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7 November 2014

Senate Standing Committees on Rural and Regional Affairs and Transport
GPO Box 6100
CANBERRA ACT 2600

Sent via email: rrat.sen@aph.gov.au

Dear Sir/Madam,

Re: Biofuels Association of Australia (BAA) Submission on the Senate Enquiry into Australia's Transport Energy Resilience and Sustainability

On behalf of its members, the Biofuels Association of Australia (BAA) appreciates the opportunity to provide input into the senate inquiry into Australia's Transport Energy Resilience and Sustainability.

As background, The Biofuels Association of Australia ('BAA') is the peak industry body representing biofuel producers, marketers, retailers and others with the purpose of providing leadership and facilitating the building of a sustainable and economically viable Australian biofuels industry, consistent with national and community interests and environmental standards. Formed in 2006, the BAA is proud to have major Australian industry participants as members, providing valuable input and insight across the supply chain.

The BAA works closely with its members and broader stakeholders to identify opportunities to advance the uptake of biofuels in Australia's liquid fuel market, and to lead the way in helping to educate consumers about biofuels, their use and benefits. An Australian biofuels industry has broad societal benefits in the areas of economic development, health, environment, innovation and energy security and again we have provided a brief summary of these benefits attached in Appendix 1 for your reference.

More recently the BAA has participated in a Fuel Security Steering Group alongside the National Roads and Motorist's Association (NRMA), National Farmers Federation (NFF), AGL Energy, Elgas and the Australian Initiative for Sustainable Aviation Fuels. This group met regularly to examine the current Australian Fuel security position and discuss the potential implications of supply interruption and develop ideas and possible solutions to these issues.

The local industry has recently been delivered a blow by the Australian Government via earlier removal of the Ethanol Producers Grant and the Cleaner Fuels Scheme, which has had the impact of destabilizing the industry. This constant changing of government policy at both a State and Federal level will undoubtedly impact on the confidence of investors. The changes announced in the May budget if adopted unchanged, will likely result in the closure of the local biodiesel industry by 2018 and result in little if any further investment in the biofuel sector. (refer Appendix 2 for a full briefing on this issue) This action seems to work against the stated aims of the government to increase the diversity and security of the fuels on offer in Australia and attract investment in the energy sector.

Senate Inquiry TOR a. Options for Introducing Mandatory Oil Stockholdings

The case for increasing stockholdings for liquid fuels we believe is quite clear. According to a recent Bureau of Resources and Energy Economics (BREE) report at the end of September Australia had only 19 days cover for automotive gasoline, 18 days cover for Aviation fuel and 16 days cover for diesel. This level of stock holding is well known to be below our IEA stockholding obligations and it seems incredible that Australia is the only country of the 28 participating countries that fails to meet this obligation¹.

Given Australia's Agricultural and Transport (automotive, truck, maritime & aviation) sectors are almost 100% reliant on liquid fuels (fig. 1) this level of cover leaves our industries very vulnerable to supply disruption.

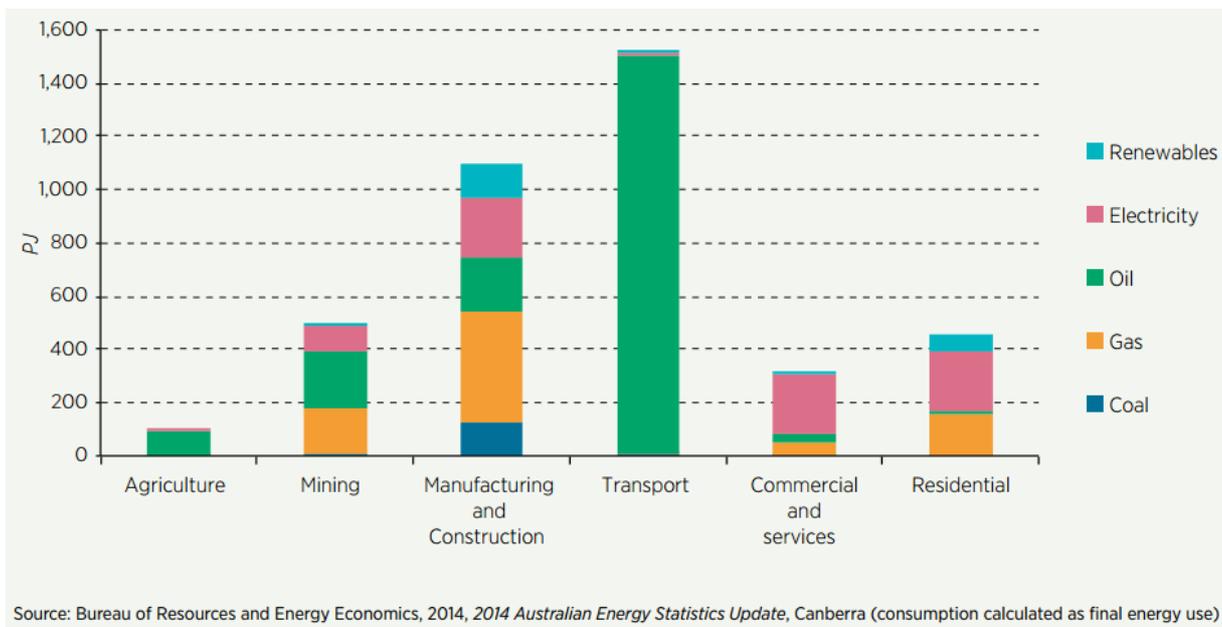


Figure 1: Sources of Energy by Sector (Petajoules PJ)

The transport sector is not only critical for moving people from point to point, but also it is essential for everything from the provision of essential and emergency services to the supply and distribution of food, health supplies, defence and all manner of goods and services. Clearly any interruption to liquid fuel supplies will have a significant and immediate impact on all Australians.

The Department of Industry in their recently released Green Paper sets out its intention to attract energy resource investment and acknowledges that Australia has limited reserves of crude oil, condensate and liquefied Petroleum Gas (LPG). The paper does not acknowledge the fact that Australia is almost totally reliant on imported fuel for the Transport and Agricultural sectors nor does it address the risks associated with a disruption to this supply to the Australian economy and society. There is also no mention of targeting investment incentives towards reducing this reliance on imported product.

When our reliance on imports is coupled with a lack of local liquid fuel storage infrastructure then the depth of our vulnerability to supply disruptions becomes evident. As recently as May this year after having issues with the quality of diesel in two shipments to WA, Perth experienced widespread stock-outs and lack of diesel availability and this follows a similar event in Melbourne the year before². Disruptions will undoubtedly increase as our reliance on the import supply chain increases. Even more concerning of course is that Australia's vulnerability has been identified by terror group Al Qaeda who have published a map of critical petroleum shipping routes.

¹ Liquid Fuels Vulnerability Assessment, ACIL Tasman 2012

² Press Release: BP 29 May 2014

GLOBAL CHOKEPOINTS AND OIL ROUTES

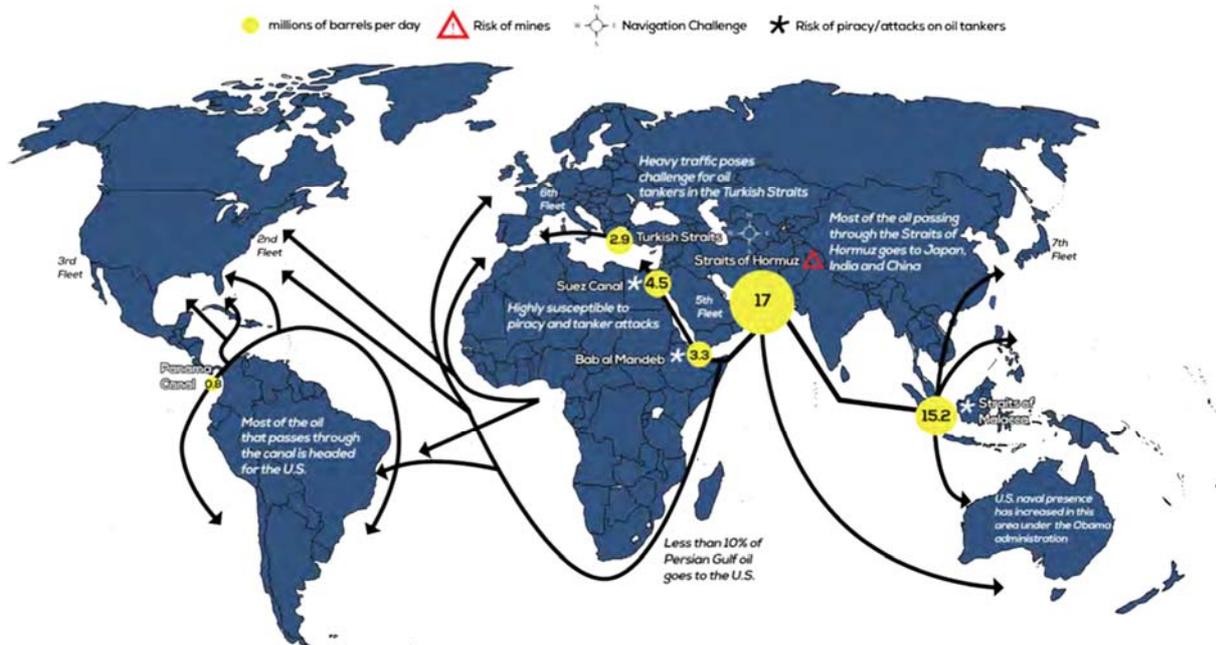


Figure 2: Al Qaeda view of global oil shipping lanes.

The BAA strongly support the increase of mandatory stockholdings together with a focus on increasing local production of alternative fuels, including biofuels.

Given the infrastructure throughout Australia and the fact that we are increasing our usage of liquid fuels by about 1.3% per annum, we will continue to be reliant on liquid fuels for many years to come.

The BAA suggest that investing in growing the biofuel sector can be an alternative method in increasing not only the fuel security of our nation, but also add to Australia's economic and social well-being creating high value jobs in regional communities.

Senate Inquiry TOR b. The role of Government

At the recent G20, Australia committed to also placing Energy security as a priority for G20 nations. It is our hope that the G20 will adopt a similar set of principles and the follow the lead of the G7. The following set of principles³ were set in May 2014 and announced in a joint statement in the European Union.

".....Addressing energy security requires immediate measures and decisions at both the national and regional levels, in order to address short, medium and long term challenges. We believe that the path to energy security is built on a number of core principles:

- Development of flexible, transparent and competitive energy markets, including gas markets.
- **Diversification of energy fuels, sources and routes, and encouragement of indigenous sources of energy supply.**
- **Reducing our greenhouse gas emissions, and accelerating the transition to a low carbon economy, as a key contribution to enduring energy security.**
- Enhancing energy efficiency in demand and supply, and demand response management.
- **Promoting deployment of clean and sustainable energy technologies and continued investment in research and innovation.**
- Improving energy systems resilience by promoting infrastructure modernization and supply and demand policies that help withstand systemic shocks.
- **Putting in place emergency response systems, including reserves and fuel substitution for importing countries, in case of major energy disruptions.**

³ G7 Rome energy ministerial meeting, Joint Statement, http://europa.eu/rapid/press-release_IP-14-530_en.htm?locale=en, 6 May 14

The G7 also went onto remark that to achieve their energy security goals that “Some investments in infrastructure, needed to increase security of supply, and that cannot be built according to market rules, could be supported by regulatory frameworks or by means of public funding.”

Government will play a vital role in ensuring that Australia can provide fuel to all Australians into the future. Globally fuel security has become a more prominent issues in policy making as the world has become a more volatile environment with the acts of terror that continue to beleaguer it. The development of indigenous fuels increasingly is coming to the fore in countries like Australia that are reliant on imported liquid fuels.

Globally governments are recognizing the need to support growth of renewable fuels with 62 countries having instituted either a mandate or target to drive the uptake of biofuels in the liquid fuel market. As the debate surrounding the benefits of biofuels has matured, so have the global policy frameworks ensuring that the goals for diversifying their liquid fuel sources are delivered for their economies without unintended consequences.

Figure 3 shows the reasons that governments have espoused for adopting biofuel mandates. As is evident the Biofuel industry is accepted as an industry that can deliver significant economic contribution whilst at the same time providing for secure fuel supply and lower GHG emissions.

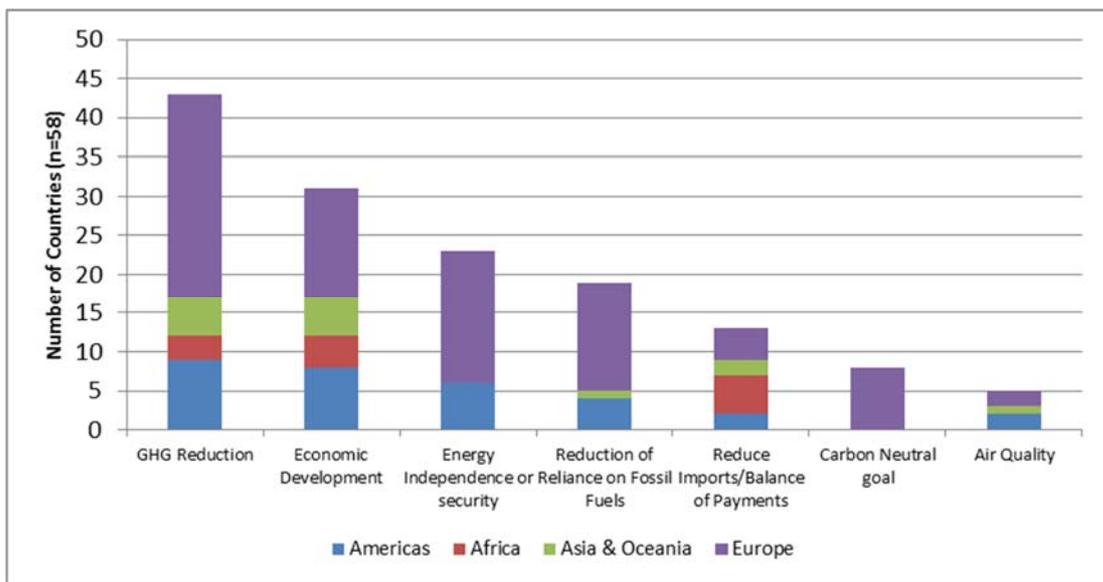


Figure 3: Government Espoused Reasons for Adopting Biofuels Mandates

Australia, as evidenced in many government sponsored reports, has rich resources available for the production of both conventional and advanced biofuels. The biofuel industry is one of the fastest growing industries globally but development is languishing in Australia as a result of the lack of a clear policy framework encouraging its development. The industry has the capacity to be value accretive to the economy whilst providing a platform for a secure and indigenous supply of fuel reducing our reliance on foreign oil.

The Biofuels Association of Australia believes that the government has an important role to play in setting policy that can improve fuel security as well as further other objectives that are currently not being costed by the Australian economy.

BAA Recommendations

Given the policy uncertainty that has plagued the renewable energy sector in Australia, the BAA believes that it is critical for the Government to provide a clear signal to the marketplace, that Australia is committed to growing the volume and diversity of alternative fuels in the Australian fuel mix. The BAA urges Government to consider the following policy principles and mechanisms to encourage the growth of the Australian Biofuels Industry as one such alternative fuel:

1. A National Volumetric Renewable Liquid Fuel Target

Proposal: Establish a target for 2 Billion Litres of our liquid transport fuels to be produced from renewable sources by 2025

The private sector and financial community need strong signals that government is committed to growing renewable fuels in Australia. As such, the industry is keen to progress discussion of a national volumetric target for renewable liquid fuels. A 2 Billion litre target for the production of biofuels suggested represents about 5% of the total volume of liquid fuels used for transport in today's terms and is readily achievable with the renewable resources available in Australia. More importantly, achieving this target would generate a significant economic contribution to the Australian economy and many thousands of jobs.

In 2001, the then Howard Government set a target to reach 350ML of biofuel capacity by 2010. This target was in fact exceeded which demonstrates what can be achieved when governments set aspirational goals that are supported by sound policy. This type of action would send a clear investment signal to Corporate Australia and we believe would revitalize energy manufacture in Australia.

2. Alignment of Policy Mechanisms to Support Growth

Proposal: Reclassify Biodiesel into the mid-tier fuel excise band

The Biofuels Association of Australia (BAA) submits that the entire Australian biodiesel industry will suffer irreparable damage and be likely forced out of existence if the Federal Government's 2014 Budget measures to impose excise on biodiesel from 2016 proceeds as currently proposed.

The closure of the Australian biodiesel industry would result in the destruction of at least \$50 million of recently undertaken regional investment and almost 100 direct full time jobs mostly in regional areas. It would also weaken Australia's energy security position and result in higher greenhouse gas emissions.

However, the Government can avoid these job losses, stimulate further investment and job creation and provide additional domestic energy security in the sector by simply levying the same excise rate to biodiesel as that which applies to other alternative fuels such as LPG, CNG and ethanol.

This can be achieved without a change to the announced 2014 Budget policy by simply altering the proposed excise regime from a volumetric basis to a gravimetric basis and hastening the removal of the Cleaner Fuels Grant from imported products.

The BAA submits that this single step would not only save the Australian biodiesel industry, create new jobs and provide additional domestic energy security; it would have a net positive impact on government finances over the forward estimates by effectively reducing the cost of Australian taxpayer funded subsidies to imported biodiesel over the next 8 months.

Details of how this change could take effect are included as an appendix 2 entitled *Biodiesel Excise Submission*.

3. Advocacy regarding the benefits of Renewable Fuels

Proposal: The government establishes a fund to be used to take direct action in educating consumers and making the benefits of Renewable Fuels transparent to the public.

As acknowledged by the establishment of the *Emissions Reduction Fund*, there is a significant negative externality that is not being born by the existing petroleum industry, resulting from the combustion of fossil fuels. Renewable biofuels have significant potential to reduce these emissions but face many barriers as a result of the monopolistic type market structure the oil industry currently enjoys.

The industry faces a number of challenges in its efforts to penetrate the mainstream fuel market. In the last two years, we have seen a decline in sales of ethanol-blended fuel and in the 2011-12 period, a decline in the number of retail sites selling E10. The largest volume of ethanol-blended fuel (over 80 percent of the ethanol blended fuel market) is sold in NSW, driven by legislation requiring 6 percent of the total volume of petrol sold to be ethanol. Despite this, today only around 3.6 percent of the petrol market in NSW is ethanol. Consumer demand for the product is heavily influenced by price, and less so by the broader benefits to society. For ethanol, the price at the pump is a critical factor and the decreasing price differential between RULP and E10 (in 2011-12 average prices for RULP were only 1.8 cents per litre higher than for E10 according to the ACCC) and the influence of “shopper docket” have a significant impact on demand.

In Australia, our total biofuel production capacity is set to exceed 700 ML in 2014 consisting of approximately 450 ML of ethanol production capacity and around 215 ML for biodiesel per annum with another 140 ML pa expected should the Darwin facility re-start production in 2014. At present, consumer demand for biofuel is lower than the installed capacity, which is a turn-around from prior years, when it was believed that local supply would be insufficient to meet future demand. This is a concerning situation for the industry, which has invested based on expected future demand and government policy intentions.

Unfortunately biofuel producers have limited opportunity to connect directly with consumers as this interface is controlled by the retail oil networks. Retailers are obviously invested in their brands and with biofuels still being a very small component of their overall offer receives little attention. Opportunities may exist to introduce mandatory labelling of fuels to ensure that consumers are making informed choices as to the carbon intensity of the fuels they are choosing.

The Biofuels Association of Australia (BAA) would like to be able to provide a better service to consumers by being able to provide the following:

- Establish a sustainability standard for all biofuels and work with government to set standards for compliance
- Provide a national hotline service to consumers to answer questions about whether they can use biofuels in their vehicles
- Provide technical and market support to potential new biofuel entrants to increase investment in the sector
- Establish educational services in collaboration with TAFE and other educational institutions to increase knowable about biofuels use and manufacture
- Extend research outcomes to industry participants and encourage the take up of new technologies

Unfortunately given the current size of the industry, the BAA lacks the funding to properly support the industry and assist it in reaching its full economic potential. Without Government leadership to indicate its dual intent to have biofuels as part of Australia’s mainstream fuel mix and support to grow Australia’s energy manufacturing sector, it is unlikely that biofuels will increase penetration of the mainstream fuel market or deliver the economic potential as indicated as being possible by the Deloitte Biofuel Industry Economic Study⁴.

⁴ Economic contribution of the Australian biofuels industry, *Deloitte Access Economics 2014*

4. Support for the Development and Commercialisation of Advanced Biofuel Technologies

Proposal: Establish a taskforce to clarify policy arrangements for Advanced Biofuels and develop a suite of specific incentives to ensure that Australia can develop its extensive natural resource advantages in this industry sector.

The current policy arrangements regarding excise were an important enabler in the development of the domestic biofuels industry. However, the policy only takes into account ethanol, biodiesel and renewable diesel. It is important that incentives to assist the development of future advanced biofuels (including renewable fuels for the aviation industry) do not discriminate between fuel type and technology, whilst maintaining current arrangements for existing industry players.

Currently, it is unclear whether “Drop-in fuels” produced from biomass sources for instance would achieve any excise relief. The BAA would welcome the opportunity to work with government on developing a suite of specific incentives that would drive new investment in the renewable fuel sector and enable Australia to be at the forefront of what is one of the largest global sectors of development in the energy complex.

5. Long-term policy certainty and consistency at both State and Federal levels

Importantly, in considering future policy settings, the BAA believes that the Government must take a strategic approach, thinking beyond electoral cycles and involve setting clear and ambitious goals, which have bipartisan support. Through providing long term policy outlooks that support the development of alternative renewable fuels, there is the potential to unlock over a billion dollars of new project investment in the near to medium term in the sector providing jobs, regional development and cleaner fuels.

The study performed by Deloitte Access Economics demonstrates that the investment made by the government in the biofuels industry has significant returns in terms of both GDP and job creation. Having a long term policy position to continue to support the industry therefore is very much in the interest of supporting growth for the Australian economy.

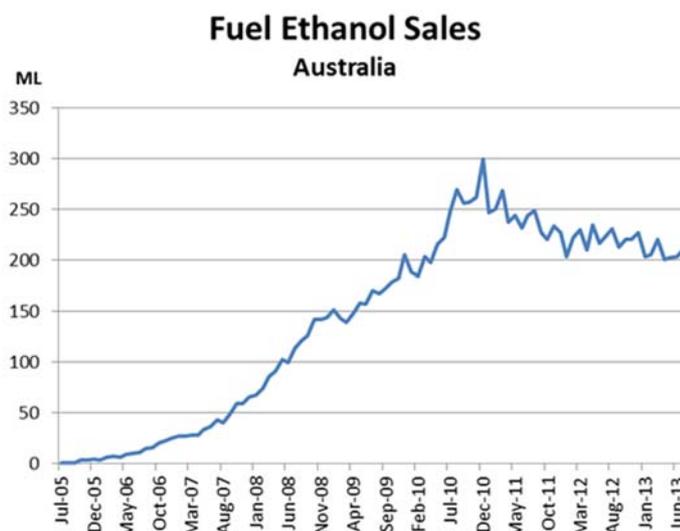


Figure 4: Volume of Ethanol fuel sales in Australia (source: BREE)

As evidenced in Figure 4, Ethanol fuel sales increased steadily from the period of 2005 through 2010. During this time there was clear commitment from the federal government to developing the industry through the establishment of a 350ML target and support through providing excise relief support. Coupled with this action was the establishment of a mandate for biofuel inclusion in NSW in 2006 and the announced intention of Queensland to also implement a mandate from 2010.

As we approached 2010 as an industry, a policy vacuum was created with a lack of clarity on the future of the Ethanol Producers Grant (EPG) and also the faltering of the Queensland government to mandate biofuels. Investors require long term certainty, coupling the uncertainties provided by the energy and agricultural markets with uncertainty in the regulatory framework it has made new investment near to impossible.

In 2011, the EPG and CFG arrangements were extended to 2021 and provided a narrow window for investment. That window is now closing as we fast approach the 7 year investment horizon to 2021. In 2011/12 combination of the floods in Queensland causing a short term supply interruption and the reduced interest in implementing the Queensland fuel mandate consequently provided the oil majors the opportunity to reduce forecourt supply capacity, which was never restored post flooding.

In summary, in the period prior to 2010 where policy was certain growth followed. As policy has become clouded and less certain investment has stalled and a period of negative growth has ensued.

6. Support for education as to the role biofuels can play in our future fuel mix

Proposal: Establish a combined motor industry working group to recommend minimum standards for local and imported vehicles with respect to compatibility and warranted performance with biofuel blended fuels.

Unfortunately biofuels are still considered new and novel by many consumers and are yet to be accepted as a trusted fuel choice. Whilst there are innumerable studies as to the quality of the biofuels provided and the fact that the stringent Fuel Quality Standards set by government make biofuels a safe choice, the public are yet to be convinced. Biofuels can also be used now by most of the existing vehicle fleet with compatibility rates improving year on year where we currently forecast 97.7% of the fleet will be compatible with ethanol for example.

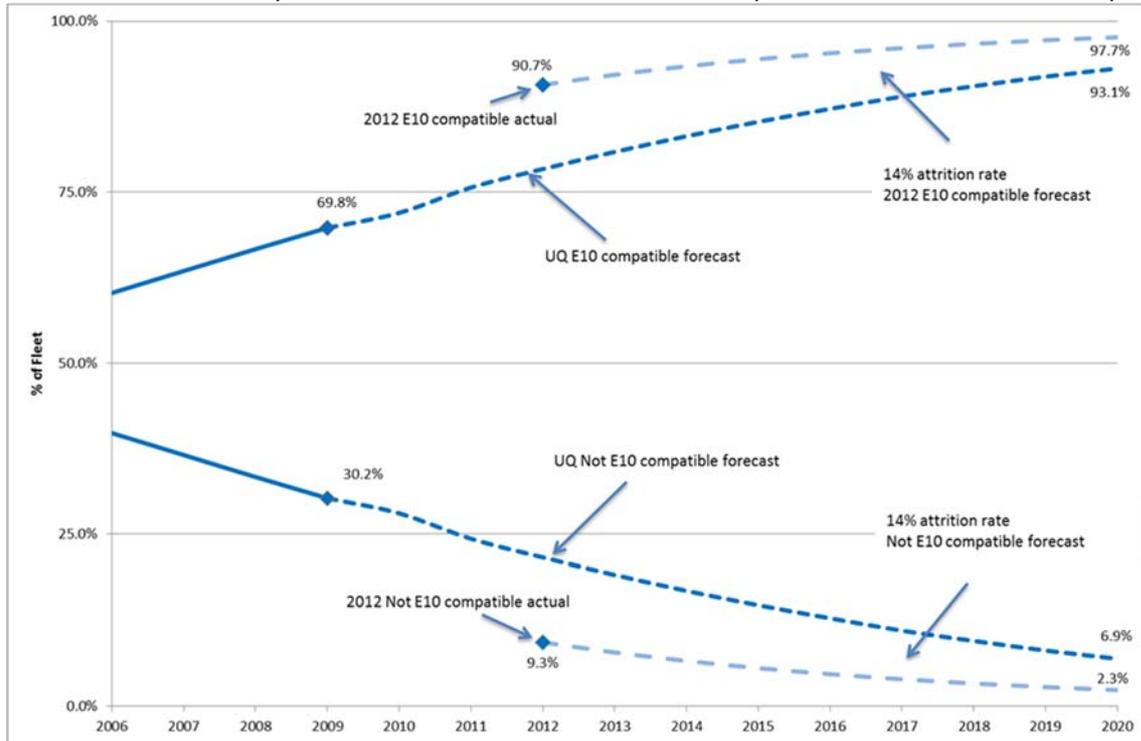


Fig5: Attrition rate of E10 incompatible vehicles and percentage of compatible vehicles: University of Queensland 2010 E10 Compatibility report and current forecast (Source: BAA Report 2013)

The Biofuels Industry is still and emergent industry with less than 1% of the supply and less than 0.1% retail exposure, it is very difficult for the industry to connect directly with its consumers and market the benefits of biofuels. During the industry's formative years, it is important that we have a 'champion' in the Government, to deliver the message regarding the benefits of Biofuels, if significant growth and hence investment is to follow.

Removing confusion around warranties and vehicle compatibility with biofuel blends, such as E10, E85, B20 and B5 would go a long way to building consumer confidence. Working with the automotive and truck industries will be important in the development of future policy settings to ensure that Australia's goals for the development of

a renewable liquid fuel market are aligned with the timely development of fuel standards and introduction of compatible vehicles into the Australian market.

We trust that the BAA's submission provides an understanding of the industry's views in relation to the issues raised by this senate inquiry and we thank you for the opportunity to contribute to this important debate. The BAA would appreciate the opportunity to discuss the matters raised in further detail with you, and we hope that this may be possible in the coming weeks.

Yours sincerely,



Gavin Hughes
CEO
Biofuels Association of Australia



Garry Mulvay
Chairman
Biofuels Association of Australia

Appendix 1: Benefits of an Australian Biofuel Industry

Economic Development

Today more than 98 percent of the energy used in Australia's transportation industry still derives from fossil fuels. With Australia facing significant change in terms of the make-up of industries that once drove our economy, the burgeoning biofuels industry is a relatively new player, which if fostered can contribute future investment and jobs.

The BAA recently commissioned Deloitte Access Economics to undertake a study on the economic contribution of the Australian Biofuels Industry. The interim results of this report show that, net of the Cleaner Fuel Grants and Ethanol Producer Grants paid, the industry generated an economic contribution of approximately \$427 Million and provided for about 3,180 FTE jobs as a result of the industry's activities and that this could grow to \$554 Million and 4,002 FTE jobs should the industry utilise its installed capacity. Given that the biofuels industry represents just 1% of fuel sales, we believe this demonstrates the significant economic potential that this industry has to contribute to Australia's future.

The Australian biofuel production supports investment and jobs in regional Australia in communities including: Barnawartha, Largs Bay, Picton, Nowra, Maitland, Dalby, Sarina, Cressy and Tom Price. A number of projects are under consideration for the future and Australia's biofuels demand and policy settings will be key factors influencing their commercialisation. Additionally, the BAA believes that there is an opportunity for a domestic biofuels industry to provide an alternative revenue stream for the agri-sector, allowing it to strengthen its resilience to ever changing environmental and economic conditions.

Energy Security

An established industry can contribute to energy security as blending extends Australia's fuel reserves. Indeed, energy security concerns have driven many countries to introduce policies to actively encourage the development of their biofuels industry. Biofuels capability in Australia is also an area being closely watched by Defence personnel, particularly as our US allies are moving to significantly increase the use of renewable fuels in Navy vessels. Interoperability is a key factor to consider for the Australian Navy, as often shared supply chains are used for fuel.

Health benefits

Ethanol and biodiesel blends can have a beneficial impact to air quality, and as a result human health due to the reduced pollutant gas emissions relative to fossil fuels. Air quality, particularly in and around our major cities, ports, tunnels and airports could be improved and there is opportunity for increasing uptake of biofuels to have a positive impact on health outcomes and reduce national and state health budget costs. The Australian Medical Association noted in its submission to the 2013 Senate Inquiry into the "Impacts on Health of Air Quality in Australia" that the costs associated with motor vehicle emissions alone are estimated to be between \$600 million and \$1.5 billion per annum.

Given the recent determination that there is no safe level of exposure to diesel particulate emissions, the case for change is becoming even more compelling. The OECD recently published a report at the International transport forum that showed with the adoption of tighter fuel standards and the greater adoption of biofuels the mortality rate had fallen by 4% globally. Unfortunately however in Australia our rate had increased by 60% which underlines the need for the adoption of cleaner fuels in Australia.

In particular, a significant risk to human health is posed by vehicle particulate emissions, especially fine particles known as PM2.5. Many economies have taken direct action in setting their fuel standards to limit particulates through requiring biofuels to be part of the standard fuel blends.

A CSIRO and Orbital study in 2008, "Evaluating the Health Impacts of Ethanol blend Petrol", concluded that there would be a "health benefit to Sydney and Urban Australian population (Sydney, Melbourne, Brisbane and Perth)

arising from a move from ULP to ethanol blends in spark-ignition vehicles”, noting that the “overall quantified health benefit of using ethanol blends is overwhelmingly dominated by reductions in particulate matter”.

Overall, the BAA believes that the net public health benefit of using blended fuels is positive and should be a significant consideration when analysing future policy settings to advance the uptake of biofuels in Australia.

Environment

The environmental benefits of biofuel use have been widely documented. The reduction in greenhouse gas emissions resulting from the use of biofuels and biofuel blends is closely aligned with the Government’s “Direct Action” approach to climate change.

While there have been concerns due to the use of food crops as feedstocks in some countries, in Australia producers are using environmentally sustainable feedstocks from waste streams such as used cooking oils, tallow, wheat starch, molasses and sorghum. These feedstocks do not impact the affordability or availability of food within Australia.

Whilst the notion of first and second generation fuels once was central to the debate, ‘Advanced Biofuels’ has finally become the centre of attention, requiring fuels to be defined by their potential for lifecycle GHG abatement and their conformance to a set of sustainability criteria. Indeed, the issue of sustainability is of paramount concern to the Australian industry, and the BAA is the lead participant in Australia’s involvement in the development of an ISO Sustainability Criteria for Bioenergy.

Technology and Innovation

The biofuels industry is an incubator for innovation and is the basis on which to foster new technology and R&D. Our local producers are constantly looking for ways to improve the efficiencies within their processes, via research into new enzymes or treatments to improve the yields and quality of the biofuel they produce.

Looking to the future of advanced biofuels, several Australian Universities and CSIRO have active research programs and many are at the forefront of research into new feedstocks, such as algae, cyanobacteria, sorghum, lignocellulose, pongamia and mallee. Importantly, the issue of how to manage biomass aggregation to allow cost effective processing of these feedstocks into fuel is also a critical area of required study. Leveraging Australian industries that already aggregate biomass of course is a short pathway to piloting these new technologies.

The development of a sufficient supply of renewable feedstocks is of particular interest to the aviation industry, both in Australia and globally. The key challenges remain the cost and availability of feedstocks and refining capability. The global industry is keen to find ways of producing sustainable quantities of renewable jet fuel, at an acceptable cost. This is an area where there is strong customer demand for the product, and globally, many countries are urgently looking at ways that they can take advantage of what could become a significant industry in future. Australia is well positioned to take a lead in the development of pathways to renewable jet fuel and this is evidenced by investment in local initiatives such as the Australian Initiative for Sustainable Aviation Fuel (AISAF) and Queensland Sustainable Aviation Fuel Initiative (QSAFI), along with partnerships between companies such as Qantas and Shell, and Virgin Australia, Brisbane Airport Corporation and SkyNRG (Brisbane Bio port).

For Australian biofuel production, increased investment in the development of advanced, renewable economically viable feedstocks is critical to the growth of the industry.

BODIESEL EXCISE SUBMISSION

EXECUTIVE SUMMARY

The Biofuels Association of Australia (BAA) submits that the entire Australian biodiesel industry will suffer irreparable permanent damage and be forced out of existence if the Federal Government's 2014 Budget measures to impose excise on biodiesel from 2016 proceed as currently proposed.

The closure of the Australian biodiesel industry would result in the destruction of at least \$50 million of recently undertaken regional investment and almost 100 full time jobs mostly in regional areas. It would also weaken Australia's energy security position and result in higher greenhouse gas emissions.

However, the Government can avoid these job losses, stimulate further investment and job creation and provide additional domestic energy security in the sector by simply levying the same excise rate to biodiesel as that which applies to ethanol.

This can be achieved without a change to the announced 2014 Budget policy by simply altering the proposed excise regime to measure energy content on the internationally accepted Megajoules per Kilogram basis rather than the currently proposed Megajoules per Litre basis.

The BAA submits that this single step would not only save the Australian biodiesel industry, create new jobs and provide additional domestic energy security; it would have a net positive impact on government finances by effectively reducing the cost of Australian taxpayer funded subsidies to imported biodiesel over the next 12 months.

The attached submission outlines in detail the economic basis and rationale of BAA's argument and explains the simple mechanism for rectifying the unintended consequences of the proposed 2014 Budget biodiesel excise measures.

Appendix 2

BIODIESEL EXCISE SUBMISSION

BACKGROUND

- Biodiesel is an alternative fuel for diesel. It is manufactured in Australia from a range of waste products including tallows, waste vegetable oils and used cooking oils. These feedstocks do not compete for agricultural land or water.
- The benefits attributable to biodiesel and the domestic industry include:
 - Regional development
 - Agricultural value adding
 - Fuel Security (Australia's biodiesel capacity increases our fuel security by 25%)
 - Significantly reduced carbon emissions
 - Significantly reduced particulate matter and improved air quality
- The Deloitte Access Economics report of 19 February 2014 concluded that the domestic biodiesel industry had a total contribution to the Australian economy of \$64 million and leveraged 438 Full Time Equivalent jobs *net of all subsidies*. Significantly, almost all of those jobs are in regional Australia.
- That report also concluded that if the domestic biodiesel industry was operating at capacity, the potential economic contribution of the industry would be \$194 million and 1,273 FTE jobs, *net of all subsidies*.
- Biodiesel was granted excise free status (by virtue of the Cleaner Fuels Grant Scheme) in June 2011. The Explanatory Memorandum noted:

“...objective is to provide the fuel industry and fuel users with certainty as to the future direction of fuel tax policy so that they have confidence to make future investment decisions and consumption choices. Providing them with certainty also requires that they be given adequate time to prepare for the changes to fuel tax...”

This legislation had bi-partisan support in the parliament.

- On the strength of that legislation, the industry has raised over \$50 million in equity funding and debt funding to invest in the biodiesel industry. All of that money has been invested in the Australian biodiesel industry in new capital facilities and upgrades to existing facilities, in addition to employing a workforce to operate the business.
- On 4 February 2014, the Minister for Industry The Hon Ian Macfarlane wrote to one of our members advising in relation to the Energy Grants (Cleaner Fuels) scheme that **“These programs are not scheduled for review until June 2021.”** A copy of Mr Macfarlane's letter is attached. He also noted that the Energy White Paper would be the appropriate place for an examination of biofuels policy.
- On 27 February 2014, the Prime Minister in relation to biofuels stated: **“This is a government which is determined to keep faith with businesses which have made investment decisions honestly and fairly on the basis of government policy”** A copy of that press release is attached.
- The budget was handed down on 13 May 2014 – less than three months after clear statements from the Prime Minister, the Minister for Industry and inferred advice from Treasury that biofuels would not change or be adversely affected. Indeed it is less than three years since bi-partisan legislation was passed to provide certainty to encourage investment into the Australian biodiesel industry.
- Our members and their shareholders made their investment decisions totalling the twelve months preceding the budget honestly and fairly on the basis of Government Policy.

- The financial consequences for the Australian Biodiesel Industry its shareholders and institutional investors include:
 - Biodiesel will ultimately be subject to excise at 19 cents per litre. At that level the Australian biodiesel industry will close permanently.
 - That statement is unambiguous and can be supported through independent expert's opinion and audited financial projections.
 - As a matter for the public record, ARfuels Financial Statements for the year ended 30 June 2014, show write downs of assets (biodiesel plants) of \$3,650,000 as a result of the budget announcements. In the case of the Largs Bay plant, this was after capital expenditure of over \$7 million since December 2011 on refurbishment and improvements to the plant.

It is also confirmed in those Financial Statements that:

“Should the proposals contained in the 2014 Federal Budget be enacted as announced, this would result in a material impairment of the Victorian CGU. That impairment amount could be between \$14 million and \$20 million, depending on sales and margin assumptions.” The Victorian CGU is the Barnawartha biodiesel plant.

ARfuels net assets in those financial statements are \$19.4m, accordingly an impairment of that level means the remaining equity of ARfuels will be written off under the budget proposals.

Those statements were made after careful consideration and with the professional and expert advice of PricewaterhouseCoopers and the audit review of Deloitte.

The share price and market capitalisation of ARfuels fell 66% from the budget announcement on 13 May 2014 to the next opening of trading in ARfuels shares.

- The Australian Government will have provided subsidies to imported biodiesel of over \$100 million in the twelve months for 1 July 2013 to 30 June 2014. The majority of this biodiesel is consumed in the mining industry – which is an excise free situation. The Australian taxpayer provides a fuel tax credit on imported biodiesel used in the mining industry of \$0.38 in addition to a further \$0.38 under the Cleaner Fuels Grant scheme.
- That Australian taxpayer funded subsidy will likely exceed over \$133 million of support to imported biodiesel in the next twelve months while all local producers remain idle. That \$133 million would be more than sufficient to have provided the Australian biodiesel industry with the Cleaner Fuels Grants Scheme up to 2021 under the original announcements.
- In a letter from Mr Macfarlane dated 22 September 2014, he states in relation to the biodiesel measures in the budget that “This combined support provides a substantial and ongoing commitment to the local (biofuels) industry by the Government.” That statement is plainly uninformed and incorrect. The Policy turnaround by the Government does not support the biodiesel industry at all; the policy in its current form will close the biodiesel industry.
- The Policy as announced in the budget simply does not work, and this is now well understood by the Departments of Industry and Treasury. The economics of the biofuels industry are well known and 19 cents per litre excise closes the biodiesel industry – depriving the Australian taxpayer of the benefits of a local biodiesel industry which include the economic benefits – refer the Deloitte Access Economics report, the regional development benefits, fuel security and environmental and human health benefits.
- In the case of investors and debt providers in the biodiesel industry – those investments, made in good faith have been rendered worthless. That result is unfair and unaustralian.
- Of note, the excise that will apply to ethanol, a comparable biofuel used in substantially the same blend ratios as biodiesel, will only pay excise at a maximum rate of 12.5 cents per litre. That rate if applied to biodiesel would enable the industry to continue and grow.

A SOLUTION

- The BAA is not advocating for corporate welfare. The concessions granted in 2011 were to support and encourage investment into a new and developing industry – and those commitments should be honoured.
- If the Australian fiscal position and budget repair needs warrant such drastic measures as a backflip on legislation which has induced significant biofuel industry investment of > \$100M – the changes should not be so severe as to permanently close the biodiesel industry and void the investment and retirement monies of thousands of Australian taxpayers.
- The Government has announced the excise position is to be determined based on the Energy Content of a fuel and then adjusted for various purposes. We believe that the simple modelling of fuels based on energy content only tells part of the story, by moderating the data and moving to a gravimetric base, the disparity in energy contents of both diesel and biodiesel is better reflected and should allow biodiesel to be reclassified as a mid-tier energy fuel for excise purposes.
- The proposed excise regime uses energy content as a de facto measure for likely realised fuel economy. Under this proposal, the energy content is measured on a Megajoules per Litre basis with energy bands applied as below.

Liquid fuels	MJ/Litre	Band	Excise	Energy Bands		Rate
Diesel	38.6	High	38.1	> 30	High	38
Petrol	34.2	High	38.1	20-30	Mid	25
Biodiesel	34.6	High	19.1	< 20	Low	12
Ethanol	23.4	Mid	12.5	50% discount alternative fuels		

- The standard methodology for measuring energy content is to use Megajoules per Kilogram. The volumetric measure of litres is variable and changes at differing pressures and temperatures so that correction factors need to be applied. Using Kilograms is the globally accepted measure.
- The use of Megajoules per Kilogram is supported by the Australian Governments National Measurement Institute and by the global company Intertek, one of the world's leading providers of quality, safety, testing, inspection, and certification.
- If the measure of energy content was adjusted to a gravimetric base, and the energy bands were adjusted to a more symmetrical table, the following excise rates could apply.

Liquid fuels	MJ/Kilogram	Band	Excise	Energy Bands		Rate
Diesel	47.1	High	38.1	> 40	High	38
Petrol	46.4	High	38.1	20-40	Mid	25
Biodiesel	39.3	Mid	12.5	< 20	Low	12
Ethanol	29.7	Mid	12.5	50% discount alternative fuels		

- This would leave ethanol and biodiesel on the same excise treatment and would provide a stable and sustainable future for the biodiesel industry. It would require no change to the announced policy and provide a better measure for determining the energy content of each fuel.
- No other fuel would require reclassification as a result of this change.