



12 March 2008

Fuel and Used Oil Policy Section
Department of Environment, Heritage, Water and the Arts
GPO Box 787
CANBERRA ACT 2601

Submission by Australian Biodiesel Group Limited Proposed Management of Diesel/Biodiesel Blends

The Department of Environment, Heritage, Water and the Arts issued a position paper on the proposed management of diesel and biodiesel blends during January 2008. This paper provides comments by Australian Biodiesel Group Limited in relation to the position paper.

Australian Biodiesel Group Limited

Established in 2001, Australian Biodiesel Group Limited (ABG) is the owner and operator of the nation's largest biodiesel manufacturing facility, located at Narangba, north of Brisbane. Biodiesel produced by the company has been blended into hundreds of millions of litres of diesel, sold by fuel distributors in Queensland, New South Wales and Victoria.

Vehicles in a number of major fleets have successfully operated on fuel blends based on ABG biodiesel, including a large Australian coal mine, Brisbane buses and a leading logistics operator.

During November 2007, the company suspended continuous production of biodiesel due to continuing regulatory uncertainty and poor market access, which resulted in production volumes below that required for economically viable operation. ABG continues to sell biodiesel held in stock in Queensland and NSW at a discount to petroleum based diesel.

Under the current poor market environment, Australia's three ASX-listed domestic producers of biodiesel have suffered combined losses of around \$120 million for the 2007 year, including a \$29 million loss by ABG. Recently constructed biodiesel production facilities in Darwin, Brisbane, Sydney, Adelaide and Perth presently lie idle.

Proposed blend standard.

The Australian biodiesel industry was initially created in response to the Commonwealth Government's vision for a domestic biofuels industry, based on the platform of the 350 million litre per annum biofuel target.

As a policy instrument, the 350 million litre target has comprehensively failed to deliver any meaningful mainstream market access for the biodiesel industry and local biodiesel producers have survived on sales to the independent fuel sector, largely serving captive fleets.

Following changes to fuel tax regulations in July 2006, independent fuel distributors have worked to establish a market providing a B20 fuel that achieves the requirements of the Australian Diesel Standard. Under current regulations, these fuels provide both a small cost advantage to users and a meaningful environmental advantage, including carbon emission savings (from typical tallow-based biodiesel).

The use of B20 achieving the diesel standard in many captive fleets has proven successful, as demonstrated by some sophisticated monitoring and trial programs. B20 blends have been the only ratio at which encouraging sales have been achieved.

ABG believes that the move away from B20 to a blanket B5 cap on biodiesel blending will terminate any possibility of a recovery by the already beleaguered Australian industry, if counter-balancing measures are not instituted. The company's view is that:

- Given the demonstrated failure of Commonwealth policy to provide any meaningful market access for biodiesel, the further restriction on volume created by a B5 cap will quickly result in the wind-up of most biodiesel manufacturing companies in Australia.
- Any surviving manufacturers will operate in an environment where they are totally subservient to the oil majors, due to the latter group's near total control of the channel to market.
- The 'friction cost' of delivering a B5 blend to market will absorb the minimal excise advantage available to certain users, eliminating the key attraction to the fuel for most volume consumers. ABG has always sold biodiesel at \$0.15 per litre or more below the wholesale import parity price of diesel and even at that level of discount, still faced resistance from distributors to the fuel, due to concerns related to infrastructure and blending costs.
- Encouraged by \$40 million of Commonwealth grant funding, Australia now has an installed biodiesel production capacity of over 530 million litres per annum. Diesel consumption is around 16 billion litres per year. If 20% of all diesel was subject to B5 blending, this would still create a market for only one third of existing capacity.
- If a B5 cap is allowed to strangle local manufacture, imports of undesirable Asian palm oil biodiesel will rise, encouraged by the fact that, unlike imported ethanol, imported biodiesel receives Australian excise relief. This situation may lead to two unintended outcomes. Lifecycle carbon emissions could drastically rise (due to palm oil being sourced from cleared rainforest or peat swamp sites in Asia), and also Australian taxpayer funds (in the form of the excise grant) will flow to foreign producers, while local investors in the biodiesel industry are left empty handed.

For biodiesel manufacturing to continue in Australian under a B5 cap, ABG believes counter-balancing measures must be established. These may include:

- To ensure sufficient market access, a mandate on volume of biodiesel required to be blended into diesel in a given year must be introduced. The mandate should be on a growing scale, to allow sufficient time for manufacturer and blender ramp-up.
- Low cost financing should be made available for fuel blenders, to allow the rapid installation of infrastructure required for large volume, low ratio blending. Infrastructure costs have been flagged as a hurdle by many potential blenders.
- Government-endorsed information materials on the true performance and benefits of biodiesel blends must be made available, to help eliminate the myths and misconceptions among target groups.

ABG believes that the only opportunity for a recovery by local manufacturers is through the creation of reliable, high volume markets. In these circumstances, producers should be able to put in place measures that allow the economic production of biodiesel in Australia, based initially on tallow and used cooking oil feedstock.

For further information on the matters raised in this submission, please contact ABG on 07 3817 7400.



Bevan Dooley
Chief Executive Officer