



Submission Fuel excise indexation Bills 2014

By Matt Mushalik

Summary

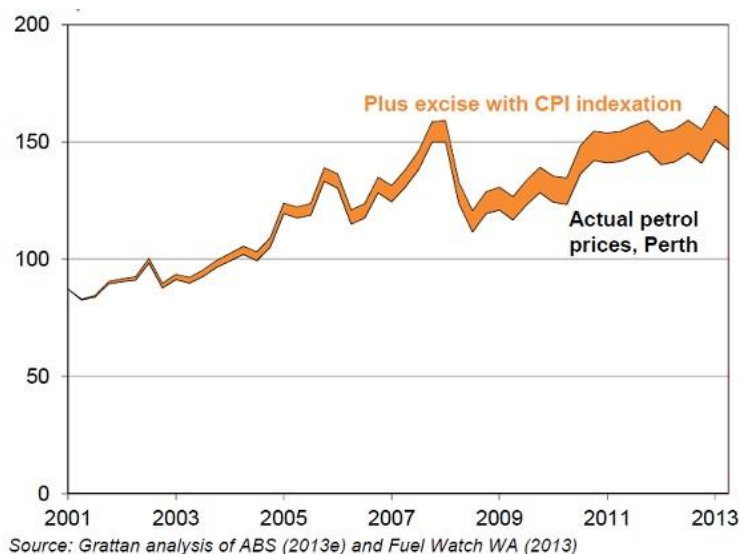
The abolishing of the fuel excise indexation by the Howard government has distorted fuel use in the economy. Over the years it has resulted in petrol and diesel prices approximately 10 cents lower than presently experienced. The result was and is more traffic, higher fuel consumption, higher CO2 emissions, more debt in PPP projects and a negative impact on the trade balance by higher crude oil and fuel import bills.

A re-introduction of the fuel excise indexation would therefore in principle be a good thing. However, as the legislation is packaged together with road funding – more road tunnels, toll-ways and motorways - it perverts the objectives of reducing traffic, emissions, toll-way debt, fuel consumption and import requirements (crude, fuels, cars).

What actually should be done is to use any additional revenue from fuel excise indexation to finance projects which will reduce the use of oil in the economy (alternative fuel infrastructure, electric rail and other public transport). The current set of bills does not do this and should therefore be rejected.

(1) Impact of zero indexation

The Grattan Institute has done following calculations in its report “Balancing Budgets” (November 2013)



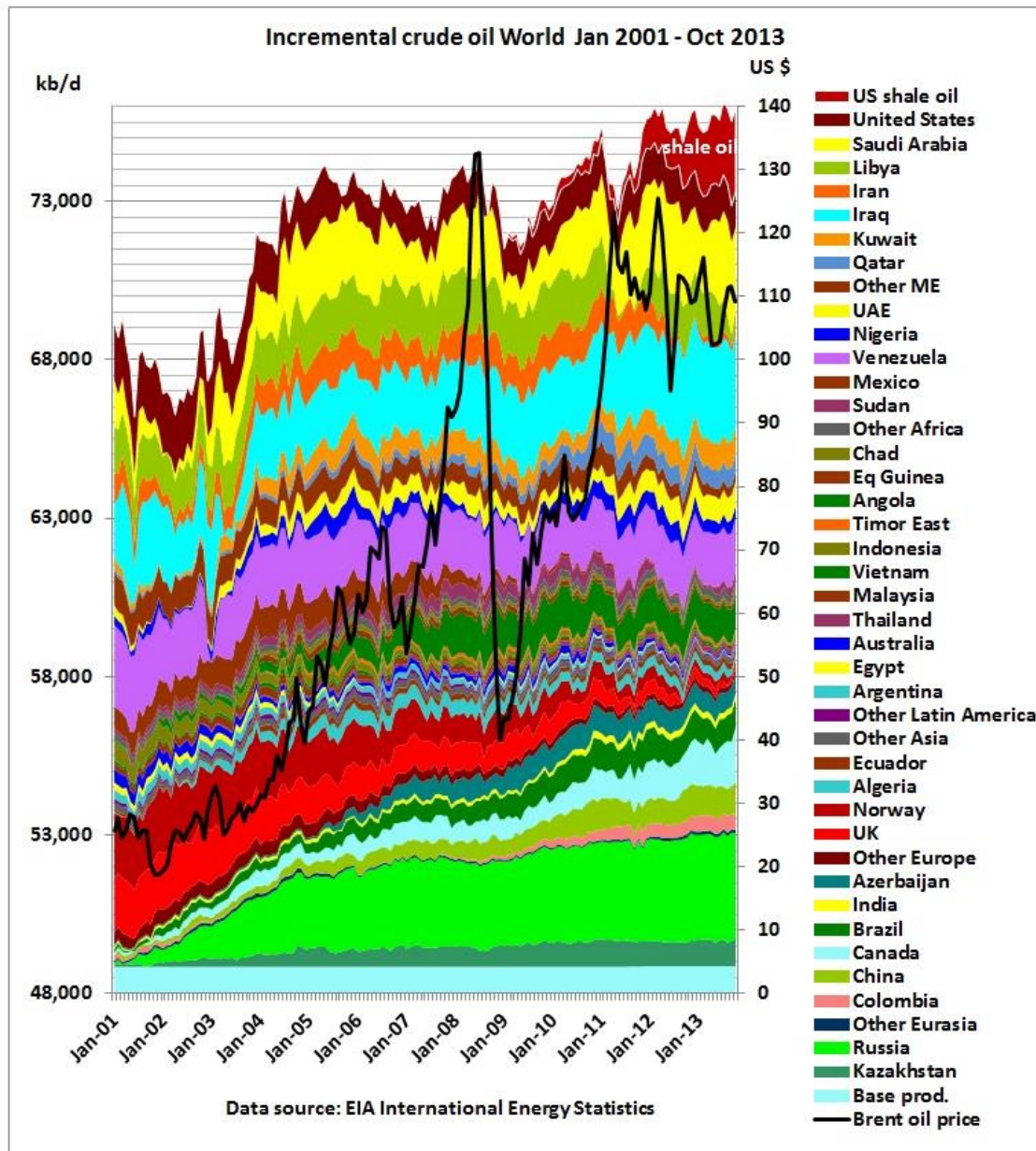
“At current volumes, the decision to abolish indexation has reduced government revenues by a little over \$4 billion in 2013-14. However, higher priced fuel would probably lead to

reduced fuel consumption. Judging the impact is difficult: actual oil price increases swamp the impact of fuel tax indexation (Figure above). If excise had been indexed since 2001, fuel prices would be about 10 per cent higher”

http://grattan.edu.au/static/files/assets/ceacf10a/801_Balancing_Budgets.pdf

(2) Actual price increases

Fuel prices increases in the last 10 years have been caused by peaking crude oil production

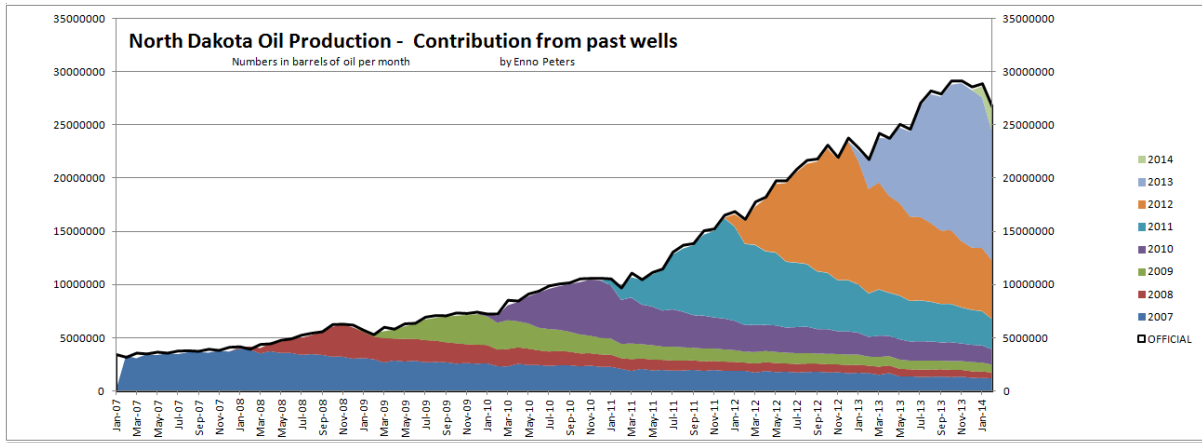


More details can be found here:

13/3/2014 World crude production 2013 without shale oil is back to 2005 levels

<http://crudeoilpeak.info/world-crude-production-2013-without-shale-oil-is-back-to-2005-levels>

When US shale oil peaks, there will be some surprises. The more shale oil wells are drilled, the steeper the decline when the retirement party (Art Berman) is over.

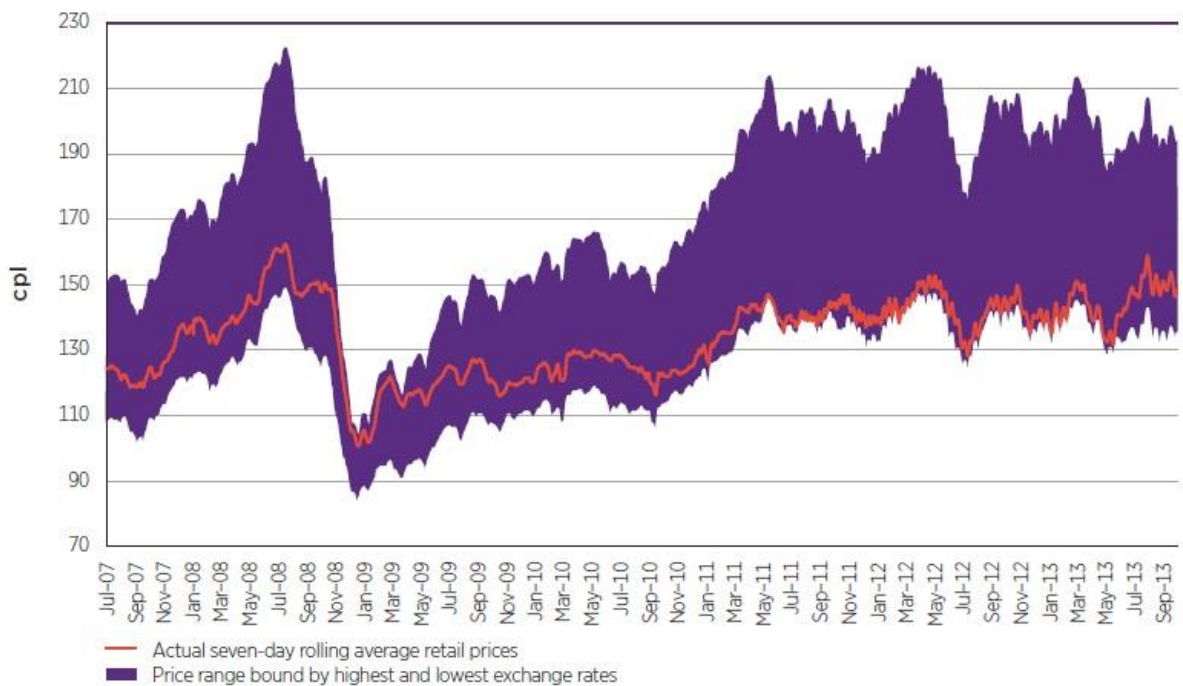


This website monitors shale oil in the US: <http://peakoilbarrel.com/>

The ACCC prepared a graph showing how the AU\$ exchange rate has reduced petrol prices.

ACCC Petrol Monitoring Report 2013.pdf - Adobe Reader

Chart 6 Seven-day rolling average retail RULP prices in the five largest cities—based on actual, minimum and maximum AUD–USD exchange rates—nominal: 1 July 2007 to 30 September 2013



Sources: ACCC calculations based on Informed Sources, Platts and RBA data.

More details can be found here:

15/12/2013 Lucky country dodged \$2 a litre bullet - for now
<http://crudeoilpeak.info/lucky-country-dodged-2-a-litre-bullet-for-now>

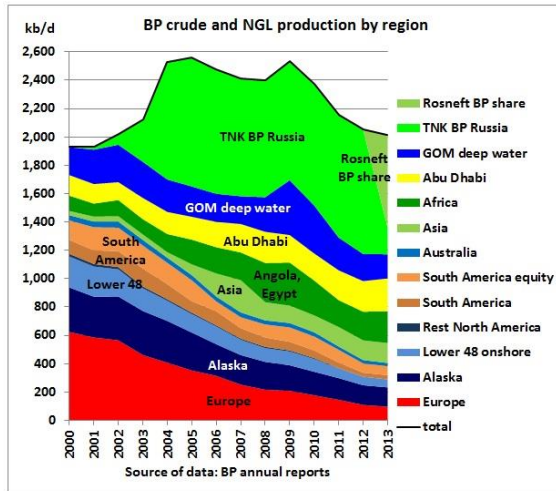
(3) Refinery closures a last warning

The world has 4 main problems: peaking crude oil production, debt, global warming and the disintegration of the Middle East.

The peaking of international oil companies is the root cause for the closing of refineries in Australia. It should be a last warning to complacent energy planners.

9/4/2014

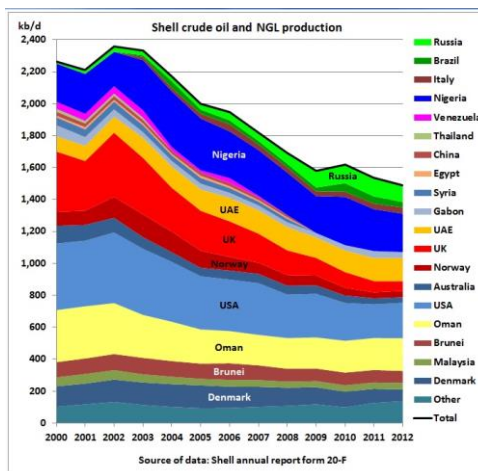
Why the closure of BP's Brisbane Bulwer refinery reduces Australia's energy security



<http://crudeoilpeak.info/why-the-closure-of-bps-brisbane-bulwer-refinery-reduces-australias-energy-security>

23/2/2014

Geelong refinery sold as Shell's oil production continues to decline

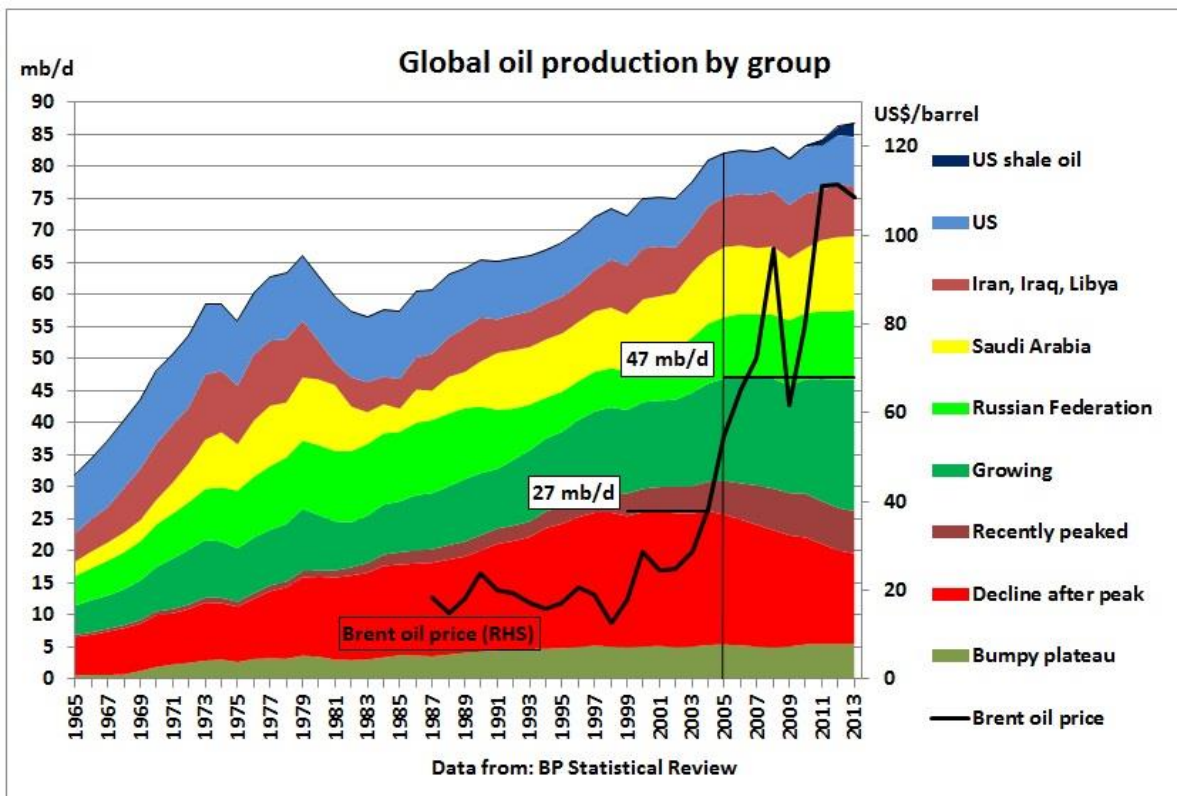


<http://crudeoilpeak.info/geelong-refinery-sold-as-shells-oil-production-continues-to-decline>

28/8/2013

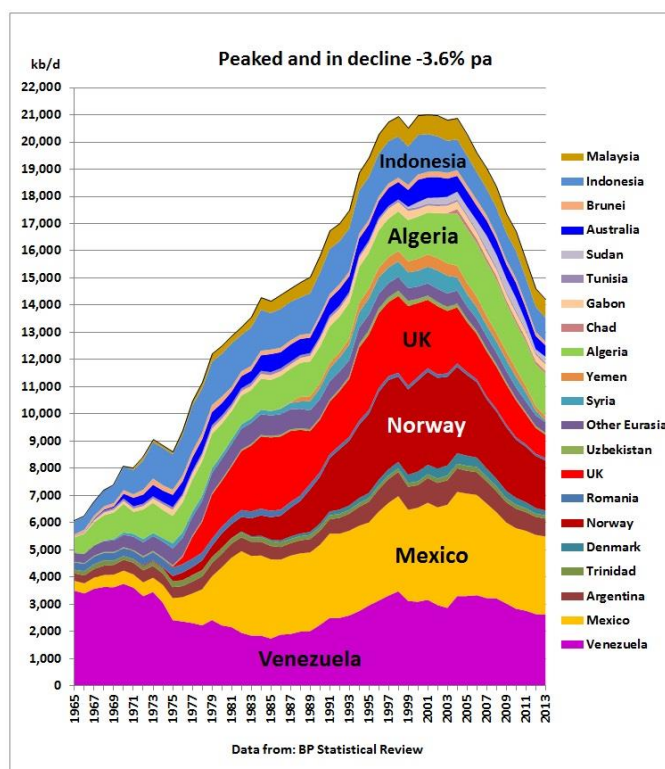
Chevron's oil production, sales decline by 5%

<http://crudeoilpeak.info/chevrons-oil-production-sales-decline-5>

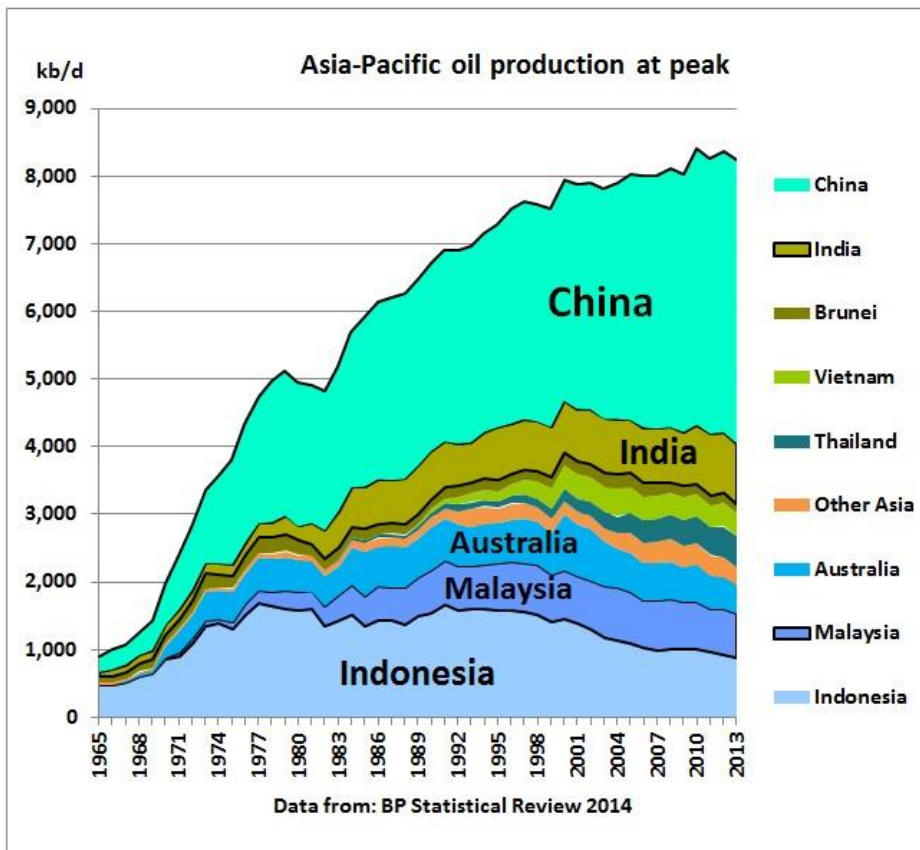


We can see that oil prices started to skyrocket when one group of oil producers went into terminal decline. That gives us an idea what will happen when more countries start to peak, and ultimately to decline.

This is the group which peaked - 20 main oil producers



Oil production in Asia is peaking while oil demand is ever increasing.



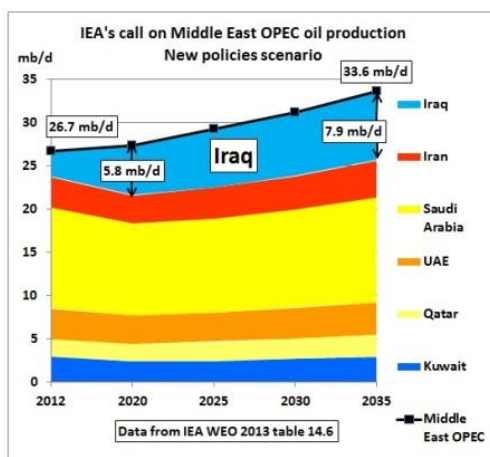
More details can be found here:

25/6/2014

Analysis BP Statistical Review 2014: Oil prices started to skyrocket when 1/4 of global supplies went into irreversible decline

<http://crudeoilpeak.info/oil-prices-started-to-skyrocket-when-one-quarter-of-global-supplies-went-into-irreversible-decline>

Asia's development will be entirely dependent on oil imports from the Middle East and that's where the problem is. Will Iraq produce 6 mb/d by 2020?



The Middle East is disintegrating fast, with yet incalculable consequences for the economy. For example, it is important to understand that the International Energy Agency (and therefore all energy and transport planners) have worked into their projections that Iraq will be producing 6 mb/d by 2020. Given the religious war now unfolding this is an untested assumption.

25/6/2014

Analysis BP Statistical Review 2014: Oil prices started to skyrocket when 1/4 of global supplies went into irreversible decline

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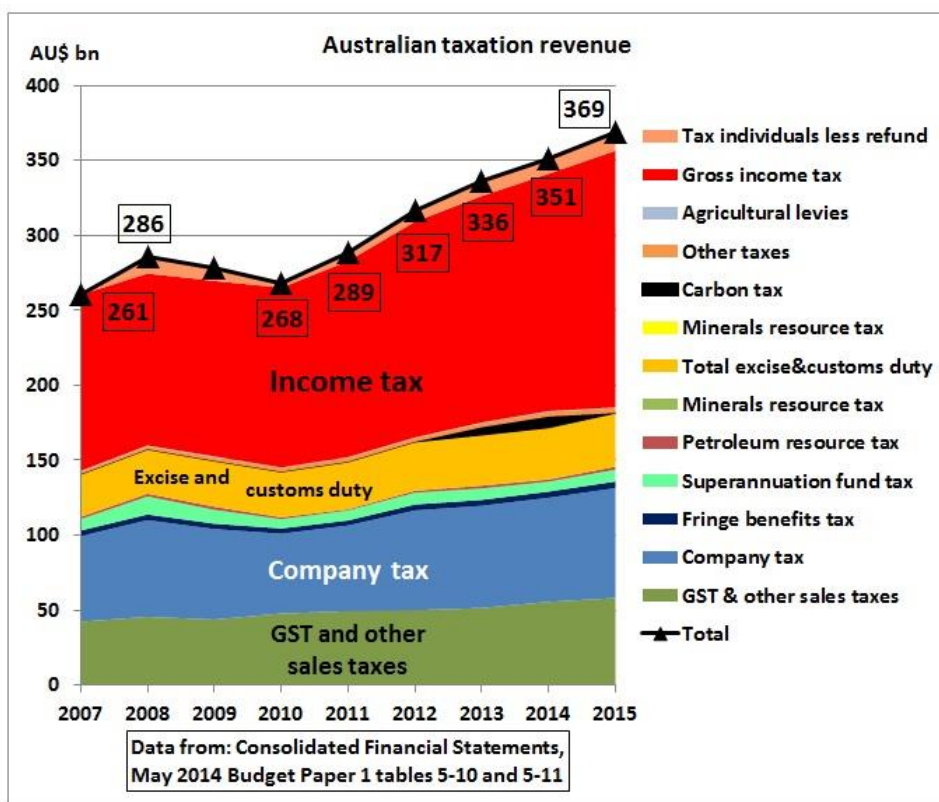
The government is in absolute denial over the above non-debatable facts. Abbott opined that “at the right price, more oil will be found”. Details are here:

8/9/2013

New Australian Prime Minister is sceptical that peak oil has value for policy making

<http://crudeoilpeak.info/new-australian-prime-minister-is-sceptical-that-peak-oil-has-value-for-policy-making>

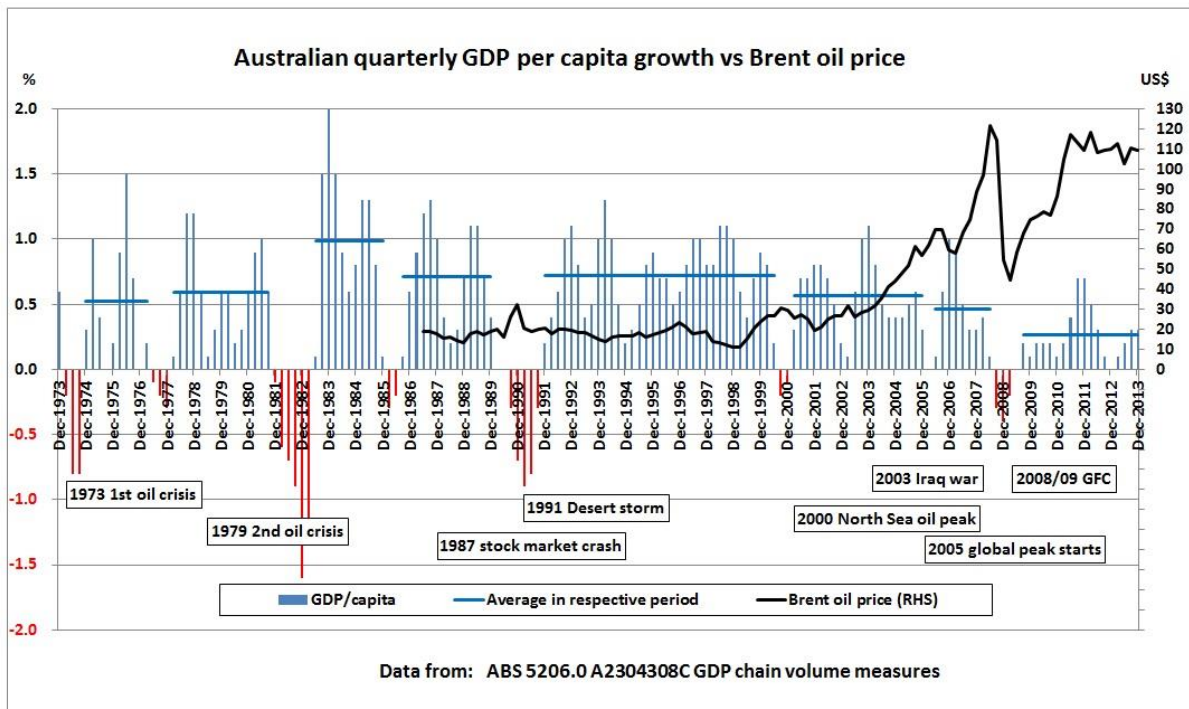
Abbott did not say what the “right price” is but historically high oil prices have already reduced company tax revenue



28/5/2014 Australian budget hit by global financial crisis and high oil prices (part 1)

<http://crudeoilpeak.info/australian-budget-hit-by-gfc-and-high-oil-prices-part-1>

High oil prices have also resulted in a reduction of the GDP-per-capita growth



9/6/2014 Australian GDP per capita growth slowed while oil prices went up (part 2 of budget 2014 series)

<http://crudeoilpeak.info/australian-gdp-per-capita-growth-slowed-while-oil-prices-went-up-part-2>

(4) How the additional revenue will be wasted

Extract from this EXPLANATORY MEMORANDUM

Financial impact: The measure is estimated to result in a gain to revenue over the forward estimates period of \$2,197.5 million comprising:

2014-15	2015-16	2016-17	2017-18
\$157.5m	\$375m	\$675m	\$990m

Note: financial impacts are in fiscal balance terms.

“The additional net revenue from the reintroduction of fuel indexation is placed into a special account established by the FISA 2014. The balance of the special account can only be used for road infrastructure funding.”

http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r5285_ems_ba9df18c-bbec-41b0-a93d-55671a6438f3/upload_pdf/394600.pdf;fileType=application%2Fpdf

The Federal government wants, for example, to subsidize the NorthConnex road tunnel with \$405 million which would be taken from the 2014/15 and 2015/16 revenue streams.

27/3/2014

Australian governments want to pay \$810m subsidy for unviable road tunnel in Sydney as next oil price spike looms (part 1)

<http://crudeoilpeak.info/australian-governments-want-to-pay-810m-subsidy-for-unviable-road-tunnel-in-sydney-as-next-oil-price-spike-looms-part-1>

30/3/2014

Australian governments want to pay \$810m subsidy for unviable road tunnel in Sydney while benefit cost ratio is low (part 2)

<http://crudeoilpeak.info/australian-governments-want-to-pay-810m-subsidy-for-unviable-road-tunnel-in-sydney-while-benefit-cost-ratio-is-low-part-2>

31/3/2014

Australian governments want to pay \$810m subsidy for unviable road tunnel in Sydney while competing rail projects under construction (part 3)

<http://crudeoilpeak.info/australian-governments-want-to-pay-810m-subsidy-for-unviable-road-tunnel-in-sydney-while-competing-rail-projects-under-construction-part-3>

Even larger amounts are planned for the WestConnex and East-West Link tunnels

12/11/2013

Sydney's Westconnex road tunnel proposal based on too many untested assumptions

<http://crudeoilpeak.info/sydneys-westconnex-road-tunnel-proposal-based-on-too-many-untested-assumptions>

5/9/2013

Melbourne's East West Link tunnel proposal has low benefit cost ratio and high oil price risk

www.linkingmelbourne.vic.gov.au/pages/pdfs/east-west-link-stage-one-short-form-business-case.pdf

Table 1 – Economic Metrics of the East West Link Stage One

Benefit Cost Analysis Result – Including WEBs			
	Real Discount Rate (%)		
	4%	7%	10%
BCR	2.2	1.4	0.9
NPV (\$m, 2013) i.e. 'Net Benefit'	\$5,628M	\$1,476M	-\$286M
NPV / \$	1.11	0.29	-0.06
IRR	9%	9%	9%

<http://crudeoilpeak.info/melbournes-east-west-link-tunnel-proposal-has-low-benefit-cost-ratio-and-high-oil-price-risk>

None of the above projects has even looked at the issue of sufficient oil supplies OVER THE WHOLE LIFETIME OF THE PROJECTS, i.a. 30-40 years.

What's worse, all road tunnel projects will increase debt without any chance that this debt will ever be paid back. I did this analysis:

14/8/2012

Transurban does not pay back its debt

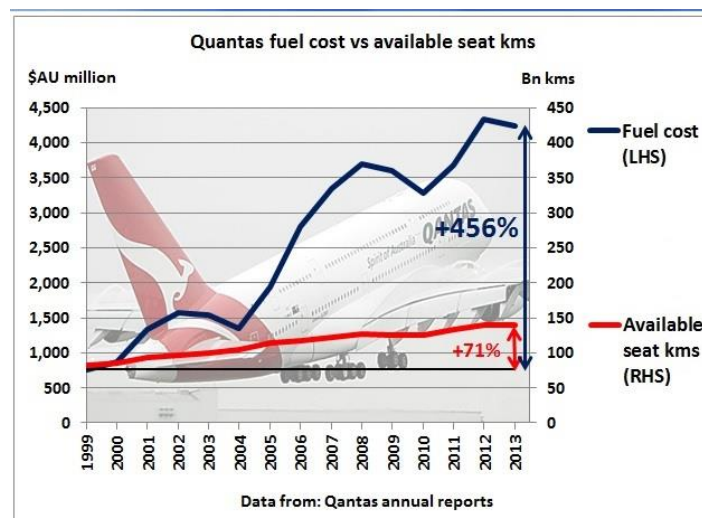
<http://crudeoilpeak.info/transurban-does-not-pay-back-its-debt>

Transurban has accumulated huge amounts of deferred tax. To throw money at new toll-way projects is completely against the anti-debt philosophy of the government and it will also not solve the budget deficit problem on the revenue side. Time saving of private motorists (the bulk of benefits in any benefit-cost-analysis) will NOT improve cash flows in the economy.

(5) What the fuel excise revenue should be spent on (example)

When airlines go into receivership in the next oil price spike, Australian capitals will be disconnected, which will be a national problem for which the Federal government will be responsible

4/3/2014 The end of airlines - predicted by no other than former Qantas CEO Geoff Dixon in July 2008 <http://crudeoilpeak.info/the-end-of-airlines-predicted-by-no-other-than-former-qantas-ceo-geoff-dixon-in-july-2008>



The fundamental problem airlines are facing: a widening gap between fuels cost and available seat kms.

12/2/2014

Despite growth in passenger numbers Virgin Australia can't make money since 2009

<http://crudeoilpeak.info/despite-passenger-growth-virgin-australia-cant-make-money-since-2009>

Here is my assessment of the Intercity service between Sydney and Melbourne

5/12/2011

Australian intercity rail run-down and unprepared to replace domestic flights after peak oil



An aging XPT train set broke down at Yass junction. After 3 hrs it was decided to drive the train back to Goulburn at 30 km/h. After waiting another hour busses replaced the train. Instead of arriving at 7 pm, we made it to Melbourne at 2 am.

<http://crudeoilpeak.info/australian-intercity-rail-run-down-and-unprepared-to-replace-domestic-flights-after-peak-oil>

An immediate upgrading and electrification of this rail line is needed along with new rolling stock.

Prepared by Matt Mushalik 27/6/2014