

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 100

Topic: Fuel Excise/ Goods and Services Tax

Hansard Page: E111

Senator Coonan asked:

Senator COONAN—How much will a 5c per litre reduction in fuel excise on petrol and diesel cost the federal government?

Senator Conroy—We are happy to take that on notice, but I am not sure that we are here to do your modelling for you and I am not sure what that has to do with Senate estimates.

Senator COONAN—Let us just continue a little bit. Just indulge me for the sake of it or otherwise we will be here forever. How will it affect the GST revenue to the states?

Senator Conroy—There is no proposal before government to do that, so I am not sure—

Senator COONAN—That is right. We have the tax review, have we?

Senator Conroy—I am not sure what that has to do with budget estimates. There is nothing wrong with your asking me the question, but it is just that I am not sure that it is relevant to why we are here tonight.

Senator COONAN—We are asking about the operations of Treasury and no doubt that is something that they would consider. I have a few more questions. Can you confirm that a 5c per litre reduction in excise will reduce prices at the pump by about 5.5c per litre with the GST included?

Dr Henry—I can answer that in a conceptual way. If that is all that happened and there were no impacts on wholesale or retail margins, then that would be the automatic effect. Those are significant qualifications.

Senator COONAN—Fuel prices feed through to many other prices in the economy.

Dr Henry—Yes.

Senator COONAN—Do you have any estimate of this indirect effect of higher or lower fuel costs on other goods and services?

Senator Conroy—Budget estimates is not for you to ask Treasury to analyse the opposition's policy initiatives. It is for you to ask about government policy.

Senator COONAN—I can ask—

Senator Conroy—You can ask, but I am not sure it is relevant.

Senator COONAN—I can understand—

Senator Conroy—We are happy to take on notice your questions about your opposition policies.

Senator COONAN—They are not policy questions. They are perfectly straightforward questions to Treasury.

Senator Conroy—They are perfectly straightforward but they are not relevant to budget estimates.

Senator COONAN—Yes, they are. I think you and I have had this conversation many times: Treasury

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estimates relate to the operations of a department, and this is the sort of work they do.

Senator Conroy—No, but you are asking them to reveal information that would properly be, if they have done it, advice to government.

Senator COONAN—They have not actually said that.

Senator Conroy—But if it is not actually government policy that they have been working on, because it is your policy, then—

Senator COONAN—Let me ask whether or not they have done any work, and that is exactly what I did ask.

Senator Conroy—No, you asked them to confirm as to why it would happen.

Senator COONAN—I withdraw that. This is what you used to do. I was trying to be a bit quicker for them. Have you done any work that estimates the indirect effect of higher or lower fuel costs or other goods and services in the economy?

Dr Henry—We will have to take it on notice. I am not personally familiar with such work in recent times.

Answer:

As part of the inflation forecasting process, Treasury estimates the effect of higher or lower oil prices on inflation. Treasury estimates that the long run effect of a 10 per cent increase in the oil price is to add around 0.5 per cent to the CPI. Around 40 per cent of this effect is due to the immediate change in petrol prices, with the rest resulting from higher input prices to other consumer items which flow through over the subsequent few years. The effect on prices of changes in fuel taxation arrangements may be quite different because the operation of rebates can alter the price change faced by different businesses.