

Gull Group Response to

Setting National Fuel Standards - *Proposed Management of Diesel/Biodiesel Blends Position Paper*

Issued January 2008 by the Department of the Environment, Heritage, Water and the Arts

Key Points:

1. The proposed change to the Australian diesel standard to limit biodiesel to a maximum 5% by volume will effectively curtail sales of the popular and important B20 blends.
2. The expected significant reduction in sales of B20 and other biodiesel blends higher than 5% is almost certain to undermine the financial viability of local biodiesel producers.

The end of B20 blends?

The proposal to amend the Australian Diesel Standard to allow the addition of up to 5% by volume of biodiesel and to accommodate the supply of blends with higher percentages of biodiesel by volume through the Fuel Quality Standards Act 2000 section 13 approvals process, poses a serious risk that the popular B20 blend will be made effectively impossible to sell. This outcome would deny a significant number of motorists the ability to buy a fuel that they clearly want to purchase: Gull sells some 3 million litres of Gull BIO-D (a biodiesel blend up to 20% by volume) through over 30 retail outlets in WA every month. Gull also receives messages of support from customers pleased with how their vehicle performs using these blends.

- B20, and all blends above 5% by volume, would no longer meet the Australian Diesel Standard and will thus no longer qualify as an eligible fuel for Fuel Tax Credit purposes. This will make B20 blends an uneconomic fuel to any customers eligible for fuel tax credits (a maximum 38.143 cents per litre credit on the biodiesel component translates into 7.6 cents per litre cost difference on the B20 blend, a prohibitive cost penalty in a highly competitive market).
- B20 blends, as a relatively new fuel, have faced significant challenges to gain consumer acceptance. A key factor in the development of the substantial volume of B20 blends sold by Gull Petroleum in WA has been the ability to assure customers that this fuel fully complies with the Australian Diesel Standard, on the basis of NATA accredited laboratory test results. If biodiesel blends are capped at 5% by volume then Gull will not be able to provide such assurance and can expect to lose a significant volume of sales as a result.
- The Fuel Quality Standards Act 2000 section 13 approvals process offers no practical solution to marketers of B20 blends because of the effective veto that any vehicle OEM can exercise. The position paper seems to envisage that this approval process would accommodate cases in which sales of higher percentage blends, such as Gull's BIO-D product, would be quarantined to specific fleets or customers. This scenario effectively precludes any sales to the on-road market

segment that relies to a large extent on retail outlets accessible to all and sundry and, as such, is of limited value to Gull and other companies selling B20 blends. Even customers with their own refueling equipment tend to use our retail outlets. If approval of B20 blends is limited to customer facilities then B20 sales volume would be substantially capped.

Gull reiterates its position put in response to the November 2006 discussion paper on standardizing Diesel/Biodiesel blends: biodiesel content should not be made a specific limit in the Australian Diesel Standard; rather, any blend that complies with this standard should be able to be sold. If the current Australian Diesel Standard is inadequate in terms of protecting environmental and operability performance, then this standard should be revised. After selling blends of up to 20% biodiesel as Gull BIO-D since April 2006, Gull is not aware of any specific issues relating to biodiesel blends that would require these standards to be revised.

The end of local biodiesel producers?

As a producer of biodiesel in Australia through its Ecotech facility in Narangba, QLD, Gull is fully aware of the major reliance that local biodiesel producers have on the retail and commercial sales of B20 blends.

Almost all sales of biodiesel in Australia are made to wholesalers/retailers of fuel who prepare their own biodiesel blends, with blends above 5% by volume accounting for most of this volume. In the absence of a mandated biodiesel content in Australian diesel, the only logical outcome of the proposed addition of a 5% biodiesel limit to the Australian diesel standard is a significant drop in sales volume. With the current financial pressures on local biodiesel producers (well reported in the cases of AR Fuels, the Australian Biodiesel Group and Natural Fuels), this significant loss of sales volume would very probably be terminal to the local industry.