26 May 2006

Submission

Senate Economics Legislative Committee

<u>Inquiry in the Provisions of the Fuel Tax Bill 2006</u>

<u>And a Related Bill – May 2006</u>

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Introduction

Renewable Fuels Australia (RFA) is the peak industry association representing the commercial producers of biofuels for transport use in Australia, namely in the form of ethanol and biodiesel. RFA also represents the distributors and marketers of ethanol and biodiesel, and those providing direct services to the industry such as engineering, construction, chemical, and financial services.

Formerly the Australian Biofuels Association (ABA), RFA's support for development of a sustainable biofuels industry in Australia stretches back to 1992 when, after 35 years, fuel ethanol once again was made available to Australian motorists in New South Wales (NSW) in the form a 10 percent ethanol blend with petrol. Ethanol in Australia is currently produced from the C molasses byproduct of crystal sugar production in Queensland, and Australian grains. The fuel ethanol offered to NSW consumers in 1992 was produced from waste starch streams associated with the industrial processing of wheat into food, industrial, and pharmaceutical products for domestic use, and export.

Biodiesel fuel in Australia was initially produced from waste cooking oils by personal producers. This stimulated interest in commercial scale production in NSW in 2001/02, which in turn led to the first commercial scale production of biodiesel in Maitland in 2003. Biodiesel is also produced from tallow and a range of oilseed crops.

Whereas the origins of high volume production of ethanol as an alternative transport fuel originated in the United States and Brazil in response to the first global oil crisis in the 1970s, the serious beginning of commercial scale production of biodiesel originated in Europe in the 1980s/1990s. This reflects the fact that the highest volume petroleum transport fuel used in Europe is diesel fuel.

Although the history of ethanol use as a fuel in Australia goes back to World War II, serious consideration of the benefits of establishing biofuels industry at a national level in Australia emerged in 1993/94.

The major barrier to the development of the industry in Australia has been securing access to the mainstream Australian transport fuel market dominated by the four major overseas oil companies in Australia – Caltex. Shell, BP and Mobil. For this reason, new biofuels industry growth in Australia has been severely limited.

Today alternative fuels such as ethanol and biodiesel are widely seen as playing an essential role in making the transition from traditional petrol and diesel fuels to the fuel technologies of the future, and worldwide there has been a strong surge in Government initiatives to increase biofuels production growth as a means of reducing dependence on imported oil and stimulating national energy security. The United States and Brazil are leading this push with the European Community and some 25 other countries initiating active programs to encourage the production of ethanol and biodiesel as alternatives to petroleum transport fuels.

The lack of policy co-ordination and policy inconsistency in relation to biofuels has been a persistent problem in Australia, and this has hindered future growth. The Biofuels Taskforce, for example, represents the development of positive policies for new ethanol and biodiesel industry growth, while Fuel Tax Bill 2006 represents a clear example of impediments being put in place that will undermine the achievement of those policy objectives.

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Biofuels Taskforce

In 2005, against the background of a fast changing world in terms of global crude oil supply, the Prime Minister commissioned a Biofuels Taskforce Report. The Report's[1] findings were released by the Prime Minister in September 2005. Key findings by the Taskforce Report included:

- Recognition that the biofuels industry faced considerable market barriers including, in the absence of forcing regulation, persistent reluctance and determination by the major oil companies not to surrender market share to biofuels, or other competitor fuels.

- Acknowledgement that in addition to effectively blocking the entry of ethanol and biodiesel into the mainstream petrol and diesel market, these barriers also effectively blocked the development of consumer demand for ethanol blends – and that events in 2002-03 (factual and fabricated), and including a national oil company "No Ethanol" campaign, served to further undermine public confidence in ethanol.

- The conclusion that the prevailing low level of consumer confidence was not justified by the facts, and that almost all post-1986 vehicles on Australian roads can use E10 quite satisfactorily.

- Acknowledgement that without contracts for sales to oil majors, biofuels producers were unable to invest in bulk fuel production.

- Recognition of the greater health benefits of biofuels use than previously thought, and

- That in a world of high oil and petrol prices, and excessive profit margins, "it was important that unnecessary barriers preventing the development of an alternative fuels market in Australia are removed to allow consumers to make decisions based on sound economic and environmental and social signals."

When confronted with the Government's position that a viable and sustainable biofuels industry was in the national industry three out of the four oil majors (Caltex, Shell, BP and Mobil) undertook to voluntarily commit to Action Plans and timetables for the uptake and use of between 403 to 532 million litres (ML) of ethanol and diesel by 2010, as a means of avoiding biofuels use by regulation.

This commitment by Caltex, BP and Shell alone significantly exceeded the Government's biofuels target of 350 ML (0.7% of petrol and diesel use) announced in 2001, and highlights that this target is excessively modest and completely out of step with current patterns of biofuels growth around the world.

Fuel Tax Reform

Fuel tax reform has been a long sought after goal of the Government. The Government has acknowledged however, that the manner in which such reforms are framed and introduced could have a negative impact on emerging industry sectors in the transport fuels market. In this regard the 2004 Energy White Paper - Securing Australia's Energy Future – (Page 91), saw the need for effective industry transitional arrangements for alternative fuels (ethanol, biodiesel, LPG, CNG).

[1] Report of the Biofuels Taskforce to the Prime Minister, August 2005.

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> *"The phased introduction of excise recognizes the need for effective transitional arrangements to give fuels that are currently effectively untaxed an opportunity to establish their place in the market."*

The Biofuels Taskforce noted that as the changes to fuel taxation arrangements have been announced progressively over a number of years (with the Fuel Tax Credit Reform Discussion Paper only being released in May 2005) and were quite complex. In this respect it identified that there was a risk that when finally disclosed, the reforms could place the viability of biofuels projects that had or had not received government grants, and future industry growth in jeopardy.

These acknowledgements clearly depict the foreseen dangers of two different policy initiatives destined for an inevitable head-on crash, with biofuels and the declared national interest of a sustainable and viable biofuels industry the casualty of narrow revenue collection goals

RFA was grateful for having being provided with the opportunity to comment on the draft of Fuel tax Bill 2006 under a confidentiality agreement. However, attempts by RFA to alert Treasury and the Government to the dangers inherent in the Bill to future biofuels growth at a time of world transport energy uncertainty, and consumer fuel price stress have been ignored.

Measures available and presented to the Government by RFA to address these threats are practical and generally involve no basic structural policy changes, or dislocation, and are set out in Attachment 1 (Brief on Fuel Tax Bill 2006 – Impacts Excise/Imports & Market Access).

In this instance this involves stretching out the proposed timetables for biofuels in making the transition from being untaxed to the new fuel taxation and import regimes, and acknowledgement and respect for the Prime Minister's commitment in 2003 to an excise concession of 50% to biofuels in recognition of the special national benefits that domestically produced biofuels deliver in the national interest, as opposed to those of imports:

- National future transport energy security.
- Reducing national Balance of Payments deficit (oil, and petroleum product imports).
- National greenhouse emission reductions.
- Future industry carbon credits.
- Economic and jobs creation in rural/regional communities.

These are national benefits that imported biofuels make no contribution to.

Addressing the artificial market barriers proposed by Fuel Tax Bill 2006 to the entry of biodiesel (and in the future Ethanol) into the Australian diesel fuel market involves an open statement and commitment by the Government to a policy of open, free and equally competitive markets.

Biodiesel in Australia, like petroleum diesel has access today to 100% of the on-road (transport) and off-road (agriculture, mining, stationary power generation etc.) market in the form of a 20% biodiesel blend with diesel fuel (B20), B50, and 100% biodiesel (B100). A specific national fuel quality standard has been established for B100. Approved biodiesel blends of up to 49.9% with diesel fuel are considered as substantially diesel fuel and meeting the diesel fuel standard.

Under Fuel Tax Bill 2006, only a 5% biodiesel blend will be deemed to be substantially diesel, and thus meeting the diesel fuel standard and accompanying authorized access to grants under the Road User Charges Scheme set out in the Fuel Tax Bill. This is the preferred position of the major oil companies in Australia. The impact on market competition of this proposed reform could deny biodiesel (and in the future ethanol) access to over 70% of the Australian diesel fuel market and direct, and in some instances force, future biodiesel sales via the major oil companies.

Attachment 1, and Attachment 2 (Biodiesel Impacts) provide further detail on these issues.

Again, the proposed solution for removing discriminatory and uncompetitive market barriers is straightforward. Namely that:

At a user level, all diesel and diesel like fuels that substantially meet the national diesel and biodiesel fuel quality standard, be treated the same with respect to tax credits and rebates at the end user level.

There is a strong view within the biofuels industry that stable and consistent policy development in relation to biofuels cannot be delivered until such time as the industry is invited and encouraged by the Government to actively participate in the development of policies associated with and with the potential to have substantial impact on future industry advancement.

The Biofuels Taskforce process was industry inclusive, and was able to foresee potential flaws in the fuel tax reform process. Although invited to comment on the fuel tax reforms the process was not inclusive. Fuel Tax Bill 2006, and the ongoing denial of RFA representation (technical or otherwise) on the Commonwealth Fuel Quality Standards Committee, are ongoing examples of this type of flaw in the current industry policy development process.

The opportunity to make this submission, and appear before to the Committee is appreciated.

Bob Gordon
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