

## **Dissenting Report from Senator Barnaby Joyce**

The inherent weakness in the committee's report is its failure to consider the impacts of biofuels such as ethanol and biodiesel on fuel prices, climate change and liquid transport energy security despite much of the public hearings being taken up with evidence of the potential positive price impacts of alternative non-fossil fuels.

Oil will become unaffordable long before it becomes unavailable. Because our economy in mining, agriculture and tourism is so vulnerable to any shifts in supply and an unaffordable major overhead for the internal combustion engine, it is imperative on an economic basis that emergence of affordable alternatives are spliced into the current oil based consumption.

In its submission, Manildra Group said:

"Petrol pricing is determined by many factors but the final price paid by the consumer can and should be reduced by around 3 cents per litre where ethanol is blended with the fuel at 10%." (Manildra submission, September 9, 2006 page 2)

Indeed, it would appear that this is more than rhetoric from one of Australia's few players in the fledgling biofuels producing industry. The discount fuel retailer Freedom Fuels in Queensland has moved to include a 10 per cent ethanol blend in all of its petrol products. Apart from the well-documented environmental and health benefits of ethanol blends, it has done this because of price. And it is delivering with its pump prices always discounted below those of service stations under the banner of the major oil companies.

Senator Joyce pointed out during the Canberra public hearings that the independent fuel suppliers do not seem to have a problem with start-up costs associated with holding tanks for ethanol blended fuel.

While the uptake of ethanol blended fuel has been slow due to the oil industry refusal to meet their commitments to the Prime Minister under the 2005 Biofuels Action Plan process.

It is submitted that this is further evidence that the major oil companies are not serious about meeting the Federal Government's voluntary target of 350ML by 2010.

The committee should note that at the end of 2006, just 15ML of ethanol and 5ML of biodiesel had been taken up, well short of the lower limit of 89ML under the voluntary target for 2006.

This failure means that it is taking longer to free up refining capacity with ethanol substitution, a factor that the committee heard would put downward pressure on fuel prices.

The committee heard that there is a future beyond E10 as E85 vehicles were starting to take off in America, and Flex Fuel Vehicles in Brazil were capturing over 70 per cent of new car sales.

The committee heard that fledgling ethanol plants, such as the one proposed at Dalby in Queensland, cannot begin production because the major oil companies will not give them firm long term contracts. (Committee Hansard, August 23, 2006)

It emerged from the hearings that the oil companies do not like ethanol because it is a competing product that they can't control.

Senator Joyce told the committee:

They (the major oil companies) try to subdue it because they do not want it out there, but I think everybody agrees that we should get it out there. If more ethanol is out there it will free up excess refining capacity, and if it frees up excess refining capacity they will go looking for a market for that refining capacity, which in itself will drive down the market, so it will have a flow-on effect beyond just getting ethanol out there. (August 23)

Furthermore, Mr Ronald Bowden, Chief Executive Officer, Service Station Association Ltd, said it would not be in the interests of the major oil companies to get serious about ethanol, as revealed in this exchange with Senator Joyce.

**Senator JOYCE**—I will put it another way. Let us change your hats: if you were in the position of a major oil producer, would you encourage the sale of ethanol in Australia?

**Mr Bowden**—If I were an oil producer, I would not because that is not where my best profitability would lie.

The Inquiry's Draft Report's major flaw is its lack of attention on the role of alternative fuels to mitigate in the current fuel prices. It is acknowledged that there is no reason that fuel prices will fall in the long term. If Australia is not planning for the future outside an oil price crisis then we will be placed at the disadvantage of dealing with it in a crisis.

Independent fuel stations have proven to be essential in both being leaders in price discounting and leaders in getting ethanol and other bio-renewables out onto the market. Legislation such as the repeal of the Sites and Franchise Act has exacerbated this position in that it plays into the oil majors' hands of controlling retail price and product.

It is clearly the case that the current government target to incorporate ethanol in the sale of fuel has being largely ignored by the oil majors and this is of some embarrassment as there has been a reasserting of these commitments by the Prime Minister.

Since the change in sulphur content rules, Australia has created a non-tariff trade barrier to the importation of fuel from many previous producers in Asia. This has quarantined the current oil majors in Australia from further external competition in their refining capacity.

The available science on the capacity of biofuels to reduce Greenhouse Gas emissions in the Australian transport sector is compelling as it is complete. CSIRO-based recent studies clearly show that current technologies reduce Greenhouse Gas emissions compared to petroleum petrol by as much as 80 per cent and in some circumstances more than 100 per cent on a litre per litre basis.

United States Government laboratory data shows that a 10 per cent ethanol blend and biodiesel blend fuels have the capacity to reduce fine and ultra fine particulate emissions from petrol and diesel by at least 50 per cent.

### **Recommendation**

That there be a phase in over 10 years of a 10% mandate on ethanol on all ULP sales and biodiesel as part of suite of issues to alleviate a future oil crisis.

### **Recommendation**

That should the major oil companies fail to meet their Action Plan targets in 2006, then the Government should move to immediately mandate access to motorists and the consumer to cleaner burning and Greenhouse Gas-reducing ethanol and biodiesel blended fuels in Australia.

### **Recommendation**

That government policy changes to encourage the development of independent refining capacity that includes a minimum 10% component of ethanol and that the refining capacity also concentrates on the development of bio-diesel.

### **Recommendation**

That due to the unwillingness of the oil majors to retail bio-renewables, investment incentives be available to companies to construct retail outlets on the premise that 10% or greater of their total entity sales be bio-renewables.

**Recommendation**

That an investigation be immediately carried out into the social and economic effects pertaining to incremental increase in oil prices to the \$300 a barrel mark. The investigation is to include the capacity and time to bring on line alternatives for the economy to circumvent a crisis.

**Recommendation**

That the current ban on sales above 10% ethanol be lifted in light of Australia's capacity to immediately start producing cars with the capacity to run on 85% ethanol.

**Recommendation**

That an investigation be held into the link between research grants given from oil companies to car manufacturers and the effect on opinion this may have in the promotion of bio-renewables.

**Recommendation**

That a further government report be commissioned into auditable world reserves for oil to give a clear and concise understanding of the time frame, quantity, likely demand curve and pricing implications of future oil. This study is also to investigate essential sectors of the economy that must rely on oil based fuels at affordable levels to stay competitive.

**Recommendation**

That formal monitoring powers currently held by the Treasurer in Part 7 of the *Trade Practices Act 1974* are given to the Parliament.

**Recommendation**

That the ACCC be given the powers to have complete transparency of Terminal Gate Prices including all discounts and other measures so that the market can have an assurance of monitoring of unfair market practices.

**Recommendation**

That a section of the fuel retail market be quarantined for the exclusive use, by volume of fuel, of independents, that is retailers whose total related entities sell less than 5% of the total fuel sales in any given state

**Recommendation**

That the committee note that the report has been very selective in the issues they have reported. And the time constraints for the review have been quite limiting. That would suggest a resolve by some members of the committee that has not been reported in the body of the document.

Senator Barnaby Joyce

