

Analyses

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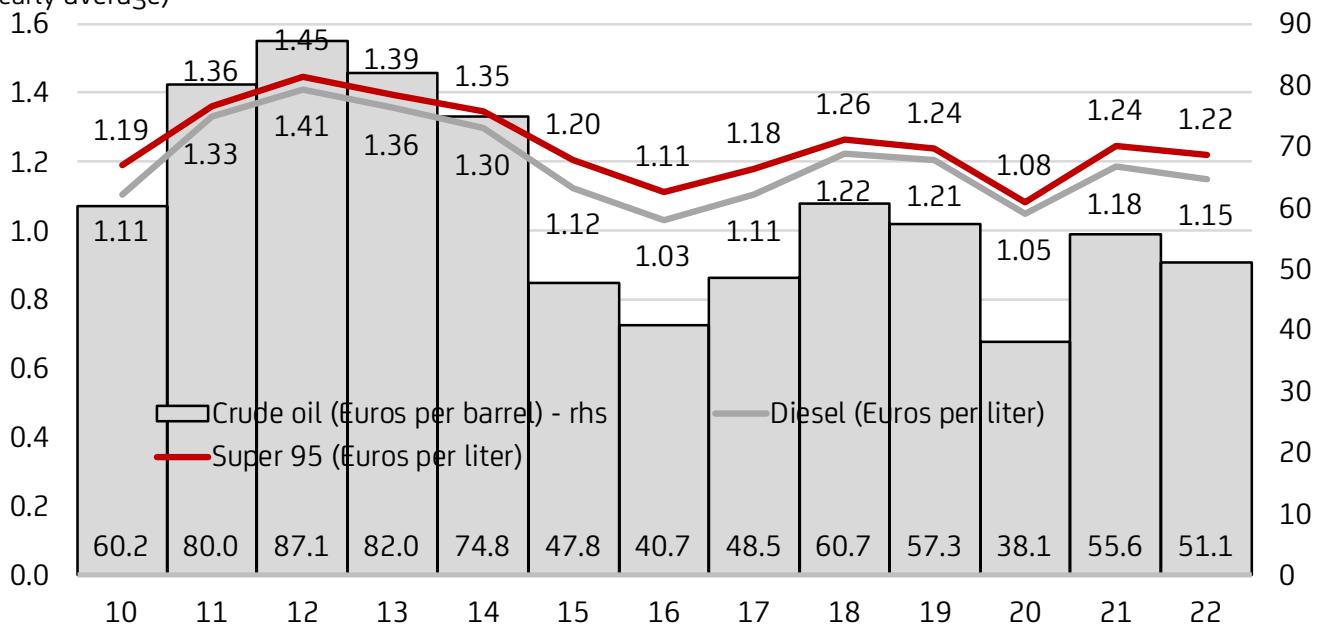
**Fuelling will soon be cheaper,
but not in the long run**



FUELLING WILL SOON BE CHEAPER, BUT NOT IN THE LONG RUN

Oil price development and fuel prices

(yearly average)



- After the strong increase in the oil price in the course of the recovery from the pandemic, which has noticeably pushed up inflation, a calming down is already expected for the coming months, which should lead to a slight reduction in fuel prices at petrol stations in 2022.
- Tax changes could stand in the way of fuel cheapening. The abolition of the diesel privilege would raise the price for 1 liter from currently 1.25 euros to 1.35 euros. In addition, an increase in mineral oil tax of up to 50% is being discussed in the event that climate protection targets are not met. The price of diesel (without the privilege) would rise to 1.64 euros, the price of super 95 to 1.61 euros per liter.
- However, the abolition of the diesel privilege does not currently pay off for the taxpayer on balance, due to the revenue from “fuel tourism”.
- However, the need to meet climate protection targets by 2030 is changing the framework for action. With skillful timing of the measures, the end of the diesel privilege as well as possible increases in the mineral oil tax will only trigger limited negative effects.
- The progress of electromobility makes it clear: soon no one will shed a tear for the diesel privilege and even the mineral oil tax will sooner or later be history.

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as of September 2021

Oil price increase in the course of the economic recovery caused fuel prices in Austria to rise significantly in 2021

The oil price increase in 2021 is responsible for about 60% of the inflation acceleration from 1.4 to 2.4% on an annual average

Oil market turns from excess demand to excess supply

2022 therefore also brings lower fuel prices at Austrian filling stations again

The good news is that petrol will soon be a little cheaper...

With the containment of the pandemic and the recovery of the global economy, demand for crude oil has increased much faster than supply. The price of crude oil, which was at a low of less than 20 US dollars per barrel in April 2020, has consequently started to rise again. Currently, crude oil is quoted at 72 US dollars per barrel. The more than fourfold increase in the price of crude oil within only 16 months was at least dampened by almost 10% in Europe thanks to the weakening of the US dollar against the euro. Nevertheless, according to our estimates, the average price of oil in 2021 will be 55.6 euros per barrel, significantly higher than the previous year's value of 38.1 euros.

This increase in the price of crude oil had consequences for the price development of many products and services. In particular, the influence via energy prices was decisive for the acceleration of inflation, which is expected to rise from 1.4% in the previous year to 2.4% on average in Austria in 2021. Around 60% of the acceleration in inflation is a result of higher oil prices alone, according to our calculations. The most direct impact is of course on fuel prices. After a low point of prices for diesel and petrol below 1 euro per liter in May 2020, the current gross retail prices according to the Federal Ministry for Climate Protection at the beginning of September 2021 are on average 1.25 for diesel and even 1.33 for super petrol (RON 95). Due to the still lower oil price at the beginning of the year, the average price for diesel in the first eight months was 1.18 euros per liter or 1.23 for super (95). The surprisingly fast recovery of the economy in the industrialised countries over the summer has further increased global demand and despite production expansions there is still an excess demand in the oil market in the third quarter. However, the oil market will soon have a surplus problem if the rollback of OPEC+ production cuts continues at the planned pace. Already in the fourth quarter of 2021, supply will exceed demand, stocks will rise again and prices will consequently fall. According to our estimates, the price of crude oil has peaked and will already fall below USD 70 per barrel in the fourth quarter, and we therefore also assume that fuel prices in Austria will begin to ease.

In 2022, the average crude oil price is expected to be about 8% lower than in the current year at 51.1 euros per barrel. This means that lower fuel prices can also be expected. We expect the price per liter to fall by about 3% on average in 2022 to 1.15 euros for diesel and by about 2% to 1.22 euros for super (95).

The reason for the lower decline in fuel prices compared to the price of crude oil is that the gross selling price includes not only the price of crude oil but also the production and distribution costs for fuels, which are independent of the price of crude oil, and there is also a high tax component, which is partly independent of costs. Currently, the tax portion of the sales price for diesel is just

Chart 1: Oil price development and outlook
(per barrel, monthly average)

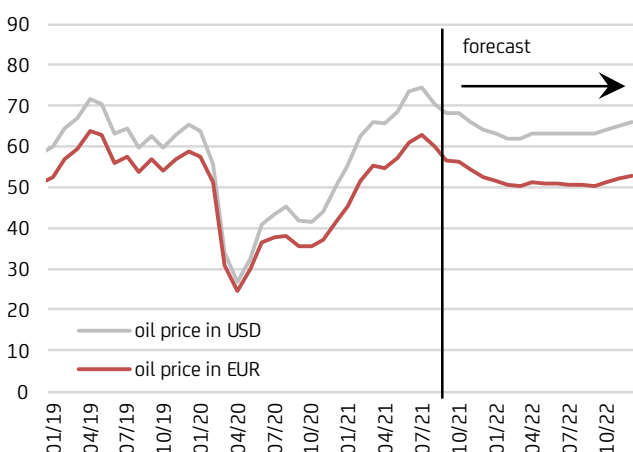
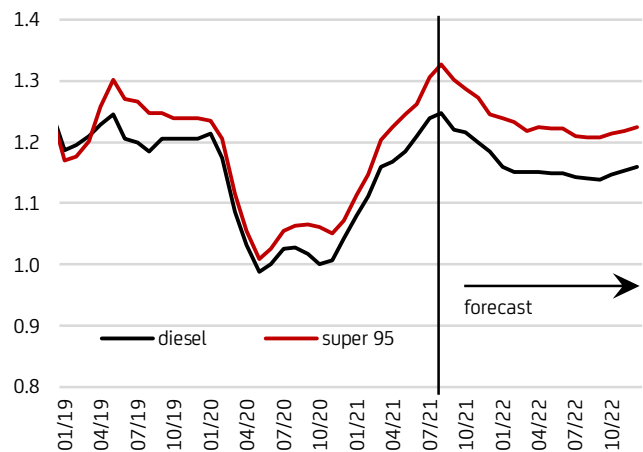


Chart 2: Petrol and diesel price at petrol stations
(Euros per liter)



Source: Ministry of Climate Protection, Refinitiv Datastream, UniCredit Research

under 49% and for petrol even 53% of the price for the consumer. This surcharge is made up of the mineral oil tax and the 20% VAT. The mineral oil tax is a unit tax of 0.397 euros per liter of diesel and 0.482 euros per liter of petrol.

...but only if the tax burden does not increase

Abolition of diesel tax privilege would make diesel more expensive than Super (95) at Austrian petrol stations

The difference in the amount of mineral oil tax for diesel and petrol leads to a tax advantage of 0.085 euros for diesel fuels, which is increased somewhat by the valued added tax levied on top of it. This so-called tax privilege has been the subject of discussion for many years, which has recently intensified due to the need to increase climate protection efforts and the target of an ecological tax reform. The abolition of the tax privilege, i.e. the equalisation of the mineral oil tax on diesel and petrol to the level of petrol, would increase the current sales price of diesel at Austrian petrol stations from 1.25 euros per liter to 1.35 euros per liter (higher mineral oil tax plus VAT share). This would mean that the price of diesel at petrol stations would be higher than the price of Super (95) of 1.33 euros per liter, with the same taxation due to the different net price.

Why the minister of finance would not be happy with this?

At least 20% of the revenue from mineral oil tax is generated by fuel tourism.

The end of the tax privilege would lead to additional revenues of 0.085 euros per liter of diesel from mineral oil tax and another 0.017 euros from VAT. This would result in a total of just over 10.2 euro cents per liter of diesel in additional tax revenue. For 2021, 4.2 billion euros in revenue from mineral oil tax are planned in the budget estimate on the basis of the currently applicable tax regulations. In the case of mineral oil tax, minus the revenues from the taxation of heating oil, we assume revenues of around 4 billion euros from the sale of almost 9.5 billion liters of fuels. In line with consumption in previous years and in the first half of 2021, we expect the consumption of around 7.6 billion liters of diesel and 1.8 billion liters of petrol in 2021 as a whole. Assuming the consumption volume of the current year and unchanged consumer behaviour, the abolition of the diesel privilege would lead to additional revenues of over 600 million euros in mineral oil tax. In addition, there would be more than 100 million euros in additional revenue from value-added tax.

End of the diesel privilege is not expected to bring any additional tax revenue

However, there is a big catch in this calculation. Due to the lower price of diesel in Austria compared to other European countries, it is estimated that at least 20% of the total volume sold in Austria is accounted for by fuel tourism. This means that at least 20% of the revenues from the mineral oil tax are attributable to foreign consumers. This means that at least 800 million euros of the total revenue planned for 2021 can be attributed to foreign consumer. Thus, at least

Chart 3: Fuel prices in Austria

(Net, gross and diesel price estimate without tax privilege in euros)

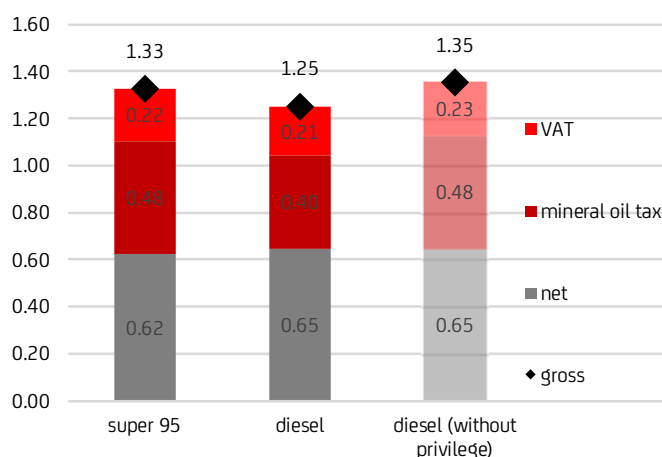
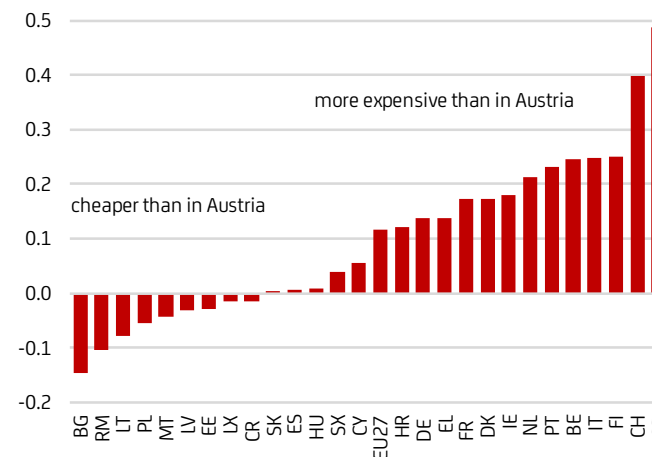


Chart 4: Diesel price difference to Austria

(for 1 liter in Euro, as of 30.8.2021)



Additional financial burden due to the abolition of the diesel privilege estimated at up to 400 million euros per year

800 million euros of the mineral oil tax planned for 2021 are owed to fuel tourism. Depending on the price difference for diesel between Austria and its neighbouring countries, the abolition of the diesel privilege would at least partially eliminate this revenue. At 1.25 euros per liter, the price of diesel in Austria is currently 12 euro cents below the average in the European Union. However, the price difference to the neighbouring countries is particularly relevant. In Germany the diesel price is currently 14 euro cents higher than in Austria and in Italy it is even 25 euro cents higher. Assuming a complete abolition of the diesel privilege, the tax price in Austria would still be cheaper than in Germany and Italy. On the north-south transit route via Tyrol, hauliers and tourists could thus continue to benefit from cheaper prices. However, the significantly lower price difference would considerably reduce the attractiveness of fuel tourism and thus dampen demand from abroad.

Fuel tourism would probably come to a complete standstill in the east of Austria. In the neighbouring countries of the Czech Republic, Slovakia, Hungary and Slovenia, the price difference is significantly smaller than in the neighbouring countries to the west, and in some cases even negative. In the Czech Republic the price of diesel is already lower and compared to Slovakia, Hungary and Slovenia the price advantage in Austria is a maximum of 4 euro cents per liter. The abolition of the diesel privilege would result in a significant price disadvantage vis-à-vis all neighbouring countries to the east, which could even lead to an outflow of demand from Austria. The abolition of the diesel privilege at the same level of consumption could thus trigger a possible loss of existing revenues from fuel tourism of at least 800 million euros.

While the mineral oil tax revenues from fuel tourism would be lost to a large extent and in addition the revenues from value-added tax attributable to it as well as further negative effects on the accompanying consumption at petrol stations and service stations would have to be expected, the end of the diesel privilege would, according to our estimate, lead to an additional financial burden for Austrian households and companies of up to 400 million euros per year through the increase in mineral oil tax (after deducting fuel tourism). Even if the elasticity of demand of the tax-induced price changes for a liter of diesel is difficult to estimate, especially taking into account tank tourism, the bottom line is that the abolition of the diesel privilege under the current framework conditions would probably be a loss-making business in the hundreds of millions for the Austrian Minister of Finance.

180 euros more expenditure per affected household per year if the diesel privilege is abolished, but oil price increases in 2021 will burden household budgets by almost twice that amount

According to our calculations, the abolition of the diesel privilege would mean additional costs of almost 200 million euros for Austrian households. With an average mileage of about 25000 kilometres per year, an average of about 1800 litres of diesel are needed. With a price increase from 1.25 to 1.35 euros per liter triggered by the abolition of the diesel privilege, this results in additional costs of almost 180 euros per year. This corresponds to an increase of just over 8% of the average budget of an affected household of 2200 euros per year for diesel in Austria. Despite all the excitement about a possible additional tax burden due to the abolition of the diesel privilege, it should not be forgotten that fluctuations in fuel prices due to the price of crude oil usually have a much greater financial impact on Austrian households. The increase in the price of a liter of diesel from an average of 1.05 euros in 2020 to an expected 1.24 euros in 2021 due to the rise in the price of oil, assuming unchanged mileage, causes additional costs of about 340 euros - almost double the cost of abolishing the diesel privilege - compared to the previous year.

But climate protection?!

With more than 40%, transport is one of the strongest causes of greenhouse gas emissions in Austria. Although there was a significant reduction in GHG emissions in transport in 2020, this success is entirely due to the pandemic, during which lockdown measures led to traffic restrictions. In order to achieve the EU climate target of a 55% reduction in GHG emissions by 2030 compared to 1990, there are therefore still enormous challenges to be overcome, especially in transport. By 2030, annual GHG emissions in the transport sector would have to be

Austria lags behind in achieving GHG emission targets in the transport sector

Raising the mineral oil tax would accelerate the changeover to climate-neutral means of transport.

If the diesel privilege is abolished or the mineral oil tax is adjusted for climate protection reasons, a pan-European coordination would be expedient.

reduced from 21.4 million tonnes in 2020 (source: Wifo) to only 6.2 million tonnes in order for the transport sector to achieve the climate protection target on its own. In the event of an overshoot, a corresponding amount of certificates would have to be purchased from public budget funds in emissions trading.

From this point of view, not only the abolition of the diesel privilege, which leads to increased GHG emissions attributed to Austria due to the resulting fuel tourism, is at stake, but also much more far-reaching measures to prevent corresponding compensation payments from tax funds for GHG emission overruns in the future. In current drafts of the new climate protection law, an automatic increase in taxes on fossil raw materials is proposed in the case of non-achievement of certain emission targets. For the mineral oil tax on diesel and petrol, this could mean an increase of up to 50%. Calculated on the basis of the current average price of diesel and petrol at Austrian petrol stations, this would mean a possible price of 1.61 euros per litre instead of the average price of Super 95 of 1.33 euros per litre, assuming unchanged general conditions apart from the tax situation. This would mean that the price of a litre of Super 95 would be 28 euro cents higher than under the existing legal situation (50% of 0.482 euro plus 20% VAT). For the price of diesel, a 50% increase in VAT would mean an increase from the current 1.25 euros per litre to 1.49 euros per litre. In the case of a 50% increase in the VAT, the tax privilege would even increase. Assuming the abolition of the tax privilege and an increase in the mineral oil tax to the same extent as for petrol, however, the price of diesel would climb by 39 euro cents to 1.64 euros per litre.

Outlook

The current tax structure, especially the so-called diesel privilege, has for years led to lower fuel prices in Austria than in most neighbouring countries. This has triggered strong fuel tourism, which leads to high additional tax revenues of at least 800 million euros annually. The immediate abolition of the diesel privilege would mean a (partial) loss of these revenues and at the same time cause an additional financial burden on nationals. The bottom line for the Austrian state would probably be a loss of revenue. The scope for a change in the tax framework is limited due to many negative direct and indirect effects, so that in a first step, coordination in the adjustment of the mineral oil tax at the pan-European level could be expedient.

However, the necessity of meeting the climate protection targets by 2030 changes the framework for action in the medium term, since in the case of exceeding them, high compensation costs would arise for transport, which would probably exceed the financial advantage from fuel tourism. The end of the diesel privilege is thus approaching, especially since it will soon pay off financially from the perspective of the Austrian taxpayer. Contrary to the often heated discussion between environmentalists and hauliers' and drivers' representatives, both the end of the diesel privilege and possible mineral oil tax increases will have only limited negative effects if the measures are skillfully timed and socially compensatory steps are taken. In view of the advancing electromobility and the announcement by many car manufacturers that they will no longer be producing vehicles with internal combustion engines in the foreseeable future, no one will shed a tear over the diesel privilege in a few years' time and the mineral oil tax as a whole will also be history sooner or later.

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