

# AUSTRALIAN BIOFUELS ASSOCIATION

ABN 55 157 789 157

17 March 2003

The Secretary  
Senate Economics Legislation Committee  
Room SG.64  
Parliament House  
Canberra ACT 2600



Attn: Dr Kathleen Dermody, Committee Secretary

RE: Energy Grants (Credits) Scheme Bill 2003 and the Energy Grants (Credits) Scheme (Consequential Amendments) Bill

Dear Dr Dermody,

I refer to your letter of 6 March 2003 regarding the above Bill which is scheduled to replace the Diesel Fuel rebate Scheme (DFRS) and the Diesel and Alternative Fuels Grants Scheme DFAGS) entitlement provisions.

The Australian Biofuels Association represents the commercial producers, distributors and sellers of renewable alternative fuels in Australia. The two biofuels that we have primary interest in are ethanol and biodiesel.

**Biodiesel is produced from oil seed crops (eg Canola), recovered oil, or animal fats (tallow). Biodiesel is replacement fuel for petroleum diesel fuel, or can be used as an additive or blend with diesel fuel. Dedicated biodiesel fuel, and 20%, 30% and 40% blends of biodiesel and diesel have been subjected to extensive trials United States and Europe over the past twenty years, and have developed reputations as safe and reliable fuels that are sold both to vehicle fleet operators, and commercially in America and the European Community. Operability trials of biodiesel have also been conducted in New South Wales and South Australia.**

**Ethanol is produced from the fermentation and distillation of starch and sugars found in biomass crops such grains and sugarcane. Ethanol was first introduced as a commercial fuel in the United States and Brazil in the 1970s, and has demonstrated trillions of kilometres of safe and reliable on-road experience in the U.S., Europe, and Brazil since the 1980s, and in NSW since 1992.**

Both biodiesel and ethanol offer substantial environment benefits, both in terms of net greenhouse gas emissions compared to petroleum petrol and diesel fuel, and in

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-2-

reductions in tailpipe emissions of uncombusted components from diesel and petrol fuels that degrade the environment and represent a threat to human health. Biofuels also offer substantial benefits to rural Australian communities with respect to economic growth and jobs creation associated with the operation of biorefineries in rural Australia.

Both biodiesel and ethanol are typically treated as competitor fuels by the major oil companies, who have traditionally sought to stop or impede the entry of biofuels in transport fuel markets that they dominate and control.

The Diesel Fuel Rebate Scheme and the Diesel and Alternative Fuels Grants Scheme was primarily established to promote the use of fossil alternative fuels such as Liquid Petroleum Gas (LPG) and Compressed Natural Gas (CNG) in light and heavy duty diesel engine applications. Of particular concern was the exhaust emission of particulate matter (PM). All fossil and renewable alternative fuels offer substantial reductions in PM from diesel engines.

### **Biodiesel**

As an afterthought, during the waning hours of the process of reaching agreement between the Government and opposition parties on DAFGS in 1999, the inclusion of renewable alternative fuels in the Bill was raised. In the haste to complete the negotiation two errors were made which effectively denied biodiesel and ethanol any opportunity to participate in the scheme set out in the Bill.

The first error was made with respect to biodiesel. No mention was specifically made in the Bill to **biodiesel**, the generic name for an alternative diesel fuel and additive produce from oilseed crops such as canola, recovered oils, and animal fats. In error, the word Canola (a feedstock used to produce biodiesel) was entered into the Bill rather than the correct reference of biodiesel.

Despite representations to retrospectively correct this error, none of the political parties or officials showed any interest or determination to remedy the matter. Treasury/ATO eventually made provision for excise exemption for 100% biodiesel as a substitute for diesel. Approval of a biodiesel blend with diesel (the most common form of use for biodiesel) was denied on the grounds that approval would have to await the establishment of a national fuel standard for biodiesel by the National Fuel Quality Standards Consultative Committee (NFQCC).

The failure of Environment Australia to recognise the legitimacy of the biofuels industry, and the pervasive interests of the petroleum fuels industry within the NFQCC, has denied the biofuels industry direct access and participation in the process of development of future policy and fuel standards for renewable fuels in Australia.

The uncertainty generated by the failure to address the error associated with biodiesel under the original Bill, the unbalanced and pervasive influence of the oil industry lobbyist – the Australian Institute for Petroleum – in key policy making committees, and bureaucratic inertia, effectively stalled plans for the development of biodiesel as a diesel fuel substitute and additive in Australia for three years between 1999 and 2003.

The production and commercial scale use biodiesel in Australia has, as a consequence, been limited to a few million litres of biodiesel per year – mainly for trial purposes. The flow-on economic and jobs benefits for rural Australia associated with biofuels production has also been denied through this period.

### **Ethanol**

The second error made in the original legislation related to the lack of provision of knowledge and definition of the use of ethanol in the Bill in relation to diesel fuel. Unlike petrol, ethanol does not naturally bond and blend with petroleum diesel fuel. An emulsifier or additive is required to efficiently blend ethanol with diesel fuel for use in transport and stationary power generation applications.

Australia has been a leader in the development of technologies for the effective bonding of ethanol with diesel fuels. The NSW based approved research organisation, Apace Research, first produced a prototype hydrated ethanol/diesel fuel with an emulsion called **Diesohol** in 1980. Commonwealth funded trials of diesohol (ERDC Project No.2538, April 1999 Report) in 1997/98, and trials in Thailand, Chile, Argentina and Europe demonstrated that diesohol has potential as a diesel fuel additive in Australia's future transport fuel mix. Other ethanol/diesel fuels technologies are undergoing trials in the U.S.

Like biodiesel, the use of alcohol/diesel blends directly addresses greenhouse, tailpipe exhaust emission and transport fuel security issues associate with the use of petroleum diesel. Like biodiesel, the failure to specify diesohol in DFRS/DFAGS has resulted in a delay of three years of the commercial introduction of diesohol in the Australian diesel fuel market.

It is understood that the Minister for the Environment and Heritage submitted a recommendation to The Treasurer in March/April 2002 and recommended the approval of both biodiesel and diesohol under DFRS/DFAGS. As of the date that this submission, no progress has been made on these issues.

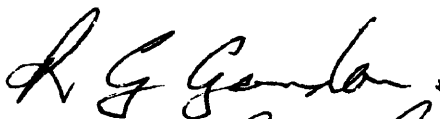

### The Way Forward

No substantial progress can be made towards the development of a strong and viable renewable fuels industry in Australia until certainty, in terms of future policy, is established. The achievement of this goal will require:

- A long-term commitment by Government and the Parliament to the development of a strong sustainable biofuels industry in Australia.
- Recognition of biofuels as a legitimate industry, with the opportunity to represent and promote its interests in key policy-making forums and committees such as the National Fuels Quality Standards Consultative Committee.
- Recognition of the need for equal subsidy treatment for biodiesel as that extended to ethanol, LPG, CNG and NG.
- Inclusion of biodiesel and diesohol as approved fuels under the Energy Grants (Credits) Scheme Bill 2003 and the Energy Grants (Credits) Scheme (Consequential Amendments Bill).

We thank you for the opportunity to comment on this legislation and would be pleased to expand on any of the matters raised in this submission during the forthcoming hearings of the Committee on the Matter.

Yours sincerely,

Bob Gordon  
Executive Director.