

31 March 2008

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

Dear Madam

Proposed Management of Diesel/Biodiesel Blends

The Australian Institute of Petroleum (AIP) is the peak representative body of the Australian downstream petroleum industry. The core members of AIP are BP (Australia) Pty Ltd, Caltex Limited, Mobil Oil (Australia) Pty Ltd and The Shell Company of Australia Pty Ltd. We welcome the opportunity to make comments on the proposed management structure for diesel/biodiesel blends as detailed in the Department of the Environment, Heritage and the Arts (DEWHA) discussion Paper of January 2008.

This submission will concentrate on areas of agreement between AIP member companies and make some suggestions for the efficient administration of these fuels. Nonetheless, the long standing AIP biofuels policy position is that any biofuel can enter the fuel mix in a sustainable manner if it is competitively priced, has a reliable supply and is acceptable to consumers.

Forecourt Supply

As noted in the DEWHA discussion paper, the use of B5 diesel/biodiesel blends is generally accepted by Original Equipment Manufacturers (OEMs) as not requiring modifications of standard diesel engines. Restricting diesel/biodiesel blends to a maximum of B5 on the service station forecourt should provide protection for diesel users against inadvertently voiding their motor vehicle warranty.

However, some manufacturers do not warrant the use of biodiesel at all and therefore, AIP considers that some mechanism needs to be found to inform these consumers. However, the publication of a vehicle suitability list, as for ethanol blends, could raise public concern over the desirability of biodiesel blends generally, to the detriment of market development. We therefore caution such an approach may not be appropriate.

We are not aware of the extent of the issue, in particular the number and location of these vehicles, and suggest that the current consultation process could shed some further light on this issue. We further suggest that this issue be included in the terms of reference in the proposed Fuel Standards Consultative Committee (FSCC) biodiesel working group as it will be relevant to consideration of the introduction of higher blend percentages.

All AIP member companies support the proposal contained in the discussion paper that the biodiesel should meet the Australian biodiesel standard and most agree that the resultant diesel/biodiesel blends should meet the Australian diesel standard. AIP supports the proposal that diesel/biodiesel blends are not labelled on the forecourt and the requirement to meet the diesel standard is a key rationale for this position. This statement assumes that a suitable method is identified for informing diesel consumers where the OEM does not warrant the use of biodiesel at all.

Commercial Customers

AIP member companies agree that the management of diesel/biodiesel blends should encompass sufficient flexibility to allow commercial users to utilise above B5 diesel/biodiesel blends. We note that creating a fuel standard that places end use conditions on the supply of diesel/biodiesel blends - "a conditional fuel standard" - will require amendments to the *Fuel Quality Standards Act 2000* (FQSA), and therefore support the use of s.13 approvals as an interim measure. However, we understand that some stakeholders may take the view that there are possible taxation and tax credit consequences from the use of s.13 approvals and s.13 approvals are not intended for the ongoing supply of fuel. Therefore, we urge DEWHA to move quickly to implement the required legislative changes to the FQSA to introduce conditional fuel standards.

AIP considers that conditional fuel standards will be an important mechanism to streamline the administration of fuel standards. The changes will provide a clear demarcation between short term variations in fuel standards to avoid potential supply disruptions and the ongoing supply of fuels that require administrative conditions. Conditional fuel standards will also be important to supporting consumer confidence in these fuels, particularly other biofuel blends, such as an 85% ethanol blend.

AIP also considers that s.13 approvals as an interim measure are potentially cumbersome and could place a significant compliance burden on the applicant, the FSCC and the Department. We suggest that an s.13 approval proforma for diesel/biodiesel blend suppliers should be developed which could include requirements such as customer's consent and understanding, appropriate management methods such as ensuring there is no transfer into the general market and potentially blend quality control. A proforma or guideline could be developed by the FSCC biodiesel working group.

Given that these blends are expected to be approved for commercial customers, AIP does not see that any form of labelling should be mandated. However, customers may wish to consider some form of appropriate signage at their facilities to avoid any fuel mixing issues.

AIP is concerned about the workability of the proposed requirement that OEMs sanction the use of diesel/biodiesel blends in commercial fleets. By definition, a fully informed fleet operator is assuming responsibility for the ongoing operability of their vehicles and by using diesel/biodiesel blends they would be making a conscious decision to potentially void their manufacturer's warranty. If the fleet operator understands this issue, as potentially required by s.13 conditions, there is no reason to require an OEM to approve the use of the fuel. We suggest that a possible solution is for the OEM to provide advice to the fleet operator but not require the OEM's permission for the fleet operator to use the fuel as proposed by the discussion paper.

There is also a need to ensure that the fleet operator is fully informed about the use of diesel/biodiesel blends upon the commencement of 'conditional fuel standards'. The FSCC biofuels working group could also consider this issue.

FSCC Biofuels Working Group

AIP supports the proposal to create a working group within FSCC to monitor the development of diesel/biodiesel blends standards in Europe, specifically, the move to 10% biodiesel. We note that there are similar moves in the United States through ASTM International, originally known as the American Society for Testing and Materials (ASTM), with many of the same issues being considered. We further note that the Japanese Automobile Manufacturers'

Association (JAMA) has raised a number of issues with diesel/biodiesel blends, including stability and overall biodiesel blend percentages. Given the composition of the Australian diesel vehicle fleet it is important that all sources of information and potential practice are assessed by the FSCC biodiesel working group.

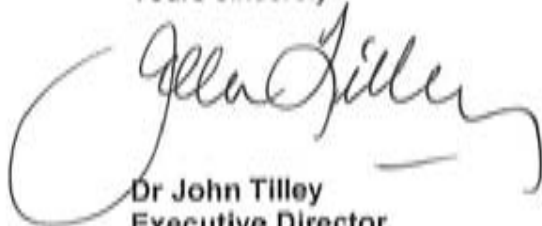
In each of these processes it appears that the advice provided by OEMs on operability issues will be critical in developing policy proposals. There are also important considerations for fuel suppliers which go beyond the blend percentage level and conditions of supply, including the handling and management of these fuels through the supply chain. The Department may wish to encourage Standards Australia to develop such a code or guideline. It will be important to also recognise that any policy proposals must be tested against Australian conditions and operating realities.

AIP also suggests that the FSCC biofuels working group would be well placed to develop:

- methods to ensure customers are informed when a manufacturer does not recommend the use of biodiesel at all, assuming diesel/biodiesel blends will not be labelled on the forecourt;
- a proforma or guideline to streamline s.13 approvals for diesel/biodiesel blends above 5%; and
- generic advice to ensure customers are informed of the use of diesel/biodiesel blends on the commencement of conditional fuel standards.

If you have any queries regarding this submission, please contact Paul Barrett, Deputy Executive Director on (02) 6247 3044. Mr Barrett is also the fuel producers' representative on FSCC.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Tilley', with a long horizontal flourish extending to the right.

Dr John Tilley
Executive Director