

Address cost-of-living and inflationary pressures by reducing fuel costs via the fuel excise.

Overview

- The fuel excise is one of the oldest taxes in Australia, applying since Federation in 1901. It is a tax levied by the federal government on petrol and diesel bought at the bowser and is collected from the producers or importers of fuel when fuel leaves their depot or terminal.
- While the fuel excise was originally linked to road funding, this link has weakened over time:

“The formal link to road funding most recently ceased in 1992. Since then, fuel tax has been a general revenue-raising tax with only a minor link with the Australian Government’s overall level of road funding.”¹

- Motorists currently pay 49.6 cents in excise for every litre of fuel they purchase.
- However, the excise amount is not static and increases biannually in line with CPI.
- Indexation was introduced in 1983 to maintain the real value of excise collections, abolished in 2001 and then reintroduced in 2014.

WHAT ARE WE CALLING FOR?

- To reduce the impact of rising fuel prices, government could:
 - temporarily reduce the fuel excise while oil prices remain high (as was done in 2022);
 - pause indexation while oil prices are high; or
 - revise the method used to calculate indexation to ensure it is not contributing to inflationary pressures.

Why is the policy needed?

- As Figure 1 shows, annual average petrol prices (national) increased dramatically in 2021 and 2022 after a dip in demand caused prices to fall during the peak of the COVID-19 pandemic in 2020.
- According to the most recent Australian Bureau of Statistics (ABS) automotive fuel was one of the primary contributors to change in CPI in recent times. Automotive fuel increased in cost by 7.9% in the 12 months to September 2023 – one of several key CPI categories experiencing high increases over this period (others include rents 7.6%, bread 12.6%, ice cream and dairy 11.2%, postal services 14.2% electricity 14.5% and insurance 14.7%).²
- Worryingly, rising fuel costs impact the cost of many everyday items. According to the Reserve Bank of Australia (RBA), rising fuel costs directly impact the cost of groceries.³
- Given that indexation of the fuel excise is linked to inflation, it is possible that as oil prices and indexation from CPI increase, this creates an inflationary spiral.

- According to the Australian Competition and Consumer Commission (ACCC), petrol prices have increased recently because of international factors.⁴
- While government has little control over oil and refined petrol prices, it does control end prices via the fuel excise.
- With taxes making up as much as one-third of retail petrol prices⁵, a change to the fuel excise is one way to minimize the impact on motorists.

Budget impact

- There is precedent for delivering cost-of-living relief for energy costs.
- The 2023–24 Budget delivered electricity bill concessions to the value of \$1.483 billion to provide direct support to households and small businesses.
- The 2022-23 Budget provided a halving of the fuel excise for six months at an estimated cost of \$5.6 billion.
- The cost of reducing the fuel excise will depend on the level at which government chooses to reduce the excise, or pause, or review indexation of the excise.
 - A halving of the fuel excise for six months would cost approx. \$5.6 billion.
 - A more modest cut of 25% in the fuel excise for six months would cost approx. \$2.8 billion.
 - A pausing of indexation or revision of indexation methodology would be much less costly, although with less immediate impact for motorists.
- The fiscal position of the budget means it is possible for government to reduce the excise, pause indexation, revise indexation methods or a combination of all three.
- With inflation and migration boosting underlying revenue, the government is in a good position to provide targeted cost-of-living relief via fuel costs, especially if this reduces inflationary pressures in the broader economy.

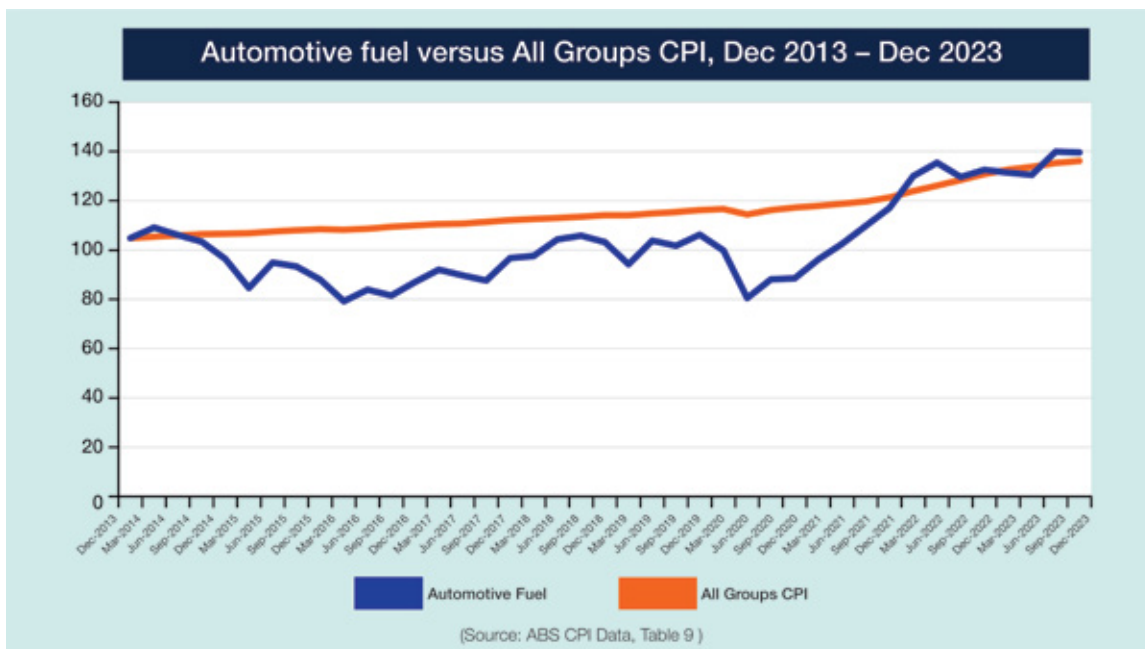


Figure 1: Automotive fuel versus All Groups CPI, Dec 2013 – Dec 2023⁶