

Biodiesel Producers Ltd

**Submission to the Victorian Government
Environment and Natural Resources Committee**

**Inquiry into the Production and/or Use of Biofuels in
Victoria**

September 2006

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1 Introduction

The Environment and Natural Resources Committee has commenced an inquiry into the production and use of biofuels for transport applications in Victoria.

The terms of reference are:

- current manufacture, availability and use of biofuels for transport applications in Australia and Victoria;
- potential environmental, economic and social impacts of increased manufacture and use of biofuel for transport applications;
- the impact of reducing reliance on oil imports as a result of increased use of biofuel for transport;
- barriers to and incentives for increased use of biofuel for transport;
- the role of government in the manufacture and use of biofuels for transport.

2 Biodiesel Producers Ltd

Biodiesel Producers Ltd (BPL) makes its submission in the context of the overall terms and conditions providing a view on issues that need to be addressed to ensure sustainability of biofuel businesses in Australia.

Biodiesel Producers Ltd (BPL) is an unlisted public company established for the development of a biodiesel production and distribution business in Australia. The initial plant, situated at Barnawartha Victoria, will produce 60 Million Litres of biodiesel per year using tallow, vegetable and waste cooking oils, by mid 2007. Other plants will be considered in Australia following the successful operation of the initial plant. BPL has researched all aspects of biodiesel production both domestically and internationally.

We note that the Victorian government is supportive of the development of the biofuels industry in the State and has highlighted the importance of BPL in Victoria and notes that "*Biofuels are a renewable source of energy... Australian Ethanol Limited in Swan Hill and Biodiesel Producers in Barnawartha should soon be providing valuable fuel options.*"¹

Because BPL's significant interest in the development of a biodiesel industry in Victoria and other parts of Australia we welcome the opportunity to make a submission to the Victorian Government Environment and Natural Resources Committee inquiry into the production and/or use of biofuels in Victoria.

The focus of this submission is biodiesel. Whilst ethanol and other products quite obviously fit in the biofuels space, BPL's technology and experience is in the biodiesel sector.

3 Manufacture availability and use of biofuels for transport applications

3.1 Background – Biofuels in Australia

Biodiesel is produced from a reaction of vegetable oil or animal fat with an alcohol, such as ethanol or methanol in the presence of a catalyst to yield mono-alkyl esters and glycerine. Depending on the feedstocks and processes employed, by-products may also include fatty acids, fertiliser and oilseed meal (for grain-fed stock). Current potential feedstocks for biodiesel in Australia include vegetable oils, animal fats (tallow) and used cooking oils and fats.

3.2 Biodiesel production, capacity and availability

Table 1 shows the major biodiesel producers, their preferred feedstocks and production capacity (as opposed to production levels)

Biodiesel has only recently become commercially available in Australia. There are 10 licensed producers of biodiesel, which collectively produced approximately 1 ML in 2003–04 and 4 ML in 2004–05. Current biodiesel capacity is estimated to be around 15.5 ML per annum and is projected to rise from 15.5 ML to 524 ML by 2009/10.

The bulk of biodiesel production in Australia is sold in blends of 20% or less with petroleum diesel. B20 is a blend of 20% biodiesel with 80% petroleum diesel. Biodiesel can be used neat (B100).

A number of local governments have trialed biodiesel at B100 and B20 in garbage trucks and other diesel vehicles. A key market for biodiesel should be through the sale of biodiesel blends in bulk to centrally fuelled fleets and straight biodiesel for use in sensitive marine and other areas. Internationally, most biodiesel is sold as blends.

Other biodiesel projects that have been proposed could, in theory, add 508 ML of biodiesel capacity over the short to medium term. Four projects are being supported by the Biofuels Capital Grants Program, with the potential to produce 157 ML of biodiesel.

Biodiesel Producer	Feedstock	Current and proposed production capacity (Million Litres)				
		2005–06	2006–07	2007–08	2008–09	2009–10
Biodiesel Producers , Barnawartha, VIC	Tallow and Vegetable Oils	0	60.2	60.2	60.2	60.2
Biodiesel Industries Australia, Rutherford, NSW	Waste fats and oils as oilseeds e.g. canola	20	20	20	20	20
Australian Biodiesel Group, Berkeley Vale NSW	NR	40	45	45	45	45
Australian Renewable Fuels, Adelaide, SA	Canola oil, Tallow and used cooking oil	44.7	44.7	44.7	44.7	44.7
Riverina Biofuels, Deniliquin, NSW	NR	0	44.7	44.7	44.7	44.7
Australian Renewable Fuels, Picton WA	NR	0	44.5	44.5	44.5	44.5
AJ Bush, Beaudesert, Queensland	NR	0	60	60	60	60
Australian Biodiesel Group, Narangba, QLD	Tallow	0	40	40	40	40
Natural Fuels, Darwin, NT	Imported renewable palm oil	0	150	150	150	150
South Australian Farmers Fuel, Pooraka, SA	Operating Biodiesel retailer	0	15	15	15	15
Total biodiesel		254.7	674.1	674.1	674.1	674.1

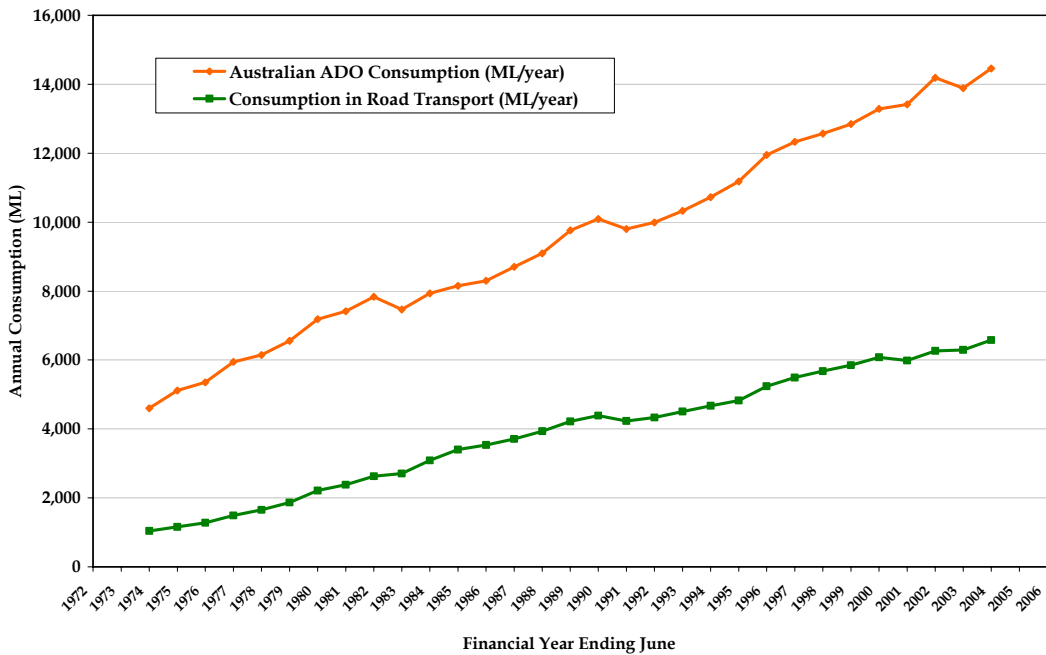
Table 1: Major Australian biodiesel producers, their preferred feedstocks and production capacity²

3.3 Transport Applications

The total Australian market for Automotive Diesel Oil (ADO) amounted to about 14.5BL in 2003/04, of this approximately 45% - 6.5BL was consumed in road transport applications³. The remainder is consumed in non-transport applications including significant quantities in mining, electricity generation and agriculture.

The consumption of ADO has been growing significantly as shown in Figure 1. The growth in consumption has been driven by significant expansion in the mining industry over the previous 30 years, increasing long haulage road freight, and to a lesser degree by an increasing proportion of other diesel fuelled road vehicles.

Figure 1: Historical Consumption of Automotive Diesel Oil



Source: Australian Bureau of Agricultural and Resource Economics, "Australian Energy Statistics 1960/61 to 2003/04", 2005.

Using the ABARE statistics to 2003/2004 the growth in consumption of ADO over the past 30 years has been at an average of 18% per year. In comparison, the growth in petrol (unleaded and leaded) has been at an average of 1.77% each year.

The transport industry in Australia shows no signs of slowing down and as a result is a substantial market from which to focus the use of biofuels from an environmental and economical basis.

3.4 BPL's considerations

- The number of project proponents and interest in the sector has slowed considerably in recent months. We believe the contributing factors are:
 - the announced changes in the Federal Government Fuel Tax Excise;
 - an emerging understanding of the technical difficulties in producing biodiesel at the correct quality standard;
 - slower than anticipated uptake in sales and distribution;
 - high start up costs and commercial uncertainty on returns; and
 - the Fuel Tax Credit legislation changes which are forcing a distribution strategy focused heavily on the oil majors and removing distribution opportunities to niche markets including marine, mining, farming and regional transport operators.
- With the strong and continued growth in ADO consumption, biodiesel is an equally important biofuels as ethanol. We believe that the focus by State Governments on ethanol only solutions needs to be more balanced with biodiesel being viewed, at the very least, as an equally sustainable solution.

- We note that there are no readily available statistics to determine the level of biofuels production and use in Victoria. Scanty indirect statistics are available for Australia for biofuels as compared to petroleum-based transport fuels. This reflects the fact that biofuels are new to the market.

4 Environmental, economic and social impacts of increased use of biofuels for transport

4.1 Biofuels back on the national agenda

The steady rise in fuel prices in the last 2 years has put renewable fuels firmly on the political agenda. In fact the Prime Minister has recently identified the rise in fuel price as the major challenge facing his government. As a result of this, alternative fuels including biofuels are currently being hotly debated. In addition, biofuels have been the focus of attention as a possible means of reducing greenhouse gas emissions (to assist Australian's compliance with conditions of the Kyoto Protocol), and noxious urban emissions from transport.

Previously, as part of its 2001 election policy, *Biofuels for Cleaner Transport*, the government nominated a target of 350 ML by 2010 for the contribution to Australia's total fuel supply by fuel ethanol and biodiesel from renewable sources. The stated policy objectives and rationale outlined in the election commitment included the following comments:

- Biofuel production would bring **regional benefits**, including increased employment, more efficient use of agricultural and forestry residues, and an **additional income** stream to provide a buffer against shifting commodity prices.
- Biofuels deliver **environmental benefits**, such as improved air quality and reductions in greenhouse gas emissions.
- Biofuels are renewable and therefore have an advantage over other alternative fuels.
- Biofuels could be used as 'drop-in' fuels, and would require little or no modification to distribution infrastructure and no alteration to the general vehicle fleet.
- Increased domestic biofuel production and use will reduce Australia's reliance on imported fossil fuels.

BPL strongly supports the above comments. High oil prices have focused national attention on the fuel industry generally. However, the benefits that flow from import substitution, regional economic and employment growth and the environmental and health benefits are not widely understood or fully appreciated.

4.2 Environmental impact of the use of biofuels for transport

Biodiesel reduces particulates (which is the greatest health risk) by over one third and provides a unique opportunity to achieve significant reductions of carcinogenic and greenhouse gases whilst increasing lubricity of low sulphur diesel when blended at 20 percent or greater ratio.

Table 2 below compares tailpipe emissions of biodiesel at 100% (B100) and 20% blend (B20) with conventional diesel.

Data from the New South Wales Environment Protection Authority indicates that of unit pollutions from Sydney alone suggests there would be a significant health care savings of about \$ 900 Million per year if all vehicles used either E10 or B20.

Table 2: Comparison of tailpipe emissions of petroleum diesel with B100 and B20.⁴

Tailpipe emission	Effect of Biodiesel (B100)	Effect of Biodiesel (B20)
Carbon Monoxide	Decrease 43.2%	Decrease 12.6%
Hydrocarbons	Decrease 56.3%	Decrease 11%
Particulates	Decrease 55.4%	Decrease 18%
Nitrogen Oxides	Increase 5.8%	Increase 1.2%
Air Toxics	Decrease 60% - 90%	Decrease 12%-20%
Mutagenicity	Decrease 80%-90%	Decrease 20%
Carbon Dioxide	Decrease 78.3%	Decrease 15.7%

4.3 Contribution to Regional and Rural Development

The establishment of new biodiesel production facilities in regional areas has a significant impact on local communities and the surrounding regions. The decline of traditional agricultural industries in regional Australia without subsequent investment in new enterprises is having a severe impact on the sustainability of regions.

Construction of biofuel plants in regional areas close to feedstock farming would provide a significant stimulus to regional economies, while the ongoing impact of operations could provide:

- a stable source of demand for farming produce e.g. grain industries, abattoirs and renderers;
- a viable alternative value adding market for tallow and oil seed crops;
- allow easier access of the biofuels to regional areas and lowering regional fuel costs; and
- increased employment opportunities.

Figure 2 below summarises the contribution to regional and Victorian development.

Figure 2: BPL Regional Impact

<ul style="list-style-type: none"> • BPL contribution to the local market based on full production capacity – 2007/2008 <ul style="list-style-type: none"> ○ Capital Investment of over \$4 m in the plant, ○ Estimated capital injection into Victoria - \$33m ○ Predominant use of local suppliers and contractors for materials and construction – estimated value \$ 22m ○ Annual feedstock requirements 35,000 tones tallow and 15,000 tones of waste cooking oil – minimum value \$30m pa, ○ Employment of 5 full time staff during construction period and up to 420 contractors (nominal, not full time equivalents), ○ Employment of 25 full time staff when operating in full capacity, ○ Potential construction of other plants in Australia.

4.4 Contribution to Balance of Payments

A substantial portion of the net trade deficit is the result of a fuel deficit from Australia importing gasoline, diesel and crude oil.

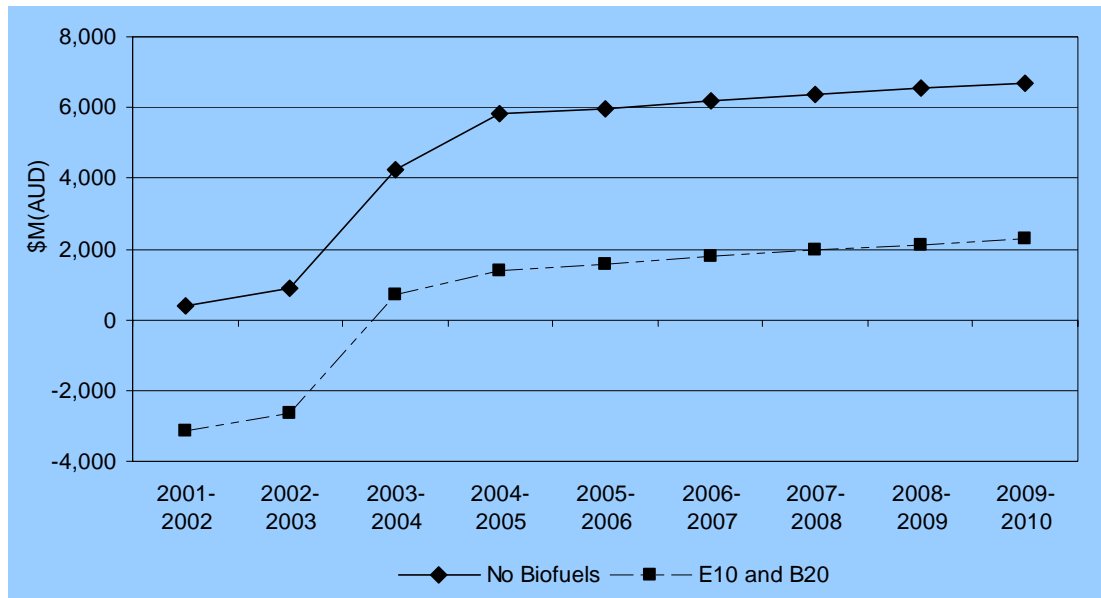
The use of ethanol (E10) and biodiesel (B20) could substantially improve the gasoline and diesel deficit in Australia. Figure 2 illustrates the combined gasoline and diesel deficit in two scenarios; a) where no biofuels are used and b) compulsory use of E10 and B20 for automotive gasoline and diesel respectively.

It should be noted that the illustration in Figure 2 does not take into account the current escalation of oil prices. It can therefore be seen that in the E10 and B20 scenario, the combined gasoline and diesel deficit would be reduced by nearly two-thirds.

Any substitution of E10 and B20 in place of petrol and diesel from domestically produced biofuels will lower the deficit towards the E10 and B20 scenario. Thus, policies that successfully result in greater use of biofuels improve Australia's balance of payments and also cushion any potential shocks from international oil crises.

The availability of biofuels as an alternative to the mainstream oil companies also introduces additional competition to the market. The major beneficiary of this would be regional Australia where fuel prices are in fact the highest.

Figure 3¹: Reduction in Gasoline and Diesel Deficit as a Result of Biofuel Use



¹ The assumptions that underline this model are:

- Consumption for the years 2001-2003 are actual figures. Consumption for subsequent years is based on ABARE forecasts.
- The oil price for 2001-2004 is assumed to be 40 USD per barrel. For subsequent years it is assumed to be \$50 USD a barrel with an exchange rate AUD/USD at 0.7
- Gasoline and diesel production, imports and exports after 2004 will each have the same portion of total petroleum products production as they did in 2003-2004.
- Australia will be able to supply all the ethanol and biodiesel it requires domestically without any negative impact on other exports.

5 The impact of reducing reliance on oil imports as a result of increased use of biofuels for transport

5.1 Oil supply in Australia

Estimates by Geosciences Australia of future crude oil plus condensate production, suggests production of oil in 2005 to be between 490,000 and 670,000 barrels a day⁵. It is expected that production will decline to between 157,000 barrels per day and 341,000 barrels per day in 2025⁶. They also estimate that the consumption of crude oil and condensate in 2004 could be sustained by remaining economic reserves for only 9.3 years.

The declining ratio of production to consumption has resulted in oil imports jumping from \$400 million AUD in 2000-01 to \$5 billion in 2005⁷.

5.2 Energy security

The impact of reducing reliance on oil imports as a result of the increase in the production and use of biofuels cannot be overstated. Reducing the transportation sector's reliance on oil is clearly the key to improving our nation's energy security. Together with measures such as improving vehicle fuel efficiency, using biomass derived ethanol and biodiesel as additives to gasoline and diesel can help offset some of our demand for petroleum.

Brazil is the world leader in ethanol production and use. The Brazilian government mandates 25% ethanol content in petroleum and 2% biodiesel use in diesel. Almost 50% of cars in Brazil operate on pure ethanol⁸. "Flex fuel" cars that operate on petrol or ethanol, or a combination of both, account for 17% of market⁹. "Flex fuel" cars represent 40-50% of new car sales and there are projections of a rise to 60-70% in the next year.

5.3 BPL's View

- The government's policy on energy security is articulated in the energy white paper, *Securing Australia's Energy Future*, released in June 2004 states that *'there is currently no case for the government to accelerate the uptake of these fuels on energy security grounds'*. Our position is that this is a short term, narrow view because over-reliance on a finite product that is readily affected by political vicissitudes is not a good strategy.
- We believe that using biofuels at the pump in Australia can make a significant contribution to Australia's energy security and balance of payments as well as reductions in greenhouse gases and improvements in air quality with subsequent savings in health costs.
- We note that Australia's size and agricultural history mean that significant domestic production of biofuels is compatible with existing agricultural demand and production.

6 Barriers to the incentives for increased use of biofuels for transport

6.1 Petroleum companies

It is recognised that like any other business oil companies are primarily focussed on shareholder interest rather than the national interest. The development of the biofuels industry in Australia is in the national interest but may not be in oil company shareholder interest. *Exxon Mobil* ¹⁰states that, *"In our view, current renewable technologies do not offer near-term promise*

for profitable investment relative to attractive opportunities that we see in our core business. Therefore, we have chosen not to pursue investments in renewable energy options."

The major oil companies have refused to take up contracts with ethanol producers for adding to petroleum-based fuels in Australia other than for very limited trials service stations in Queensland. This is entirely consistent with the practice in other countries where they maintained an anti-biofuel stance *until* legislative changes with respect to air quality and health issues, required minimal fuel oxygen content.

Biofuels cannot compete within the market forces of supply and demand, as the public will never have the option to choose at the pump in the normal way. Oil companies are able to block access to biofuels *before* they reach the service station, despite government support that exists at the earlier stages of production. Ultimately, this leaves public policy with little chance but to follow the path of the USA and Europe and to mandate the use of biofuel blends in order to capture public benefits of biofuels such as E10 and B20 in the national fuel mix at the pump.

Ernst and Young report that "*oil industry self interest remains a risk to the immediate, mid and long-term growth of robust biofuel industries in Australia*".¹¹

6.2 Pricing regimes

Establishing an appropriate pricing regime for biofuel is another clear commercial risk. Some biofuel producers are seeking fixed price contracts for their biofuels, in which prices do not fluctuate with oil price movements. Such a mechanism would provide certainty to biofuel producers but result in the fuel retailer bearing the pricing risk. Alternatively, a pricing regime reflecting some discount per litre against a terminal gate price for petroleum, transfers the pricing risk to the biofuel producers.

6.3 High levels of Commercial risks and start up costs

A key barrier to the uptake of biofuels into the market is the high level of commercial risk associated with market entry. This is a particularly important issue for establishing businesses. Some commercial risks associated with market entry for biofuels include:

- lack of consumer demand confidence,
- early market costs including:
 - suitable land, planning, EPA and council fees;
 - finance and Capital Raising costs;
 - high cost of purchasing proven technology;
 - infrastructure and capital expenditure;
 - marketing and consumer education costs,

From a comparative cost of production perspective, biodiesel production could be considered viable in the short-medium term due to the high rates of return available. However, this would require biodiesel projects to be constructed and operating as soon as possible to allow sufficient time to maximise the benefits during the fuel tax concessionary period to generate an acceptable rate of return on capital over the economic life of the project.

6.4 Supply reliability

There are also concerns about supply reliability. This relates to having a sufficient level of guaranteed supply from a small but emerging biofuels industry, particularly given the industry's current structure and agricultural base and during the period where new plants are being established. The oil majors are concerned about their ability to reliably source sufficient supplies in order to enter the market in a meaningful way.

In BPL's view;

- Europe, the USA, Canada and many Asian countries have mandates or policies in place to increase the level of biofuels use in petrol. Australia needs to address any reluctance of the oil companies to invest in renewable fuel to achieve aims set out in the 2004 Energy Policy;
- It is indisputable that almost all post-1986 vehicles on Australian roads can use E10 and B20 quite satisfactorily with no vehicle modification;
- A B20 blend gives the same specification as 100 percent mineral diesel;
- We believe that given the recent escalation in petrol prices, consumers are prepared to re-evaluate the facts around the use of biofuels from a 'dollar –saving perspective'. A public education program would be successful in achieving greater consumer confidence. It is noted that there is little biodiesel available to consumers at the moment. Naturally confidence and awareness will also develop through use and trialling of the actual product.

7 The role of government in the manufacture and use of biofuels for transport

7.1 Setting Policies

The 2004 Energy Policy released by the Howard Government, outlines the measures put in place to support the use and production of alternative fuels in Australia. The measures include excise concessions, a capital fund to support biofuels production capacity and measures to improve confidence in the use of ethanol and biodiesel blends.

7.2 Providing capital grants and tax concessions

The government provides assistance to biofuels producers in the form of capital grants via the Biofuels Capital Grants Program and tax concessions via the Cleaner Fuels (Grants) Scheme. This assistance involves both budgetary and economic costs. On current policy settings, Australian Bureau of Agriculture and Resource Economics (ABARE) estimates government assistance to the biofuels industry could cost the budget in foregone excise \$118 million p.a. at 2009–10. The cost will drop in steps to \$44 million p.a. by 2015–16, assuming that the 350 ML target is reached.

7.3 Biofuels Capital Grants

The government has indicated its belief that the Biofuels Capital Grants Program, aimed to encourage new entrants into the biofuels industry, will stimulate sufficient investment in biofuels production capacity to enable the 350 ML target to be met by 2010. These include current production capacity plus projects funded by the program plus other projects thought likely to be going ahead will result in production capacity exceeding 350 ML by 2010.

Table 3 Successful grantees Biofuels Capital Grants Program announced on 22 June and 23 December 2004

Grantee	Biofuel Plant	Location	Grant \$ and capacity
CSR Distilleries	Ethanol	Sarina, Queensland	\$4.16 million for 26 ML
Biodiesel Industries Australia	Biodiesel	Rutherford, New South Wales	\$1.28 million for 8 ML
Schumer Pty Ltd (Rocky Point Sugar Mill and Distillery)	Ethanol	Woongoolba, Queensland	\$2.4 million for 15 ML
Biodiesel Producers Ltd	Biodiesel	Barnawatha, Victoria	\$9.6 million for 60 ML
Australian Renewable Fuels Pty Ltd	Biodiesel	Port Adelaide, South Australia	\$7.15 million for 44.7 ML
Riverina Biofuels Pty Ltd	Biodiesel	Deniliquin, New South Wales	\$7.15 million for 44.7 ML
Lemon Tree Ethanol Pty Ltd	Ethanol	Millmerran, Queensland	\$5.85 million for 36.6 ML

7.4 Impact of the government biofuel fund and taxation program

A number of decisions to fund biofuel plants were made, in part, before the announcement of the full package of the Government's fuel taxation reforms and before the release of detailed information outlining the proposed implementation path for these reforms. Whilst reforms were announced in the Energy White Paper in June 2004, detailed implementation plans were not available until May 2005 in the Treasury discussion paper. As a result, a number biofuel project proponents that were largely committed at that point were not able to factor in the full implications of fuel taxation reform and the commercial impact of these reforms on their project's viability.

7.5 Tax concessions – Cleaner Fuels Grants Scheme

Ethanol and biodiesel currently receive a production subsidy equal to the excise payable until 1 July 2011 under the Cleaner Fuels Grants Scheme. This production subsidy allowed biofuels an opportunity to establish themselves as a competitor in a mature diesel market as well as reflecting in part the benefit of being manufactured from renewable feedstock. The production subsidy is then phased in over a period of five years from 1 July 2011 to 2015 when the "effective" fuel tax on alternative fuels is levied at 50% of the full energy content rate.

Costs to the economy of the current policy settings, driven by the biofuels excise advantage, have been estimated by ABARE around AU \$90 million p.a. in 2009–10 reducing in steps to AU \$72 million p.a. (in 2004–05 dollars) in the long term (post 2015). Economic costs arise because government assistance changes the relativities between the activity that is assisted and other activities that add value to the economy.¹²

7.6 Fuel Tax Bill 2006 and Fuel Tax (Consequential and Transitional Provisions) Bill 2006

These Bills were passed by parliament on June 22, 2006, becoming effective July 1, 2006. They represent the Australian Governments major program of reform to modernise and simplify the fuel tax system.

To summarise these reforms in relation to the transport industry:

- A new fuel tax credit system allows excise credits for transport operators for mineral diesel and petrol on road use within required criteria;
- A road user charge has been introduced for heavy transport vehicles which is partially reduced by a new fuel tax credit system.;
- Biodiesel blends meeting the fuel quality standard for diesel under the Fuel Quality Standards Act 2000 are entitled to the excise credits on the whole volume as if the diesel blend was 100% diesel;
- Blends not meeting the diesel standard are only entitled to the excise credit relating to the proportion of mineral diesel in the blend, this is after a road users charge has been deducted on the whole volume of fuel; and
- There is a phasing out period of the old Energy Grants Credit Scheme (EGCS) until 2010 which allows a reducing excise credit to on-road use of alternative fuels (of which B100 and blends not meeting the diesel standard can be claimed).

The effect of these changes on the transport industry and biodiesel can be summarised as follows:

- Heavy transport users will not be able to claim fuel tax credits where they use B100 and other blends not meeting the diesel standard. Accordingly, biodiesel producers will have to reduce the price of their product to achieve parity pricing with diesel on an *after tax* basis. The EGCS, which reduces to nil from 2011, partially mitigates this lost revenue in the short term. .
- Heavy transport users of biodiesel blends meeting the diesel standard will attract the tax credit however there is significant uncertainty as to what level of blend may achieve this. It is widely quoted as being as low as B5. It is also possible that the level will vary between producers depending on the exact characteristics of the biodiesel and the diesel which are being blended.
- The only practical way for biodiesel producers to remain price competitive may be to enter into off-take arrangements with the oil companies which can manage the logistics of making and distributing a B5 blend. The oil companies will have significant market power when purchasing the biodiesel and may have little incentive to do it in the first place. .
- The road user charge is currently above the 19.1 c/l therefore it is unlikely that on road transport users will ever be able to claim any excise on using biodiesel that does not meet the diesel standard.

7.7 BPL's View

- The Commonwealth Government has adopted policies and programs to assist biofuel production, however, it has not formally adopted as Government policy the target (350 ML by 2010), contained in its 2001 election policy Biofuels for Cleaner Transport.
- The Government when introducing a production subsidy which off-sets excise taxation acknowledged that this would result in a loss of Government revenue. In refusing fuel tax credits for biodiesel, Commonwealth Treasury cited the loss of revenue as a major reason, yet this loss of revenue was already factored into forward estimates at the time the production subsidy was introduced. In reality, based on the NSW EPA data (refer 4.2), this loss of revenue will be reduced or completely offset against the savings in health care, not to mention potential environmental savings.

- BPL believes that The Fuel Tax Bill 2006 recently passed disadvantages biodiesel by negating in part the production subsidy which is payable under the Cleaner Fuels (Grants) Scheme through the operation of the new fuel tax credit system. Certain end users and biodiesel sold as part of a low proportion blend with diesel are not affected by these changes.
- Those affected are any blends not meeting the diesel fuel standard (Fuel Quality Standards Act 2000) and B100.
- The transport industry is unlikely to ever be able to claim credits under the fuel tax credit system for biodiesel (B100 and blends not meeting the diesel standard) as the road user tax is expected to be greater than the excise on biodiesel.
- In the short term, transport operators are able to claim credits for biodiesel under the EGCS, however this will be offset by a road users charge on the biodiesel proportion of the biodiesel in a blend under the new fuel tax credits scheme. The cost to the transport operator will amount to almost 16 cpl based on the current road users tax.
- The potential impact on our business will be the need to blend our product with a high proportion of diesel prior to distribution or to accept a lower price from large users so that our product price matches the after tax cost of diesel to those users. The extra costs and the feasibility of the blending processes will need to be compared with the cost of maintaining our pricing competitiveness and the cost of supplying smaller rather than larger customers.
- Regional locations will also be disadvantaged with blending processes. Due to blends involving a high proportion of diesel (to meet the diesel fuel standard) the costs associated with freight of diesel to regional areas and capital costs to provide additional facilities for blending and storage will inhibit growth in regional areas. Blending facilities will most likely be located in metropolitan areas, drawing investment (and use) away from regional centers.

8 Acknowledgement

BPL acknowledges the Report of the Prime Ministers Taskforce for Biofuels August 2005 as the main source of information used in the writing of this submission.

8.1 References

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