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Dear Sir / Madam.

RE - MISSION ON FUEL SECURITY

The Prime Minister's Taskforce Report (The Report) is flawed. The Biofuels participants have been badly done by. This submission is designed to raise important issues regarding the efficacy of The Report and the resultant unresolved issues facing this nation in respect of its fuel security.

To date there has been a dearth of commonsense and willingness to address what is clearly obvious, that is, an oncoming worldwide oil based energy crisis of escalating soci-economic and political dimension.

Surprisingly few have correctly identified the threats to Australia, its industries and its people in contradiction to The Report. where the Taskforce members accepted the governments 2004 policy on energy security - "that Australia has a high level of energy security" and that" the level of security for Transport fuels was not under threat"

and

"The Taskforce supports the energy White Paper conclusion that there is currently no case for the government to accelerate the uptake of these fuels (*i.e. Biofuels*) on energy security grounds".

We, as Australians are entitled to speak out where findings of such significance are made contrary to any reasonable review of foreseeable risks, and certainly where such findings are based on flawed assumptions which strike at the heart of the Report's economic model.

It is obvious that the foreseeable risks presently pertaining to the World's oil industry, which would affect Australia's Fuel Security, were not given any weight or consideration in the Taskforce's Risk Assessment process.

When any review of security of this nation is conducted, it is imperative that its ongoing fuel supply "its energy lifeblood" should figure high on any such assessment and this should not be based on a "blinkerred" view of market prices where reliance is placed on a sanguine acceptance of an ongoing orderly market.

Such assessment should not be based only on the assessments of economists and statisticians.

Matters involving continuity of supply should be rigorously assessed for potential physical & political risks by appropriate agencies.

The Report, by accepting the continuing existence of an orderly world market with unlimited fuel and extremely favourable oil prices, failed to address:

- The effect of possible/probable Oil Peaking in major production fields.
- The effect of substantial increases in fuel demand worldwide particularly in the United States of America, China, South Korea, India as well as continuing increases in all other nations.

- The effect of the ongoing lack of fuel processing facilities to cope with known increasing demands.
- The lack of new oil reserve discoveries to even counter the increased demand cycle let alone the added problem of Oil Peaking.
- The ongoing turmoil in the Middle East which is the major source of world oil supply.
- The disputation with Iran by certain members of the Security Council of the United Nations and it's potential to escalate and exacerbate the present Middle East crisis thus causing Russia & China, economic partners of Iran, to be potentially involved.

"The notion that the United States is getting ready to attack Iran is simply ridiculous...Having said that, all options are on the table"

- President George W. Bush, February 2005

- The effect of the possible formation of a new Oil Transaction Bourse shifting away from US\$ to Eurodollars.
- The effects of the risks of shipping oil from the Middle East to refineries in the Asian area (our source of refined fuel).
- The effect of potential interdiction on such shipping by terrorist groups during transit between the Middle East and its ultimate delivery to Australian ports.

NB: *See the recent attacks on shipping and offshore oil & gas rigs.*

- The effect of an attack/sabotage on the Singapore fuel refinery system, the source of Australia's refined fuel products.
- The effect on supply line disruption to the immediate Asia Area where the country with the largest Trade Credit in Balance of Payment terms e.g.: China, could outbid all others for the resulting limited supply of fuel.

These are just some of the risk issues that do not appear to have been addressed.

Neither is it clear whether any Risk Assessment has been provided from security agencies more cognisant of such matters

The use of flawed assumptions as to the World Oil Pricing and the AU\$/US\$ exchange rates in ABARE's 2003 and 2004 Reports

have to date proved to be incorrect, notwithstanding their review and acceptance by an independent consultant of perceived world stature & reputation. (See Australian Financial Review. 28-11-05 : Matt Drummand . Page 8)

ABARE's 2005 revisions for the Task Force Report were also flawed and again were basically accepted by the same consultant.

Even at the time of the presentation of The Report the assumptions on oil pricing and exchange rates were still incorrect.

Yet it was on this flawed advice that the Task Force reached its conclusions .

ABARE in the September Quarterly Report has changed it's assumptions for the average price for 2005 and 2006 to be US\$58 bbl – a some what robust 81% 'back flip' now that the Task Force Report has been presented.

This new forecast belatedly confirms the validity of the assumptions made by Bio-Fuels participants in their submissions to the Task Force .

With respect, it is this flawed approach that is presently leading our country into serious error in the formulation of its Public Policy on the need for far greater self sufficiency of energy sources.

It has also resulted in the “inadvertent” suppression of the real state of our fuel security and the true financial state and impact arising from our reliance on imported oil and refined fuels.

The Report, based on ABARE’s expert forecast, was in the ‘Medium Term’ assumption (P.108 Report):

US \$23 bbl December 2003 – with an exchange rate forecast of
of 60cents

US \$32 bbl July 2005 – with an exchange rate forecast
of 65 cents

The forecast of those oil pricing models would appear to mirror price forecasts some of the press releases of the international oil companies at that time.

The best indication for such pricing would be that of the market place.

It is known that the present price of oil is, in and around US\$56-60 bbl whilst the NYMEX Futures Market further indicates that for the year 2006 the average price is US\$ 63.21 bbl.

To emphasise, the assumptions to date have been badly flawed and, it is suggested, will continue to be flawed.

It was on this basis that the Task Force Report purported to assess the question of the financial impact arising from the mandated introduction of Bio-Fuels

How does this translate into the real status of Security of Fuel for Australia, its industries and its people?

Well for one thing failure to forecast accurately affects our real time appreciation of our Trade Deficit and Foreign Debt

An example of this effect can be gleaned from the ABARE September Report 2005.

According to “in-house modeling” the rate of Gross Transports of Crude, Condensate & Refined Fuels in 2006 will total 57% of our fuel consumption.

Applying an average oil price based on NYMEX FUTURES of Light Crude of US\$ 63.21 bbl (as a market place reality check for risk assessment purposes) it would seem that the more likely monthly balance of trade deficit for this sector would be in the range of \$921,000,000 - \$1,200,000,000 (based on an exchange rate of \$ 0.7568 net) per month.

This is a potential deficit of \$12,000,000,000 per year.

Australia’s liquid fuel imports equal our Trade Deficit. Therefore all of this deficit is borrowed month by month. The ordinary motorist when he fills his tank is paying 60% of what he puts in the car for fuel originating overseas in various forms.

In simple terms our fuel security relies on foreign oil, foreign shipping, foreign processing, foreign goodwill, to ensure that the country can continue to exist as we know it.

We have no other broad based solution on the table. We would appear to be “shackled” by a lack of vision to an ever increasing reliance on foreign sources for our economic wellbeing.

Is there a possibility that the present price of oil is some form of aberration? Will it drop back to ABARE’s US \$32 bbl?

On the 5th September 2005 in the Age, IMF Managing Director Rodrigo Rato in addressing the question of the risk to economies posed by oil pricing stated “(the) high price of oil passed on increasing risk to the outlook” and “the price of oil was a clear risk which was increasing, not decreasing ” (See also Financial Review 28-11-05 :Page 25 - Ed Shann (Oil remains economic bogymen)

Is there is a likelihood that the other major factor in the trade deficit equation, our AU\$/US\$ exchange rate, will accelerate considerably in the near future ?

The sensible answer to all questions is “not likely”, with a caveat that, in the case of the exchange rate, it may fall back to US\$65cents.

In that event, the cost of oil and the refined liquid fuels component of the Balance of Trade figures would be further increased to Australia's economic detriment in net terms.

Using the ABARE September Quarter 2005 figures from the Oil & Gas Outlook, and using the exchange rate of US\$65 cents as forecast for the The Report, the monthly Oil Sector Trade Deficit would be \$1,050,761.285 i.e.for the coming year \$12.6 Billion.

Model studies using the same forecasts show that there is a Net Deficit of 30% on Crude Oil alone.

It predicts that for the year 2006 The Net Deficit for combined liquid fuel is:

Total Imports Fuels Value AU\$:	\$19,213,452,056
i.e. per month	\$1,601,121,005

Given our increasing demand for fuel and coupled with our rapidly depleting local oil fields, it is clear that there is an urgent need for the development and introduction of Australian based energy sources particularly of a green and clean nature.

Mr. Beazley, in his recent Blueprint Address on Fuel Security in Australia, referred to Australia relying on imports for 17% of overall petrol consumption.

The better figure for the public understanding is that approximately 60% of all liquid transport fuel used in Australia comes in a ship.

It should be noted that oil used in the local refineries to make liquid transport fuel is also imported from overseas. By the mid 2008 our nations self sufficiency level in fuel will drop to less than 50%.

It is passing strange that, while the rest of the industrialized world has recognized and implemented renewable energy resource policies, Australia has “sat on its hands” over the last few years especially in the percentage of Renewable Biomass Energy to New Energy where it has fallen behind by approximately 16%.

Compare this sad situation to the percentage of Renewable Energy and New Energy in the following countries:

Countries	% Increases
USA	82%
Canada	100%
U.K.	64%
France	81%
Japan	66%
Sweden	91%
Denmark	55%
Austria	97%

(Source: National Food Research Institute Japan. Jan. 2000, and ABARE June 2005-Statistical Release.)

Australia's demand for fuel is increasing at an average rate of approximately 2% per annum and our local supply is depleting by a similar figure.

Australia urgently needs to implement national policies to drastically reduce our present reliance on imported fuel/energy.

What is so different about Australia's energy needs that we fail to follow the clear renewable energy path of other nations?

At present Australia's fuel reserve is approximately 12% of our annual requirement and 70% of this figure is needed for essential services.

If our Nation has no Fuel Security we will have all the ingredients for a national disaster.

Australia requires a new and urgent concentrated shift to renewable energy. It needs certainty. ie. a mandate, in any plan for the introduction of Bio -Fuels for obvious commercial reasons.

More importantly it needs to address the basic question – "Why is there a need to place an Excise Duty on any form of green and clean energy source ? "

Is there any doubt that any reduction in GHG emissions brought about by new green , clean energy will appear on the Government's environmental credit list of accomplishments ?

Is the Treasurer going to place "Excise Duty" on Wind Power, Geo-thermal etcetera on the spurious economic reasoning that all energy should be taxed at the same rate? Why should the "non polluters" be punished ?

He has already given notice of his intention to abolish the Excise Exemption for the process of converting waste plastic to low sulphur diesel thus nullifying an important Public Policy of keeping 'waste plastic' out of land fills.

It is my earnest hope that all sides of politics will realise the significance of this foreseeable threat to our nation, its wellbeing and way of life and will join together perhaps in a bi-partisan manner similar to existing committees dealing with matters of security to plan for and minimise this potential threat to our very existence .

It is a worthwhile peace time task where the result is a safer, self reliant nation and people.

Yours sincerely,

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