1 July 2015

Project Manager
Queensland Biofuel Mandate
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Dear Project Manager,

Response to the Queensland Government's
Toward a clean energy economy: achieving a biofuel mandate for Queensland
Discussion Paper June 2015

1. Introduction

1.1 The Motor Trades Association (MTA Queensland or the Association) responds to the Queensland Government's invitation for submissions to the June 2015 Discussion Paper *Toward a clean energy economy: achieving a biofuel mandate for Queensland* (the Discussion Paper). The Association's comments are submitted on behalf of its constituent Divisions and are confined to issues which relate to the interests and fall within the competence of the Queensland automotive value chain.

1.2 The Discussion Paper indicates that the Queensland Government proposes to introduce the *Liquid Fuel Supply (Biofuel Mandate) Amendment Bill 2015* (the Bill) which prescribes a phase-in of ethanol blended fuel commencing with a two per cent target which equates to approximately 59ML per annum, based on 2013-14 figures (the Mandate). This aspiration with some reservations is supported as it has the potential to deliver for the State's economy over the longer term inter alia: a stimulus to new manufacturing opportunities and incorporated and private entities, growth for regional communities and a price dividend for retail fuel consumers.

1.3 The MTA Queensland's reservations include:

1. Increased public environmental risks that may result if the bulk tanks, pipework and dispensers are not ethanol blended fuel compatible for those service stations categorised as major fuel retailers (defined as owners or operators with establishments in excess of 10 service stations).
2. The costs of upgrading tanks, pipework and dispensers to be ethanol blended fuel compatible or the installation of new tanks etc. to comply with the legislation applicable to service stations defined as major fuel retailers.

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3. The compliance and reporting costs each quarter which is further red tape for all fuel retailers (non-major and major).
4. Progressing the proposed regulatory regime without a full comprehensive cost-benefit evaluation of costs, implications and intended and unintended consequences of a state-wide ethanol Mandate. The Association is aware of the Deloitte Access Economics 2014 study "Economic impact of a future tropical biorefinery industry in Queensland" for qutbluebox.

1.4 Whilst generally supportive of the proposed Mandate, a prima facie economic case for the Mandate has not been established. This, in the view of the Association, should be a critical precursor for the introduction of a wide ranging Mandate with consequences for economic outcomes, regional development, environment, productivity, international competitiveness and social policies and desirably should be based on the best available analysis and data. Regulatory requirements should be kept to the minimum so as not to impede growth and development of e.g. new biotechnology innovations and escalated costs.

1.5 The Queensland Government may deliver a legislative biofuels Mandate, but the real economic cost will be to the wide range of private enterprise stakeholders including consumers and the private sector - agriculturalists to manufacturers to the automotive value chain - that will ultimately determine its success or failure. "A mandate is a form of compulsory demand because it obliges motorists to buy ethanol even when ethanol is uncompetitive with petrol. In effect a mandate is a subsidy to ethanol producers paid by fuel users" (Parliament of Australia House of Representatives Research Paper no. 18 2007-08 'The economic effects of an ethanol mandate" 22 January 2008). It is MTA Queensland's view that before rushing the Bill through the Parliament, it should lie on the Table to allow a full a comprehensive cost-benefit analysis of an ethanol mandate in Queensland.

1.6 The need for a robust cost-benefit analysis may be exampled by the United Petroleum and Dalby Bio Refinery which without a Mandate has an uncertain future. The issue is whether a Mandate which imposes a 2 per cent statutory consumption demand is sufficient to the long term viability of such entities.

1.7 The Dalby Bio Refinery has been operating at 50 per cent capacity and has been forced to shut down temporarily several times due to a contraction in demand for fuel grade ethanol. This has had consequences for sorghum growers and beef producers because of disruption programs for locally grown sorghum, processing the starch in the grain into ethanol and then returning the remaining portions of the grain, including both the energy and the protein portions, back into the local food supply-chain as an animal feed for the cattle production industry. Drought was also an inhibiting factor for the temporary closures causing competition for the feed stock from beef Lotfeeders.

1.8 The Discussion Paper notes the intention of the State Government to increase the ethanol blended fuel target subject to the outcome of a Productivity Commission review. This is expected to evaluate economic, social and environmental factors and the architecture of the Mandate to support domestic biofuel production as opposed to stimulation of an import market from interstate and abroad. The MTA Queensland is of a view that such an analysis should be undertaken as a condition precedent to the implementation of the Mandate.

2. Context

2.1 The proposed Mandate is a political imperative as opposed to a genuine policy initiative. The ethanol Mandate was not a contestable policy plank for which the major political parties sought an imprimatur from the electorate at the recent general election. It has attracted bipartisan party political support at this time due to the unique composition of the Queensland Parliament.

2.2 It is noted that in Queensland across the decades there have been efforts to introduce ethanol related legislative measures. More recently, this has manifested in attempts to introduce the ethanol Mandate. These include the 2006 Beattie Labor Government's proposal for a 5% ethanol mandate to commence in 2011. In late 2010, the Government postponed the mandate for 12 months due in part to proposed changes to the federal excise on ethanol. At least three Private Members' Bills have been introduced into the Parliament but have not been progressed. (Parliamentary Committee, Report No. 52, State Development, Infrastructure, Industry Committee, *Liquid Fuel Supply (Ethanol) Amendment Bill* 2014, October 2014, p. 3).

2.3 The most recent attempt was the *Liquid Fuel Supply (Ethanol) Amendment Bill* 2014 which was reported in October 2014 by the Parliamentary State Development, Infrastructure, Industry Committee. The then State Government's response indicated that a Mandate for ethanol and biofuels was supported including the development of a biofuels policy and consultation with the Australian Government to achieve national consistency (Queensland Government response to the State Development, Infrastructure & Industry Committee Report October 2014 - *Liquid Fuel Supply (Ethanol) Amendment Bill*).

2.4 Ethanol production in Australia is not subsidised to the extent that occurs in large producing nations globally. For example, the Brazilian Government in 2012 provided $38 billion in subsidised credits to the ethanol sector to increase sugar production and milling industries. (Biofuels Digest, February 27 2012). By way of comparison, in Australia, as a result of changes foreshadowed in the 2014 Federal Budget, rates of excise duty for domestically manufactured fuel ethanol and biodiesel were reduced to nil for one-year from 1 July 2015. The rates of excise duty for domestically manufactured fuel ethanol and biodiesel then increase on 1 July of each subsequent year until the final rates are reached on 1 July 2020 and 1 July 2030 respectively. The final rate of excise duty for domestically manufactured biodiesel is set so that it will be 50 per cent of the excise duty rate for diesel. The final excise duty rate for domestically manufactured fuel ethanol is set so that it will be approximately 33 per cent of the excise duty rate for petrol.

2.5 New South Wales is the sole Australian jurisdiction with an ethanol mandate which is set at 6 per cent of total fuel consumption. The actual ethanol percentage of total transport fuels sold is 3.4 per cent or little better than half of the mandated quantity. As stated in 1.2 above the proposal for the Queensland Mandate is 2 per cent of total fuel sales for ethanol blend fuels which equates to approximately 59ML per annum, based on 2013-14 figures. It is notable that nationally sales of ethanol blend fuels have declined from a high of 2,714 ML in 2012 to 2,352 ML. For the year ending 2014, the ethanol sales declined 6.1 per cent.

3. Issues

3.1 Exemptions, Environmental and Economic considerations:

3.1.1 The Discussion Paper defines a major fuel retailer as owning or operating 10 or more service stations. Consideration should be given to circumstances where these major fuel retailers with decentralised outlets do not currently operate ethanol blended fuel compatible facilities. The environmental risk to the public of operating facilities that are incompatible with ethanol blend fuels to retail ethanol fuel could be significant in terms of safety and health.

3.1.2 The economic costs of complying with the proposed Mandate for designated major retailers and the management of public risk must be prime a consideration. It has been estimated that the costs of introducing ethanol to a site would depend on the individual characteristics of each site e.g.:

- if there was appropriate configuration in place at a site (i.e. tankage, pipework and dispensers) the costs to introduce ethanol would be around $25,000 to $30,000 for tank cleaning, installation of filters, signage and other works. Any reconfiguration of pipelines may incur an additional $40,000 to $80,000 according to recent estimates.
- the replacement cost of a large tank is about $200,000 to $300,000 (not including costs of any disruption to the business operation during removal and installation) (Recent estimates and Parliamentary Committees, State Development, Infrastructure, Industry Committee p.8)

3.1.3 If the designated major fuel retailer is an oil major/wholesaler, remedying non-compliance should not be an issue, but for an independent fuel retailing group the cost may be prohibitive. The question must be asked: should every outlet of major fuel retailer that is not a major fuel retailer/wholesaler comply with the Mandate?

3.1.4 There is the potential for consumer choice to be diminished in some areas due to the lack of non-compliant retail fuel outlets.

3.1.5 The Discussion Paper states that a large number of smaller retailers would be excluded by definition. The exclusion of these retailers from the legislation may be appropriate given the infrastructure conversion costs associated with retailing biofuels may adversely affect the ability of these retailers to compete in the market. The MTA Queensland supports the proposition in this statement.

3.2 Consumer education

3.2.1 In conjunction with the proposed Mandate, the MTA Queensland is of the view that a state-wide education programme to rebut myths about the deleterious consequences of ethanol blended fuels in post 1986 manufactured motor vehicles should underpin the Mandate.

3.3 Harmonisation

3.3.1 Wherever possible, the MTA Queensland's policy is that there should be national consistency for fiscal imposts and policies affecting the automotive value chain to provide for a seamless policy/financial operating environment. Cross-border fiscal imposts and interstate policy differences increase administration costs and the regulatory burden.

3.4 Reporting requirements

3.4.1 It is noted that quarterly reports must be submitted to the State Government for compliance purposes for the full range of fuels. Clarification is required if the reporting requirements applies to the some 1,300 service stations in Queensland or those defined as major service station retailers?

4 The MTA Queensland background

4.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of the automotive industry located in Queensland. There are some 14,000 automotive value chain businesses employing in excess of 73,300 persons operating within the State.

4.2 The MTA Queensland is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland. The Association represents and promotes issues of relevance to the automotive industries to all levels of government and within Queensland's economic structure.

4.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry through the MTA Institute of Technology (MTAIT). The MTAIT is the largest automotive apprentice trainer in Queensland employing 26 trainers based from Cairns to the Gold Coast and Toowoomba and Emerald. MTAIT last financial year accredited courses to in excess of 1500 apprentices and trainees.

4.5 We would be please to provide further comment on any matters in our submission that may require further clarification or amplification.

Thank you for your consideration.

Yours sincerely

Kellie Dewar
General Manager
MTA Queensland