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Proposed Management of Diesel/Biodiesel Blends – Position Paper
Fuel and Used Oil Policy Section
Department of the Environment and Heritage
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Please find attached Caltex's submission on the January 2008 position paper, *Proposed Management of Diesel/Biodiesel Blends*.

I would be pleased to respond to any questions you might have on the submission.

Yours sincerely

Frank Topham

Government Affairs & Strategic Communications Manager

Caltex submission on discussion paper, *Proposed Management of Diesel/Biodiesel Blends – Position Paper*, January 2008

Introduction

In its submission on the December 2006 discussion paper, *Standardising Diesel/Biodiesel Blends*, Caltex proposed the following approach to regulation of biodiesel/diesel blends:

- Allow diesel containing a maximum of 5% biodiesel to be sold as diesel without any prescribed labelling provided the diesel and biodiesel components meet the diesel and biodiesel fuel quality standards respectively and also allow a density waiver for the blend.
- Allow diesel containing above 5% and up to 20% biodiesel to be sold for commercial use (ie not at retail) provided it is clearly labelled as "biodiesel blend" (not "diesel"), carries additional labelling relating to vehicle suitability and meets a biodiesel blend standard.
- Allow diesel containing above 20% to be sold for commercial use subject to the granting of a fuel quality variation under s.13 of the *Fuel Quality Standards Act* ("the Act").

Caltex believes the position paper covers many of the issues well but fails in its recommendations to take adequate account of refining and biodiesel industry issues. Accordingly, we agree with some elements of the Government's preferred position but disagree with others.

Caltex response to government position paper

1. Caltex agrees with amendment of the diesel standard to allow the addition of up to 5% by volume of diesel provided (a) a conditional fuel standard is also regulated for blends above 5% following amendments to the *Fuel Quality Standards Act* and (b) a density waiver is provided for the blend. In relation to (b), the diesel and biodiesel components of the blend would have to meet the diesel and biodiesel standards respectively¹.
2. A conditional fuel standard should be regulated for blends above 5% and less than or equal to 20%, so that such blends could be sold legally for commercial use subject only to the quality and information standards regulated under the Act. Under the conditional standard, Caltex believes that blends above 5% should not be sold for general retail use. Blends above 20% should be able to be sold for commercial use under a s.13 variation of the diesel fuel quality standard.
3. We recognise the Act may need to be amended to regulate supply of biodiesel blends by type of sale or other criteria, so that restriction of particular blends to commercial users may not be possible initially. In that case, we would support an interim solution in which blends above 5% could be granted a s.13 variation without the heavy administrative burden and cost this would normally entail. For example, a s.13 variation could be granted "automatically" to supplies of biodiesel blends that met criteria approved by the FSCC.
4. We do not support the qualification that s.13 approvals could apply "where individual OEMs have sanctioned use at higher concentrations". We believe that within a s.13 variation (or later a conditional fuel standard) suppliers and consumers should be free to use blends above 5% if they wish to do so, even if such use has not been sanctioned by the relevant OEM. Such use would be entirely at a customer's risk in relation to fuel quality impacts on vehicles.
5. Labelling should not be required for blends not exceeding 5% as these would legally be diesel under the Act. However, a minimum level of information provision should be required for blends above 5% under a fuel quality information standard determination. Until the Act was amended, information could be required under the s.13 variations. This information may or may not include labelling, depending on the circumstances.
6. We agree a working group should be set up under the FSCC to monitor developments and consider issues relating to blends above 5%.

¹ For example, at the maximum diesel density of 0.850kg/L and maximum biodiesel density of 0.890 kg/L, the maximum legal density of a 5% blend would be 0.852 kg/L.

One reason for our position is that a biodiesel blend standard is required to facilitate development of biodiesel production plants (our suppliers) and the use of biodiesel blends by Caltex customers. We understand that vehicle manufacturers currently are prepared to warrant use of blends up to 5%, which effectively puts a cap at this level on retail sales of biodiesel blends. However, commercial users are much better able to understand the issues associated with biodiesel blends above 5% and take appropriate measures for correct usage in association with their equipment suppliers. Appropriate information will help ensure that less experienced commercial customers are aware of the issues arising from use of blends above 5%. A number of Caltex customers are interested in using 20% blends and we are concerned that overly restrictive regulation could damage this growing market.

A second reason for our position relating to refinery costs was discussed in our previous submission. For some refineries including Caltex's refineries, it is expensive to reduce the density of diesel for blending so as to allow blends to meet the diesel density standard. This is true even for a 5% blend. As a result, relaxation of the diesel density standard for blends is important to avoid significant refining cost penalties, which could act as a barrier to development of the biodiesel industry. Further, some refiners and importers supply low density diesel and could meet a B5 (or even B20) density standard of 850 kg/m³ and gain competitive advantage against Caltex if there was no relaxation of the biodiesel blend density standard relative to diesel. Regulation should not lead to outcomes that favour one competitor over another.

A further issue arising from restriction of biodiesel blends to 5% without a fuel quality variation is that blends above 5% that meet the diesel standard and therefore are eligible for a full fuel tax credit may no longer be eligible. This would have a significant adverse effect on the biodiesel industry and the attractiveness to customers of higher percentage blends. While Caltex does not have a firm view on what particular taxation arrangements should apply, we would be concerned if financial arrangements were changed so the biodiesel industry was disadvantaged, at least at this early stage of its development. This does not necessarily mean that current taxation arrangements should not be changed but if that were the case, other measures should be considered to provide a similar amount of transitional industry development assistance.

Policy issue	Government proposal	Caltex position
Biodiesel limit in diesel standard	5%	5%
Regulate a biodiesel standard	No	No, amend Act to allow conditional standards eg for specified customer types or geographies
Amend diesel density standard to accommodate higher density of biodiesel	No, blends must meet diesel standard	Yes, waive density standard for blends up to 5% if blend components meet diesel and biodiesel density standards respectively
Fuel quality variation for blends above 5%	Yes, through s.13 of FQSA	Yes, but only until conditional fuel standard is regulated (through amendment of FQSA)
Labelling of blends up to 5% biodiesel	No	No
Information requirement for blends above 5% biodiesel	Yes, through s.13 variation conditions	Yes, through s.13 variation conditions or fuel quality information standard