

DIER
The Project Manager
Tasmanian Oil Price Vulnerability Study

Dear Sir/Madam,

Thank you for allowing us to participate. We look forward to seeing the outcome of this study.

Is the Tenants' Union of Tasmania (TUT) concerned about the possible effects from oil price "shocks" in relation to the added impost on individuals, families and communities?

Yes, the TUT is concerned by oil price volatility. The oil price impacts on the cost of most, if not all, goods and services. Tenant households are on average amongst the poorest households in Australia. More of their disposable income is spent on goods and services than other groups (i.e. owner-occupiers, investors) and therefore they would be hit harder from oil price rises than other groups.

The TUT is particularly concerned that the welfare of the poorest Tasmanians is reduced by increased oil prices, and that Tasmanian oil prices swing dramatically depending on demand for oil, the amount of oil reserves, price speculation and the Australian exchange rate. In other words, the ability of many Tasmanians to pay for essentials is out of their hands and in part depends on the concentration of international capital (speculation) and mainland Australian mining (exchange rates).

Locally, Tasmania's poor public transport system means that many households rely on private vehicles as their main mode of transport. Fuel is a considerable component of a tenant household's expenditure and long-term increases in the oil price will mean less spending on essential goods and services.

In addition, without increases in housing supply (or a prick in the housing bubble), rents will continue to rise in excess of inflation. There is anecdotal evidence of people in Southern Tasmania being pushed into 'shack' suburbs due to the rising cost of city housing. If transport costs rise greatly, city properties, close to amenities and employment, will look more attractive and become even more expensive. This will push poorer tenants further out, and with less amenities and expensive transport, they will end up with less employment opportunities, exacerbating the social exclusion of vulnerable tenants.

The TUT calls for an increase in housing supply especially affordable medium to high-density dwellings in areas with accessible, adequate amenities. This will ameliorate the effects of increased transport costs from increased long-term oil prices.

Do you have views on how oil price shocks may directly or indirectly affect the environment?

The TUT is concerned that relying on market signals (i.e price) to make investment decisions about future energy needs will lead to environmental disaster. The carbon dioxide produced from petroleum makes up a significant percentage of greenhouse gases that cause global warming. Global warming will cause more extreme weather events, reductions in food and water supplies and impact badly upon the health and wellbeing of people across the globe.

Industry needs to move towards renewable energy sources to avoid the ecological disaster that will reduce the welfare of all, including the people of Tasmania. Many have hoped that an increase in the price of oil from the reduction in oil reserves will 'signal' to industry to invest in renewable energy. However, significant factors in the short to medium term price of oil are speculation and relative exchange rates and the wildly fluctuating price from these factors is likely to make the private sector apprehensive about investing in alternative energy technologies before an energy crisis occurs. Even if industry reacts to oil prices, there is no guarantee that the new technologies will be environmentally friendly.

Governments need to act now to ensure that industry moves toward renewables and avoid the uncertainty that commodity markets like oil can cause.

Have you considered how [Tasmanian] tourism would be affected by possible steep rises of air, sea and land transport fuel [costs]?

Tourism is a price and income elastic product and therefore is greatly affected by both the price of travel and the reduction in purchasing power of households due to increased daily costs. Oil prices are likely to increase the cost of land and sea travel due to the lack of substitutes to oil available in the next decade or more. It is also likely that no major substitute for oil will be found for land transport in the short to medium term. Therefore, we will assume that the same types of energy used for transport today will be continue to be used.

Theoretically, changes to the number of visitors to Tasmania caused by oil price rises, will depend on the size of the rises and the composition of visitors:

If increases were severe then the number of visitors would reduce dramatically as international, mainland and intrastate tourists would reduce in number, length of stay and spending per day.

However, there could be a scenario where a moderate increase in fuel costs may increase tourism. If international visitors choose to stay 'at home', that may mean that mainland tourists may come to Tasmania rather than go overseas. As less than 3% of international tourists to Australia visit Tasmania, and make up only around 15% of all visitors, the increase in mainland visitors may more than offset

international ones. In addition, increased fuel costs may encourage Tasmanians to holiday at home rather than go to the mainland or overseas.

The TUT cannot test these hypotheses, as we do not have the ability to empirically model these variables.

Are you interested in participating in the first round of discussions to help us better understand the impacts of oil price “shocks”?

No. Unfortunately the Tenants’ Union of Tasmania does not have the personnel to be able to attend workshops in this crucial area.

For any enquiries regarding this questionnaire please contact Phil Hoffen on 6223 2591.