



Biofuels Taskforce Secretariat  
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## Submission to the Biofuels Taskforce

In 2004, the Grains Council of Australia (GCA) adopted the 'Single Vision – Australian Grains Industry Strategy 2005 – 2025' as the basis for its policies relating to;

- Grains industry development
- The development of alternative demand streams for Australian grains
- The deployment and uptake of grain based technologies

Of particular concern to Australian grain producers is the current reliance of the industry on bulk commodity export markets, particularly wheat, which makes up 2/3 of our national grain crop.

Several studies<sup>1</sup> completed or released during 2004 indicate that Australian bulk wheat exports can expect a reduction in real returns over the next decade of up to US\$15/T. The main pressure on returns is from increased global grain production, particularly from Eastern Europe and South America.

It is clear from the research cited that Australian wheat exports may be displaced in the global market by cheaper sources and as such, the industry has to look toward other areas of current or potential demand to ensure there is a market for our current production.

The Grains Industry strategy points to three main areas of current or emerging demand.

- Increasing the value and volume of grain supplied into the expanding livestock feeding sector that is predicted to grow by 750,000 T PA over the next 5 years.
- The production of a grain based plastics industry in Australia to meet an estimated demand for bio-plastics that will consume up to 50 million tonnes of grain<sup>2</sup> in 5 to 7 years time.
- The development of a renewable fuels industry in Australia, producing ethanol, bio-diesel and diesohol.

### **Production of Ethanol for addition to fuels**

Much of the debate surrounding the production of renewable fuels has been centred on the price of ethanol compared to oil based fuels and the ability of vehicles in Australia to operate reliably on fuels with added ethanol content.

#### **Price**

Most of the economic modelling on the viability of ethanol production has been done on the basis of oil prices that were much lower than the current record levels.

ABARE forecasts<sup>3</sup> have indicated that the forecast price for oil (US\$/barrel) for 2005 was \$21.44 in 1999 dollar equivalents.

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As oil has now reached a record of US\$61 per barrel for West Texas crude without creating major global economic collapse, as many had predicted, we anticipate that oil prices will not drop below US\$40 per barrel at any time in the future.

On figures developed for GCA in the Grain Industry Strategy research, the viability level for grain based ethanol production was established on an oil process of US\$30 per barrel. This assumption was backed up by the revised ABARE research released during 2004<sup>4</sup>. Above the US\$30 per barrel level, production of grain based ethanol was found to be viable.

On the basis of current and future oil price trends, previous assumptions about the economic viability of developing renewable fuels have now been rendered invalid. Economic modelling of the viability of biofuels have to be recalculated to reflect the current oil process and the revised outlook for oil.

GCA believes that the development of a biofuels industry in Australia is essential for;

- increasing the diversity of demand for Australian grains and oilseeds
- generating sustainable regional employment and wealth
- responding to global climate change by producing 'cleaner' energy options
- addressing the emission of greenhouse gasses and participating in global markets for managing carbon emissions

### ***Regional Employment<sup>5</sup>***

The development of a regional based bio-fuel industry will be a major fillip to regional economies, with additional jobs being created directly and in service industries such as transport, maintenance and skills provision.

In many regional areas, there is a very high level of dependence on markets that are vulnerable to global economic pressures that have been mentioned previously. This is particularly the case in Western Australia, where up to 95% of grain is exported. The development of a biofuels industry in this region would increase domestic competition for grain and provide producers with an alternative market, with relatively stable year on year prices.

The development of renewable fuel production plants in regional Australia will be a much needed boost to employment, providing a set of new infrastructure demands and support industries that, in many instances, may reverse the long term decline in rural population.

Australia should also increase its contribution to reducing greenhouse gas emissions and by increasing the contribution of renewable energy to the nations fuel use.

### ***Taxation and Revenue<sup>6</sup>***

GCA believes it is reasonable for the Federal government to forego tax and excise collection on renewable energy.

We do not see provision of tax or excise relief to renewable energy as a 'subsidy'. Removing or modifying the taxation impost on renewable energy will mean that the Federal government foregoes tax collection, but this is preferable to collecting tax and then paying it out in direct subsidies.

The additional economic activity generated by the development of new industries in Australia will, we are confident, generate tax revenues in other areas of the economy that will equal or exceed the taxation foregone.

### ***Vehicle Usage***

GCA is aware of the current public perception toward the blending of petrol and ethanol and the negative perceptions created by oil companies and some anti ethanol advocates toward blended fuels.

This is an extremely unfortunate situation and one that should be addressed immediately. There is a great deal of global evidence<sup>7</sup> to suggest that motor vehicles and fuel handling systems can cope with blended fuels in Australia, with no adverse effects.

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Throughout the Americas and Europe, blended fuels have been sold successfully for decades. All of the vehicle manufacturers retailing or producing vehicles in Australia have experience selling vehicles in markets where blended fuels are regularly used by motorists.

There is no logical justification for these organisations to claim that vehicles sold in Australia cannot cope with blended fuels, up to a reasonable percentage.

On the contrary, evidence would suggest that using biofuels as octane enhancers or oxygenation boosters, increases performance of both petrol and diesel powered vehicles, with providing cleaner emissions and reduces the impacts from some alternative fuel additives.

Under the Clean Air Act of 1990, ten of the largest US cities are required to use Reformulated Gasoline (RFG) due to pollution problems and oxygenated fuel is required in areas that have high levels of carbon monoxide pollution during winter.

This program has helped reduce pollution, but it has been California's decision to phase out the fuel additive, MTBE that has given a real boost to the ethanol industry. Following reports of underground water contamination due to leaks from storage facilities, California began making the switch from MTBE to ethanol in January 2003 and other states are waiting to see how the Californian experiment goes.<sup>8</sup>

GCA is particularly interested in seeing the promotion and use of diesel / ethanol blends (diesohol). Evidence examined by GCA from a range of US based sources suggests that a range of benefits can accrue to users of this fuel blend, including the reduction of particulate emissions, reduction in operating temperatures, increased oil life, decreased fuel consumption and increased power and torque output.

State governments and major transport providers, such as bus companies in major cities, should be encouraged to adopt blended fuels as a way of decreasing air pollution in cities<sup>9</sup> and providing an assured demand stream for the sustainable establishment of a regional biofuels industry.

### ***Mandating Ethanol Content***

The major problem with mandating ethanol content in petrol is the issue of consumer resistance.

As already mentioned, bad publicity and politics has led to many consumers believing that ethanol, blended petrol is 'bad' for their vehicle.

Mandating a minimum ethanol component may prove both economically and politically difficult. GCA would propose that blended biofuels are introduced in a manner that is more sensitive to the current market and will allow for a planned and sustainable growth of a biofuels industry.

### ***Introduction Strategies***

By switching the initial focus of biofuels to the transport sector (road and rail) and using diesel / ethanol blends, Australia will be able to rapidly develop biofuels production capacity and avoid the current political / consumer problems with introducing blended petrol / ethanol fuels.

Once production capacity has been established and biofuels blends are accepted in the transport sector, the industry should move toward providing petrol / ethanol blends as an alternative at service stations, much in the way higher octane unleaded fuels are available.

In many States in the USA, ethanol content is mandated. But we have to be cognisant of the fact that the biofuels industry in the USA dates back to the 1970's in its current form and is thus a much more mature industry than it is in Australia, where it is still nascent.

Blended fuels are also provided as an alternative for consumers in the USA and it is this route that would provide the most logical introduction point for blended fuels in Australia. This then introduces an element of 'consumer choice' into the purchase of blended fuels, allowing consumers to choose if they want to make a positive contribution to the environment and to regional employment / sustainability, by choosing to use blended fuels

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## Summation

Grains Council of Australia is fully supportive of the development of a sustainable biofuels industry in Australia for the following reasons.

- It will help diversify grain producers market risks and introduce new domestic demand for grain.
- It will provide new employment opportunities for regional Australia and increase regional economic sustainability.
- It will provide opportunities for increasing skill levels in regional Australia and the possibility of creating spin-off industries and associated technologies.
- Provide a positive contribution to reducing greenhouse gas production and improving overall air quality, especially in major cities.

We believe that providing excise and taxation concessions to the renewable fuels industry will provide an incentive to the rapid development of the industry without the need for direct subsidies and that any foregone taxation income will be equalled or exceeded by taxation collected from the additional employment and economic activity generated by this new industry.

Additionally, there should be a positive impact on the balance of payments, where the domestic renewal fuel will be replacing imported fuels.

The Federal Government should extend its fuel excise exemption for ethanol and biodiesel indefinitely to encourage private sector investment in the establishment of production capacity. This is reasonable, as the life of this type of infrastructure is generally 20 years or more.

The Federal Government should also bring forward its high energy content fuel excise reductions from 2015 and apply the lower rate of excise of 12.5 cpl immediately to blended fuels such as E10 and diesohol.

We urge the Federal government to consider the establishment of a renewable biofuels industry in regional Australia as a national employment, energy and infrastructure priority.

## Endnotes

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<sup>1</sup> The Single Vision research and a study carried out by the Boston Consulting Group for AWB Ltd.

<sup>2</sup> Grain Industry Demand & Emergent Grain Uses, The Foundation P/L, September 2004, Research for the Single Vision Grains Industry Strategy

<sup>3</sup> ABARE - Australian Energy – Market Developments to 2014-2015

<sup>4</sup> Revised Assessment of biofuels industry viability, ABARE report for the Department of Industry, Tourism and Resources, April 2004

<sup>5</sup> Single Vision research and Miles, Prof. P.L International Ethanol Conference – May 2005

<sup>6</sup> Commonwealth Government Biofuels Policy [www.pmc.gov.au/biofuels](http://www.pmc.gov.au/biofuels)

<sup>7</sup> Federal Chamber of Automotive Industries – Driving Australia – Ethanol March 2004 – Capability of vehicles to satisfactorily operate on Ethanol Blend petrol (10% or E10 maximum).  
<http://www.fcai.com.au/ethanol.php/2004/03/0000001.html>

<sup>8</sup> Grain Industry Demand & Emergent Grain Uses, The Foundation P/L, September 2004, Research for the Single Vision Grains Industry Strategy

<sup>9</sup> Queensland State Department of Innovation Report – Part 2 Details of Fuels – Section 7 Diesohol.