s 22

From: s 22
Sent: Wednesday, 2 August 2023 1:45 PM
To: s 47E(d)
Cc: Berger-Thomson, Laura; Fischer, Paul; s 22 ; s 47E(d) s 22 s 47E(d)
Subject: RE: Fuel indexation points - Cameos [SEC=OFFICIAL]

OFFICIAL

s 22 . Fuel indexation cameos below.

Happy to discuss as always.

Thanks,

s 22

OFFICIAL

From: s 22 @TREASURY.GOV.AU>
Sent: Wednesday, 2 August 2023 1:43 PM
To: s 22 @TREASURY.GOV.AU>
Cc: Berger-Thomson, Laura <Laura.Berger-Thomson@TREASURY.GOV.AU>; Fischer, Paul <Paul.Fischer@TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>
Subject: Fuel indexation points - Cameos [SEC=OFFICIAL]
Importance: High

Hi s 22

In addition to the key points email below, see further some worked cameos on the effect of fuel indexation that took effect yesterday, 1 August 2023. Apologies for delay.

Cameos:

- Assumptions – as with yesterday:
  - All factor in excise and resulting GST changes – noting as below this will only materially affect fuel consumers, not businesses.
  - All assume the pre-tax price hasn't changed – that is, the cameos assume full pass-through of taxes in the retail price but no additional retail price increase/margins.
  - The cameos show the difference in the rounded excise and GST amounts.
- Family car – 60 L capacity, U91 petrol
  - The excise component of filling the tank completely was $28.62. This has gone up by **66 cents** to $29.28. Using the average U91 price in Sydney CBD this week of $1.87, the total cost of filling the tank completely will go up by **73 cents** from $111.96 to $112.69.
- Toyota Hilux – 80 L capacity, diesel
  - The excise component of filling the tank completely was $38.16. This has gone up by **88 cents** to $39.04. Using the average diesel price in Sydney CBD this week of $1.92, the total cost of filling the tank completely will go up by **97 cents** from $153.68 to $154.65.
- Heavy on-road prime mover – 1,100 L tank, diesel
  - For fuel used by eligible businesses driving heavy vehicles on public roads, there is **no net impact** for a business from indexation. The business will claim back any increase in fuel excise when claiming

their fuel tax credits (FTCs). These FTCs will include the impact of the Road User Charge (RUC) of 28.8 cents, but the RUC does not change when fuel excise changes.
  - There is an **upfront cash flow impact** for this business, however. Using the average diesel price in Sydney CBD this week of $1.92, the upfront total cost of filling the tank completely will go up by **$13.31** from $2,113.10 to $2,126.41. The business will not get this back until they claim their FTCs back on their BAS, either monthly or quarterly. Any upfront increase in GST will also be claimed as input tax credits on their BAS.
- Off-road use of excisable fuel – e.g. miners and farmers
  - Further to the key points in my earlier email, businesses eligible for full FTCs for off-road users of excisable fuels will be entitled to all increases back as FTCs or input tax credits, including amounts attributable to indexation.

		Pre-indexation						
		Tank size (L)	*Fuel price[1]($/L)*	*Excise rate*	*Tank*		*Pre-tax price*	
					Total excise	*GST[3]*		
Family car - Petrol (U91)		60	$1.87	$0.477	$28.62	$10.18	$73.16	$
Toyota Hilux - Diesel		80	$1.92	$0.477	$38.16	$13.97	$101.55	$
"Big rig" - Heavy on-road	Gross	1,100	$1.92	$0.477	$524.70	$192.10	$1,396.30	$2
	Net[2]	1,100	$1.56	$0.288	$316.80	$0.00	$1,396.30	$1

[1] FuelCheck, Sydney CBD, 7d average at 2 August 2023.

[2] Net reflects the impact of a business claiming FTCs and GST input tax credits. Specifically, it includes the effect of FTCs on effective fuel

[3] The net impact of GST in fuel prices for businesses will ordinarily be zero as these amounts will be received back as input tax credits.

As always, we're very happy to discuss if you have any further questions or concerns.

Regards,

s 22

Hi s 22

As requested, some defensive points on the recent fuel indexation increase.

Points
- Indexation of fuel excise is a longstanding feature of the tax system and is designed to ensure that the tax component of fuel remains proportionate to the price of the goods and to provide a fixed sourcing of funding for road infrastructure.
- Effective from 1 August 2023, the 6 monthly CPI indexation increase to alcohol excise occurred automatically under existing legislation. The increase to the fuel excise rates, as with alcohol, was 2.2%.
- The rate for petrol and diesel has gone up by **just over 1 cent**, from 47.7 cents per litre to 48.8 cents per litre.
- The revenue attributable to indexation of fuel since 2014, when indexation was reintroduced, is hypothecated to the States and Territories for road funding via the Fuel Indexation (Road Funding) Special Account. This increase will therefore go directly to the States and Territories.
  - For 2021-22, $1,072 million was credited to the Special Account.
- Many businesses will feel less or no net impact from indexation:
  - Businesses who use fuel for off-road purposes, such as mining or farming, receive all excise back as fuel tax credits (FTC).
  - Businesses who drive heavy vehicles on-road only pay net fuel excise, that is less the Road User Charge, currently 28.8 cents. This means these businesses will not feel any net impacts on fuel excise indexation (except as an upfront cost refunded on the BAS).

Cameos forthcoming – we'll send when they're ready.

Happy to discuss as always.

Regards,

s 22) — **Analyst**
Indirect and Industry Tax Policy Unit, Tax Framework, Indirect, Industry and State Tax Branch
Personal and Indirect Tax and Charities Division
P s 22

treasury.gov.au
Langton Crescent, Parkes ACT 2600
[Twitter](#) | [LinkedIn](#) | [Facebook](#)

The Treasury acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.

OFFICIAL
OFFICIAL

FOI 3470 -
Document 2

Australian Government
The Treasury

Ministerial Submission

MS23-001300

FOR INFORMATION - Impacts of global supply-chain and inflation pressures

TO: Treasurer - The Hon Jim Chalmers MP
CC:

s 22

[redacted]

3 pages have been removed from this document as irrelevant material under section 22 of the FOI Act

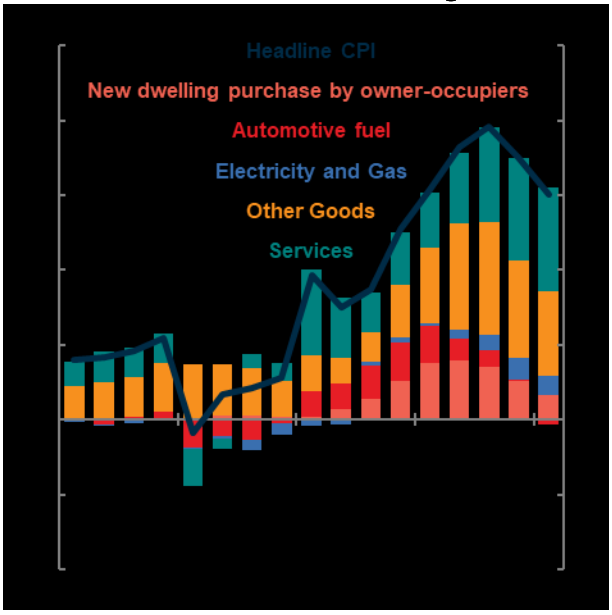
ATTACHMENT A – ADDITIONAL INFORMATION

s 22

[redacted]

s 22 [redacted]

Chart 6: Contributions to CPI growth



Source: ABS Consumer Price Index, Treasury
Note: Contributions are back-cast using 2022 CPI expenditure weights.

– Australian petrol prices have fallen as oil prices have retreated significantly from their recent peak in early 2022 (Chart 7). In the June quarter 2023, fuel prices experienced an annual fall of 3.6 per cent, the first annual decline since early 2021.

s 22 [redacted]

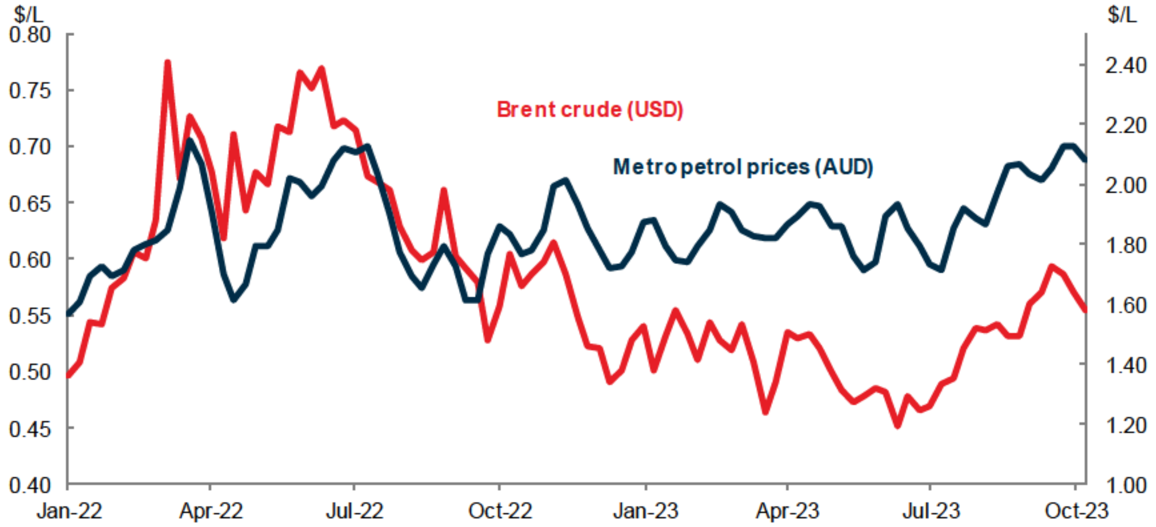
FOI 3470 - Document 4

Israel–Hamas conflict: Oil market, petrol price and inflation impacts

Key points:

- Renewed rises in crude oil prices in recent months reflect tightening in the global oil market following ongoing cuts to production from OPEC+. In line with these rises, higher petrol prices are flowing through to headline CPI in Australia, and across many other advanced economies.
  - According to the ACCC, there is generally around a 1-to-2-week lag between changes in international prices and changes in retail prices in Australia's 5 largest cities.
- Petrol prices have recently risen to levels similar to those seen during the recent record-high oil prices in early 2022, despite non-commensurate rises in global oil prices. This can be explained by various factors such as the exchange rate, taxes, refinery costs and margins, and transport and storage.
  - Differences in the value of fuel excise taxes are a key driver of differences in domestic petrol prices in early to mid-2022 and over recent months. This is adding approximately 22 cents per litre to metropolitan prices.
  - The depreciation in the exchange rate since early 2022 has also contributed significantly to the increase in domestic petrol prices.
    - Since May 2022, the AUD has depreciated by around 12 per cent against the USD.
  - While refinery margins are volatile and a relatively small share of the domestic petrol price, they are averaging above previous long-run levels.
    - These margins are much larger contributions to global refined oil prices.

Chart 1: Petrol prices relative to crude oil prices

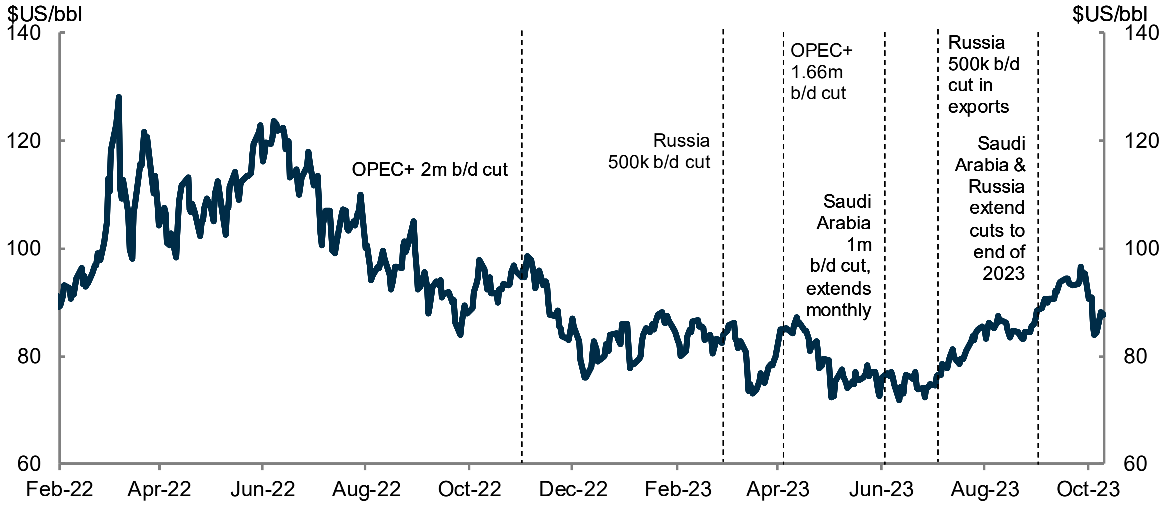


Additional information

Global crude oil prices

- Global oil prices have increased by around 25 per cent since mid-June 2023. A key driver has been the tightening of conditions in oil markets following the announcement of OPEC+ production cuts in May. The cuts have since been extended until the end of 2024, and supplemented with further production cuts by Saudi Arabia and Russia (Chart 1).
  - Voluntary production cuts by Saudi Arabia and Russia began in March and July respectively. They are reviewed on a rolling monthly basis and have been extended until the end of 2023.
  - While these supply curbs are expected to keep oil markets tight for the remainder of the year, conditions may ease in early 2024 with increasing non-OPEC supply, including higher US shale production and Latin American output. Some easing in prices may also materialise if markets perceive that global demand is not as robust as currently assumed.
- The ongoing Israel–Hamas conflict saw prices initially increase by 4 per cent on Monday 9th October, but they have since stabilised. While the direct impact of the conflict on the global oil supply is limited as neither Israel nor Palestine are major oil exporters, there are market concerns about a broader regional conflict in which global oil cargoes might be temporarily curtailed.
  - Thus far, there are limited signs of an escalation of the conflict. Furthermore, any escalation that involved Iran would have a relatively limited impact on global supply flows, as Iran is already subject to US sanctions that limit exports.
  - A more rapid increases in the oil price due to an escalation of current conflicts may be offset by the release of spare oil capacity by OPEC+, led by Saudi Arabia.
- There are some concerns about the level of the US Strategic Petroleum Reserve (SPR), which currently holds 351 million barrels – around half the 10-year pre-pandemic average and 250 million barrels lower than the level of stockpiles prior to the first Biden administration release in December 2021.
  - The SPR was depleted in 2021 and 2022 after the Biden administration released 50 million barrels in December 2021, before 30- and 180-billion-barrel releases in 2022. The SPR averaged 690 million barrels in the 10 years prior to the COVID-19 outbreak.
  - At current levels, the US government has less ability to respond to a marked deterioration in market conditions.

Chart 2: Brent crude prices ($US/bbl)

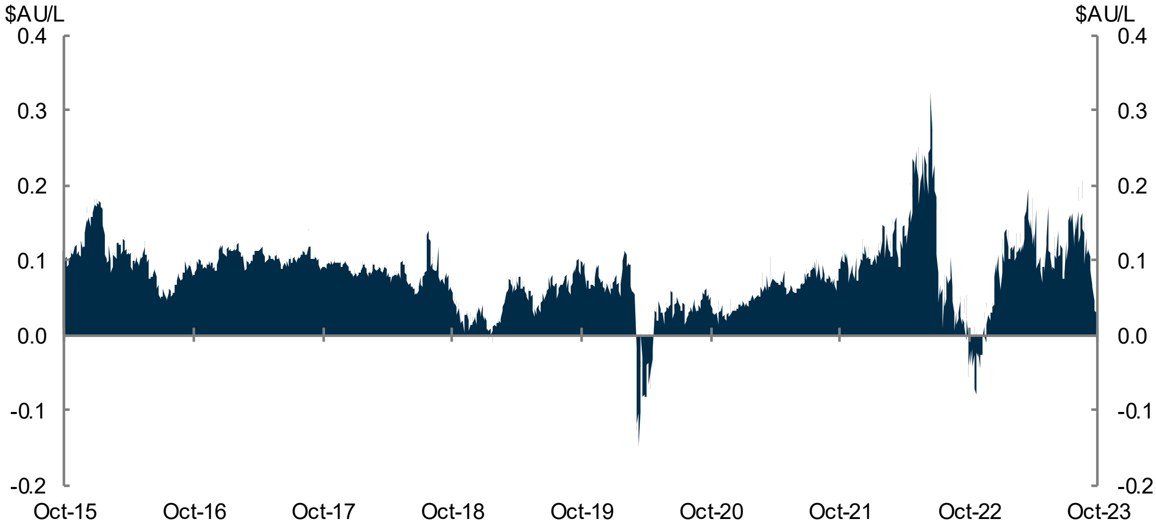


Source: Bloomberg; b/d stands for barrels per day.

Global refining capacity

- Media and analysts are reporting that global refining capacity is tight (i.e. demand growth is outpacing supply), and this is leading to some increases in margins for refiners; Reuters are reporting that refiners in the Asia region have increased their margins from $8 a barrel in July to $12 a barrel in August.
- The tightness of the market is partly a mirror of the underlying crude oil market. Demand for refined products is outpacing supply, and this is leading to a lift in their price over and above the increase in the underlying cost of crude oil.
- In recent years, global refinery margins have been further buoyed by a fall in global refinery capacity following the COVID-19 pandemic, sanctions on Russian crude and oil-linked products that have tightened global diesel supplies, and China's refined fuel export restrictions since the second half of 2021.
  - The recent outages at Asian refineries, including Petronas' PIC refinery in Malaysia, Hyandai Oilbank's refinery in South Korea and Japan's ENEOS have also supported margins.
  - Oil-linked products from Russia have been harder to re-route than crude, as there are fewer specialist tankers and willing buyers due to international sanctions. There is now a large quantity of Russian diesel being more expensively stored in trading hubs or at sea.
- Market analysts expect the market to gradually ease (but remain generally tight), as the return of capacity post-maintenance helps to ease pressures.
  - Margins also exhibit significant volatility in daily and weekly trading.

Chart 3: Oil refinery margins (Mogas 95 and Brent spread)

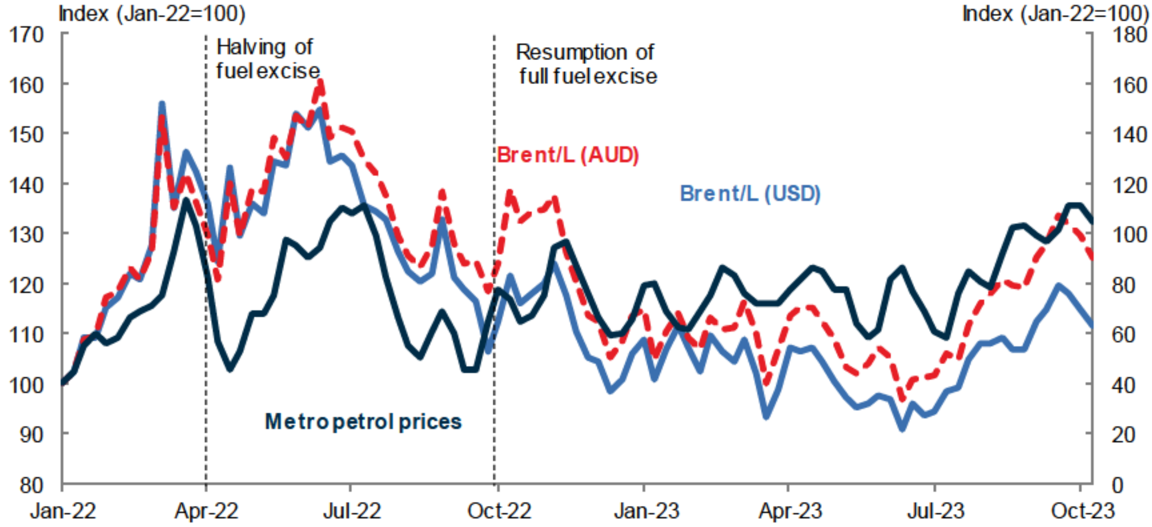


Note: This spread is an industry proxy for refinery margins.
Source: Bloomberg; Treasury calculations.

Motor vehicle fuels and headline inflation

- In addition to refinery margins and global commodity prices, other drivers of petrol prices include taxes, the AUD:USD exchange rate, refinery costs and transport and storage.
- Changes in these other cost components may lead to a disconnect between movements in the global commodity prices and petrol prices faced by consumers.
- The temporary reduction in the fuel excise tax in mid-2022 reduced the domestic price of petrol at that time when compared to domestic petrol prices today.
  - The unwinding of the cut is adding approximately 22 cents per litre to metropolitan prices today.
- In recent weeks, depreciation of the Australian dollar has likely placed further upward pressure on fuel prices (Chart 6).
  - Since Budget the AUD/USD exchange rate has depreciated by around 5 per cent to 64 cents, as of 12 October.
  - This depreciation is in addition to the fall in the AUD between May 2022 and May 2023, cumulatively the AUD has declined by 12% against the USD over this period.
- Other factors that influence the domestic price of petrol also vary over time, our assessment at this stage is that they are not playing as significant a role in supporting domestic petrol prices as the difference in fuel excise duty and the exchange rate.

Chart 4: Crude oil and final bowser prices



Source: Australian Institute of Petrol; Bloomberg.

Recent global experience

- Given the movements in global markets, most countries have experienced increases in motor vehicle fuel prices in recent months, which has placed upward pressure on headline CPI. For example, in August, motor fuels contributed 0.4 percentage points of the 0.6 per cent increase in monthly CPI in the US.
- Motor vehicle fuel prices account for 3.5 per cent of the CPI basket in Australia and fuel inflation reached 13.9 per cent through the year in the August 2023 Monthly CPI Indicator. In Australia, the US and Canada, motor vehicle fuel prices have led the annual rate of inflation to rise, while in other countries, deflation elsewhere in the basket has meant that the rate of headline inflation has continued to fall.

Chart 5: Headline inflation

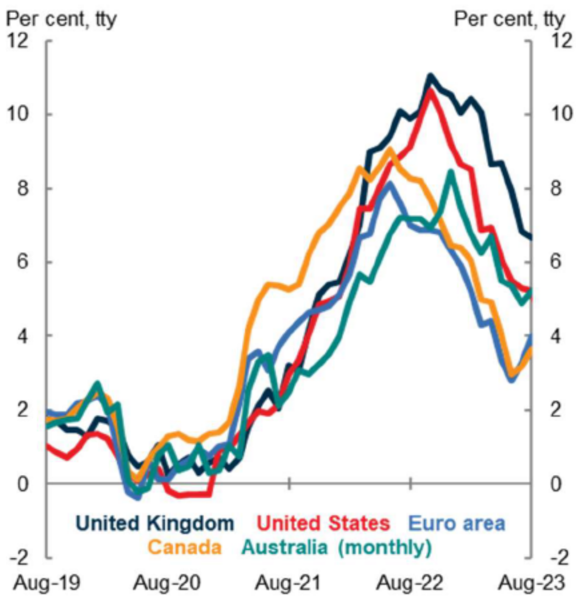
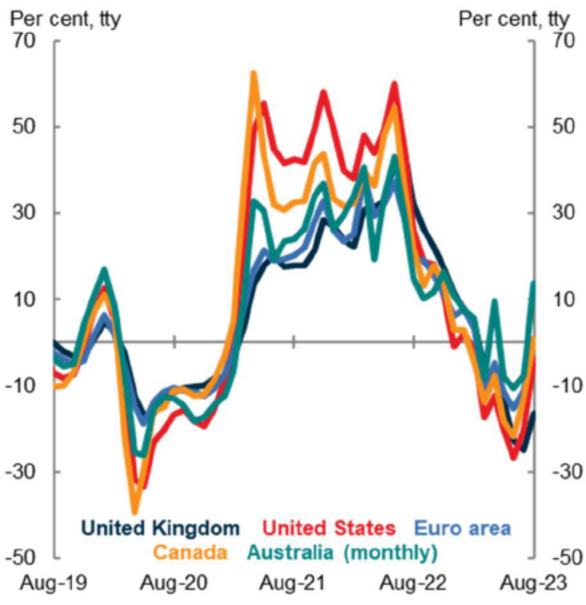


Chart 6: Motor Vehicle Fuel inflation



Source: National statistical agencies; Refinitiv.

Table 1: Key country headline and MV fuel inflation

	Headline tty (Aug)	Headline tty (Jul)	MV fuel mom (Aug)	MV fuel weight
UK	6.7	6.8	3.8	2.5
Euro area	5.2	5.3	5.4	4.2
Canada	4.0	3.3	4.6	3.9
US	3.7	3.2	6.1	3.5
Australia	**5.2**	**4.9**	**9.1**	**3.5**

Source: National statistical agencies; Refinitiv.

FOI 3470 -
Document 5

s 22 [redacted]

From: s 22 [redacted]
Sent: Monday, 9 October 2023 3:55 PM
To: s 22 [redacted]
Cc: s 22 [redacted]; Redmond, Ineke; s 47E(d) [redacted]
Subject: Inflation outlook: near-term risk factors [SEC=PROTECTED]

~~**PROTECTED**~~

H s 22 [redacted]

s 22 [redacted]

- s 22 [redacted] s 47E(d) [redacted]

s 22 [redacted]

Beyond the June quarter, there are several upside risks to inflation, through the year to the June quarter 2024.

- Recent increases in global oil prices are flowing through directly to the prices paid by household at the bowser for petrol. They will also have further flow-on effect to prices of goods and services via increased production and distribution costs.

s 47E(d) [redacted]

s 22 [redacted]

s 22 [redacted]

Kind regards,

s 22 [redacted]
Prices, Wages and Labour Market Unit
Macroeconomic Conditions Division
P s 22 [redacted] **M** s 22 [redacted]

~~PROTECTED~~

Monthly CPI Indicator, August 2023

Talking points

s 22 [redacted]

- **The uptick in the CPI indicator was driven by the large rise in petrol prices this month.** s 22 [redacted]
  - Petrol rose 9.1 per cent in the month and 13.9 per cent tty, adding around 0.5 ppt to annual inflation (Chart 3).

s 22 [redacted]

Key movements

- **Automotive fuel** prices rose 13.9 per cent tty (Chart 3), this follows consecutive price falls over the past three months, reflecting higher global oil prices.
  - In monthly terms, automotive fuel prices rose 9.1 per cent in August, following a fall of 0.2 per cent in July.

s 22 [redacted]

s 22 [redacted]

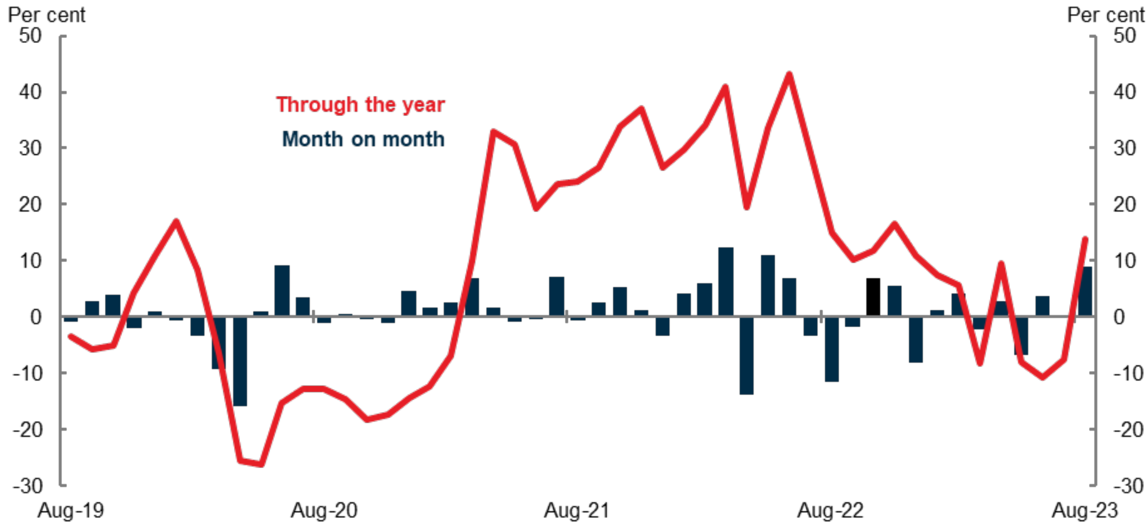
Forecast implications

s 22 [redacted]

- Further petrol prices have risen considerably in the September quarter, s 47E(d) [redacted]
  - Petrol prices increased 9.1 per cent in August. At face value, weekly petrol data suggests around another 4 per cent increase in September.

s 22 [redacted]

Chart 3: Automotive fuel price growth



s 22 [redacted]

FOI 3470 - Document 7

s 22 [redacted]

From: s 22 [redacted]
Sent: Friday, 22 September 2023 3:11 PM
To: s 47E(d) [redacted]
Cc: s 47E(d) [redacted]
Subject: Preview: Monthly CPI Indicator, August 2023 [SEC=PROTECTED]

Australian Government
The Treasury

MECD data preview

~~**PROTECTED**~~

Preview: Monthly CPI Indicator, August 2023

Key points

- **Annual inflation is expected to increase in August, for the first time since March 2023,** largely owing to strong growth in **automotive fuel** prices. This is reflected in market expectations of a 0.3 per cent rise in through the year inflation to 5.3 per cent.
  - Weekly petrol price data suggests that prices rose around 8.5 per cent in August and fell by around 12 per cent in August 2022, s 47E(d) [redacted]
  - Data for the quarter to date suggests petrol prices have risen around 6.8 per cent in the September quarter, s 47E(d) [redacted]

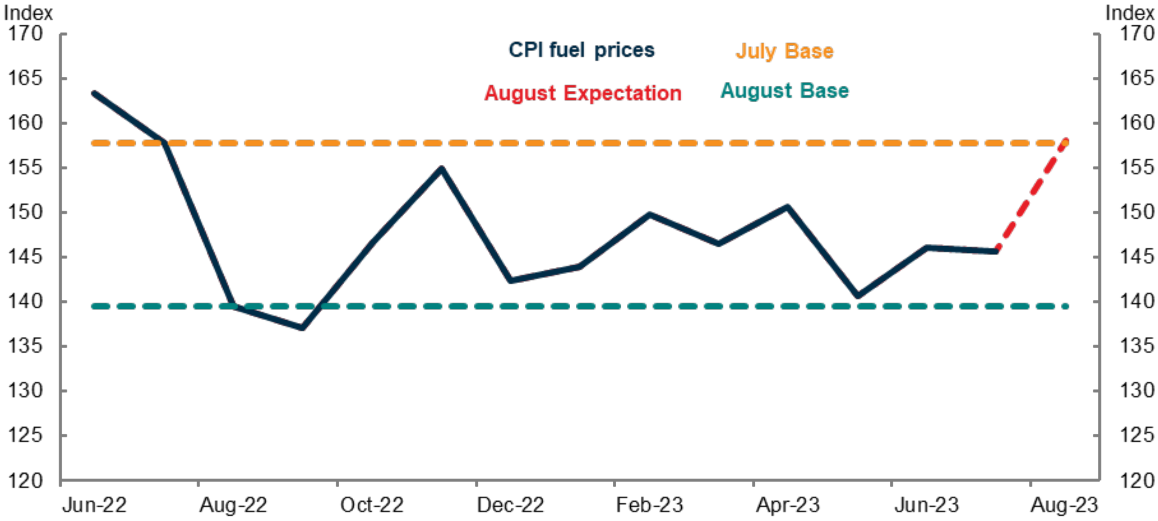
s 22 [redacted]

2 pages have been removed from this document as irrelevant material under section 22 of the FOI Act

s 22

[redacted]

Chart 3: CPI automotive fuel, showing base effects and August expectations



s 22

[redacted]

FOI 3470 - Document 8

s 22 [redacted]

From: s 22 [redacted]
Sent: Friday, 25 August 2023 3:34 PM
To: Treasurer Policy Advisers; Executive Board
Cc: s 47E(d) [redacted]
Subject: Preview: Monthly CPI Indicator – July 2023 [SEC=OFFICIAL]

s 22 [redacted]

s 22 [redacted]

s [redacted]

s 22 [redacted]

– **Weekly petrol price data suggests that fuel prices fell by around 6 per cent through the year to July, up from a 10.6 per cent fall in the June Monthly CPI Indicator.** s 47E(d) [redacted]

s 22 [redacted]

3 pages have been removed from this document as irrelevant material under section 22 of the FOI Act