the debate about fuel tax indexation. We would like to make some quick comments on this aspect.

Firstly, with a low inflation rate, and a relatively low current fuel excise, the additional cost to motorists at the pump for the next few years will be small in comparison with the regular fluctuations of fuel price anyway, so it is not a significant impost although it is clearly portrayed as such.

Secondly, motorists do indeed have many opportunities to reduce fuel use in existing situations, and by much more than the proposed excise increase. Large-scale TravelSmart individualised marketing programmes in Perth and Brisbane (and around the world), have shown people can on average reduce their car kms travelled by around 10% or more, without increases in public transport services or fuel price. Individualised marketing provides people with relevant information about existing alternatives. It only needs about one trip per week to be substituted, perhaps by shopping closer, or car-pooling, or public transport, or trip-chaining or walking or cycling for the reduction to be possible.

ASPO-Australia does not support the hypothecation of the increases in excise duty towards building ever more roads and freeways, as they will just further exacerbate our high levels of automobile dependence and increase our oil vulnerability.