

Submission into Senate Inquiry into Australia's future oil supply and alternative transport fuels

Councillor Chris Aubrey

City of Whitehorse

Fuel Policy, as with most Policy issues, has many conflicting requirements. One of them is a public expectation to be able to travel, short or long distances in a private vehicle at an affordable price in privacy. Sufficient road space is a constant need for that desire, and the economy and reality of both of these wishes, even in the medium term, are open to question. That this is the current context and preferred position of the vast majority of the adult Australian population is without question.

Another issue is that of self-reliance. Australia has limited current supplies of petrol (the mix that grew under that name). Australia has some resources that will come on line, but current reliance on imported petrol is at its highest in two decades and the position will worsen - possibly to total reliance in the future. A very poor outcome in a world of rapidly escalating prices and expected escalation of demand, especially in our sector of the world.

Australia has high levels of resources of at least two types of petrochemical fuels, being LPG and LNG, on which this discussion will focus. Australia also has a variety of other alternative biofuels including ethanol, other grain crops and substances that can be described as cooking oils and fats, such as the oil from fish and chip shops now commonly used to fuel diesel motors in Australia's localised alternative fuel local industry.

The final context for this discussion relates to the Kyoto protocols, alternative Greenhouse proposals referred to be the Australian and US Governments, and the overall social, ethical and economic costs associated with direct and indirect outcomes from the burning of fossil fuels and the resultant escalation of CO₂ concentrations in the atmosphere.

Australia has both a major out of control current account deficit problem, in reality a crisis, which has yet to come to a head, and a petrol import/export problem, which is contributing noticeably and increasingly to the current account deficit.

Australia has significant stocks of LNG and LPG, most of which are exported without value adding at a very low price per tonne. At the same time Australia imports very large and currently increasing quantities of petrol at very high prices.

Whilst acknowledging that use of any of these fuels contributes to the Greenhouse problem both locally and internationally - it must be recognised that Australia, apart from being party to an international push for greater fuel efficiency and some sporadic shifts towards smaller more fuel efficient cars, has made very little impact on the economic production of alternative fuel cars. We should and must, but at best this is a medium term venture in reality. Hybrid cars are beginning - for one manufacturer to become vaguely economic - but only for those with a high ethical desire for low greenhouse impact lifestyles.

Australia, whilst helping to address that for the medium term, must in both the short and medium term focus the ongoing fossil fuel usage in cars to fuels in which we are

self sufficient - LPG, LNG and other alternative fossil and non-fossil based fuels.

Current international market based pricing in a market which is not even required to identify or standardise fuel components, ie butane, propane, contaminants and others, is a market which could not honestly be described as an open competitive market. This device reinforces the use of expensive imported fuels by, in effect, pricing local non-petrol fuels at prices that relate neither to the local production cost nor to the price at which we export bulk LPG, nor intend to sell bulk LNG to international markets.

The price of LPG, and it would be reasonable to assume, on current market pricing policies, LNG in the near future, have the effect of exporting irreplaceable local fuel stocks at bargain basement prices, while allowing the Trans National petrochemical Corporations that control National distribution of fuel to make huge windfall profits, in part transferred by taxation policies back to government coffers - that is the Government also directly benefits from unrealistically high prices on alternative locally produced fuels. This situation would only worsen if the Government went ahead with it's previously stated Policy of putting a further 'levy' on these fuels.

During the recent petrol price hike - lowered availability, international competition for relatively scarce stocks, LPG prices remained relatively fixed at 39.9 and 38.9 cents/litre - there were some upward variations but the vast majority of stocks for 2 or 3 months were sold at this price level.

The relative improvement of LPG prices vis a vis the scarce imported petrol, led to a huge demand in LPG Conversions - both personal and fleets, thus creating significant further jobs in this industry whose future had been under severe threat with the Government levy policy and the relative ongoing decrease in the cost benefit of conversion in the Australian market.

Some months later, with no change in local production costs, bulk exports to Japan and other markets, putatively remaining at low pricing levels, the Melbourne metropolitan consumer is paying a relatively steady 59.9 c/litre.

Why the variation of 50% in the price at a time that after continuing fluctuations the petrol prices have both reduced and steadied - at least until next time. The answer is that the international market must have risen by 50%.

Canny market observers may observe that this is an ongoing pattern that may accurately describe the steadied market as the price the market – ie Australian motorists, are prepared to pay.

An economic analysis would note LPG is a less efficient fuel than petrol, as much as 20% less efficient per litre. Further conversion costs or on purchase bulk construction with LPG tanks cost \$2000 - \$3000 along with loss of boot space, a mildly increased driver passenger safety impact due to ignition. An original dual fuel, dependent on quality may last 300,000 kms whilst conversions and lesser quality constructions may have a lifetime of 100 - 200,000 kms. Service costs will be greater - but not much greater and there will be some built in need for specific LPG service costs at between 50 - 100 kms.

At 39.9 c/litre with petrol at \$1.25 c/litre LPG is a bargain and a rational market will see ongoing, insatiable demand for both conversion and original dual fuel construction. All taxis and most high km fleets will essentially all use the local fuel as will an increasing percentage of personal drivers. Demand will come off imported

petrol fuels, this will increasingly reduce petrochemical corporation profits and also reduce the taxation take to government, all the more so with no government excise on LPG or LNG.

At 59.9 c/litre with petrol varying around \$1.15 - \$1.20, we have an effective LPG price (ie + 20%) of 72 c/litre. By the time one factors in the up-front costs of installation and take account of the interest defrayment and additional service costs, we begin to approach the break-even costs, which at current petrol prices might suggest that 70c/litre would stop all personal and fleet conversion and about 85-90 cents / litre would eliminate all rational purchasing of LPG, thus allowing all of this limited Australian product to be exported in bulk at about 1 c / litre.

Thus, both Australia's current accounts deficit position and our level of dependence would be negatively optimised. Yet the petrochemical corporations would maximise profits and the short term gain for the government would be maximised vis a vis the long term financial and dependency costs which would be at their absolute worst.

It thus becomes clear why the current pricing position works. Even without viewing the possibility of any nefarious arrangements with any current or recent decision makers, the current setting returns towards maximal profits for the corporations while optimising the day to day return to current Government coffers and politicians whilst simultaneously causing the greatest cost and disbenefit for all Australian citizens AND their politicians in the future.

A solution would be to detach LPG and LNG pricing from the current international and easily doctored benchmarks and to link the wholesale and domestic retail pricing of LPG and also, once it becomes a widely useable fuel, LNG. As the government legitimately requires funding for further petroleum exploration it is reasonable to suggest the LPG or LNG price is always going to be inflated beyond real cost -but an excise or similar would be affordable if the base cost was 10 - 20 cents / litre and the bulk export cost was per tonne not less than half equivalent, then the Government would start to maximise or at least optimise its internal benefits while the petrochemical corporations would do less well.

There would be an on-going LPG conversion market providing many jobs. Australia could become decreasingly dependent on local fuels and the balance of payments position would at least markedly decrease its acceleration. Possibly decelerate even with no bulk LPG exports.

LPG exports would decrease due to the relative price increase towards local parity. Ideally Australia would minimise or eventually stop LPG exports, as we would wish to maximise our internal use of relatively cheap but limited and irreplaceable fuel stocks - as with LNG. The only reason we would export either fuel would be due to overt or covert international political pressure or existing contracts based on the same or ignorance.

Pricing could be structured to utilise added pricing to research and develop non-greenhouse producing fuels and prototype cars. This would likely further improve Australia's lamentable current account, due to the export of Australian practical ingenuity and pricing adjusted over time, to shift the market optimally away from all fossil fuels as economically viable alternative vehicles and non-fossil fuels can be produced viably for the mass market.