VIETNAM VETERANS MOTORCYCLE CLUB

VIETNAM VETERANS M.C. AUSTRALIA

Advocate: Zev Ben-Avi
Telephone: (07) 5496 3444

4 BROOKER ST
WOODFORD
QLD 4514

Senate Select Committee on Fuel and Energy
The Senate
PO Box 6100
Parliament House
Canberra ACT 2600

28 July 2008

FUEL AND ENERGY - SUBMISSION

I presented a Submission to a previous Committee (copy enclosed) with the subject being - Petrol Pricing. This was submitted by me in a letter dated 19 July 2006. I wish to present another submission to the current Committee on Fuel and Energy. I wish to address only points - (c) the operation of the domestic petroleum, diesel and gas markets; (f) taxation arrangements on petroleum, diesel and gas products; and (h) the domestic oil/gas exploration and refinement industry. The points that I wish to make and be considered are much the same as they were in the previous submission. I would therefore request that the previous submission dated 19 July 2006 (copy enclosed) be accepted by the present Committee.

The only points that I wish to add are that the pricing problems have simply exacerbated since 2006 and that the domestic litre pricing in oil self sufficient countries has only changed marginally. For instance, the figures published in the Brisbane Courier Mail on 25 June 2008 show that whilst Australia was paying (per litre $AUD), $1.61 ($1.55 Qld) yet other countries were paying far less - Venezuela, 4.2 cents; Iran, 10 cents, Saudi Arabia, 23 cents; Egypt 33.6 cents; Mexico, 72 cents; Indonesia 68 cents. These are all countries that are either self sufficient or nearly so. Those countries that are not self sufficient and have to import light sweet crude or refined petroleum/diesel all pay much higher prices. The question to be asked is why Australia pays at world/global market prices tied to Singapore when we are at least 94% self sufficient.

Rather than go into that issue here, simply go to the previous submission where I have outlined my case previously. My previous data was accessed via the Australian Bureau of Statistics; ACIL Tasman consultants; DFAT; International Monetary Fund; NRMA; RACQ; and Fueltrac, + ABN AMRO Senior economists.

Sincerely,

Zev Ben-Avi

Zev Ben-Avi

VIETNAM VETERANS
MOTORCYCLE CLUB

Advocate: Zev Ben-Avi
Telephone: (07) 5496 3444

4 BROOKER ST
WOODFORD
QLD 4514

Senate Economics Legislation Committee
(Petrol Pricing)
The Senate
PO Box 6100
Canberra ACT 2600 19 July 2006

PETROL PRICING - SUBMISSION

I would like to present this submission with regard to the publicised references, and in particular to point (a) - the relationship between landed price of crude oil, refining costs, the wholesale price and the retail price of petrol.

Many citizens of this country are complaining loudly about the cost of fuel (petrol and diesel) but it is perhaps best to start at the cause rather than moan about the effect.

Some thirty years back with the extraction and production of light crude oil for use as petrol/diesel (as distinct from heavier crude for specialist and petrochemical use) coming mainly from Bass Strait and Northwest Shelf fields it was stated by governments and media sources that Australia was more than self sufficient and at one time (early to mid 70's) the figure of 125% self sufficiency was used commonly.

Refining capacity was also not a problem for the then national requirement. Prior to the 70's Australia had C.O.R. (Commonwealth Oil Refineries) as a public owned facility which was sold off (Menzies government) to B.P. (British Petroleum) to become COR-BP in the early 60's and eventually known as BP.

In 1979 due to the so-called "Oil Crisis" a short time earlier, Australia put it's oil pricing under "world parity" which was then the OPEC price per barrel. Australians were told by the then Prime Minister (Fraser) and Treasurer (Howard) that this would mean an extra profit margin for oil companies who were then expected to plough the windfall margins back into "oil exploration" to make up for expected increases in usage with time. In 1998 the PM (Howard) changed our parity pricing to Singapore refinery prices to better reflect local needs/production.

In 1979 we were told that fuel excise would be set at 6% per litre and that 100% of this excise would go to national roads, road safety and driver training. About 20 years back this was changed to a set amount per litre and now with GST added it's over 40 cents per litre. In the FY 2001/02 only 13.9% of excise was spent on roads, in FY 02/03 it was

12.6%, in 03/04 it was 13.1% and the record was set in 04/05 with 15% spent of the $13,682 billion collected in excise. This 15% figure is the highest that has ever been spent when it was always promised at 100% from the 6% per litre days onward. That 100% of the excise raised does NOT go to where it should do is bad enough and I am sure that most Australians would willingly pay the fuel excise if it went to where it was promised to go.

To get accurate figures on how much crude oil Australia produces is difficult and hidden. Some figures have it at 94% self sufficiency and some have it at only 64%. ACIL Tasman consultants state that our daily oil production is about equal to our requirements at 796,000 barrels per day - thus the 94% figure seems right. The 64% figure is then the amount left after we export crude oil to other countries. For instance in FY 2004/05 we exported $A462 million worth of crude oil to the USA let alone other countries (figures from DFAT, ABS, IMF). ABN Amro senior economists state that Australia is currently (Jul 06) exporting $A543 million worth of light crude per month although this is half what it was 12 months back at $A1 billion.

Production costs to extract one barrel of oil from Bass Strait have been quoted at $A3 and then sold on at $A6 to $A10. The cost to find, extract, transport, refine, distribute and retail fuel has arguably only changed with costs relating to CPI and/or other benchmarks. That we are tied to overseas (either OPEC or Singapore Refinery) costs then makes crude oil a potential bonanza when the production costs here are not related to the market costs elsewhere, thus "gouging" is at the "cause" end of the cycle not the "effect" end.

We are told that government cannot control petrol pricing but it CAN control the benchmark, in this case Singapore TAPIS and OPEC prior. The other problem of so-called insufficient refinery capacity here in Australia is also a Furphy when you consider that the Mobil Port Stanvac refinery south of Adelaide in South Australia is in "mothballs" and could be brought back on line and production quite easily.

It has been said that oil companies are gouging at the pump when the real problem is that they are gouging at the well head because complicit government sets the benchmark to an international source when we are currently near self sufficient.

The main problem with retail pricing is the differential between petrol and diesel when the source crude is the same and the refining process is less complex with diesel. That diesel is about two thirds the cost of petrol in Europe (also in New Zealand) despite the present extra costs of diesel refining due to more stringent standards than in the past (ppm of sulphur).

Compare the retail costs of fuel at pump prices in countries where self sufficiency avails and you find - Indonesia 30c/l; Saudi Arabia 21c/l; Venezuela 6c/l; Iran 8c/l.

Our PM said (18 Jul 06) - "Australia remains relatively unexplored, particularly for petroleum in frontier offshore areas. Encouraging further exploration is a high priority for the Government." I thought that that was why we went onto OPEC parity pricing in the late 70's under a Fraser/Howard government, that's the reason we were given then.

Geoff Trotter from Fueltrac said (11 Jul 06) - "Oil companies aren't about justifying prices. They can do what they want and there is no-one in Australia telling them what to do." Why would they need to justify prices when government set the benchmark some 30 odd years back and Joe/Joanne Public can't remember ?

The only "costly" imported crude oil for fuel we use is that to replace that exported overseas. Crude oil then becomes a trading commodity for profit margins rather than a resource - leaving aside completely the argument about the finite supply and fossil source of a non-sustainable product.

Our current government tells us that petrol prices are beyond it's control - "because world oil prices drive petrol prices at the pump." That's according to Peter Costello (8 Apr 06). This is disengenuous at best due to the fact that petrol prices at the pump are the "effect" whilst crude oil pricing at an artificial "benchmark" by OPEC/Singapore Tapis is the "cause" and therefore the problem.

Fuel price expert David Trebeck, of consultants ACIL Tasman said (24 Sep 05) - "The system of setting Australian prices against a benchmark in Singapore was producing the price anomolies, not the oil companies." It goes without saying that the oil companies are not complaining too bitterly about this anomoly.

NRMA President Alan Evans said (29 Nov 05) - "The Howard government had attempted to put the blame for higher petrol prices on the global oil industry, but it was now clear the price hikes were caused by oil companies exploiting the situation in Australia. Australia sets oil product prices based on those charged in the nearest internationally competitive market. In the case of petrol, this is Singapore."

Our PM said (26 Jun 05) that nothing can be done about making fuel prices cheaper. He seems to forget that he was the treasurer under Fraser when the OPEC price parity was set as our benchmark in 1979 and in 1998 to Singapore TAPIS - by him !

Thank you for accepting this submission. I have not attempted to argue the current effects of fuel pricing at the pump but the artificial pricing at source at the well head and the international profit trading of a depleting and harmful source product.

Zev Ben-Avi

Zev Ben-Avi