

**SUBMISSION TO THE DEPARTMENT OF ENVIRONMENT AND HERITAGE (DEH)
SETTING NATIONAL FUEL QUALITY STANDARDS
STANDARDISING DIESEL/BIODIESEL BLENDS (November 2006)**

Biodiesel Producers Ltd (BPL) welcomes the opportunity to provide input to the development of Fuel Quality Standards and the continuing development of Biofuels that deliver improved air quality and cleaner fuels.

BPL is an unlisted public company that has invested over \$45 million in the establishment and development of a Biodiesel production facility and will have available capacity of some 60 million litres of Biodiesel on line by mid-2007.

Unlike the US and EU, the industry in Australia is currently in its formative stages. It is critical at this time to provide a package of measures which has quality and reliability as the key requirements while removing barriers to the establishment of a strong and viable industry.

The DEH Discussion Paper has a stated intention of being part of ...*"a package of measures to help address market barriers and restore consumer confidence in the Biofuels industry."* It is critical that whatever measures or guidelines are put in place for the development of Diesel/Biodiesel Blend standards, the full consequences are known and understood. Of particular importance are the access to market and the economic impacts of the proposals.

The Government's stated intention is for the uptake of 350 million litres of Biofuels by 2010. We believe that there will be production capacity of over 500 million litres by the end of 2007. However there is a real risk, given the current excise position, that this capacity will not be fully utilised unless a Blend Standard of at least B20 is treated as diesel for normal purposes including excise. A sensible and rational view is that any blend which substantially meets the Diesel Standard should be treated as diesel.

Our major concern is that the arbitrary choice of a lower blend such as B5 as the capped blend which meets the Diesel Standard will create significant logistical problems for virtually all producers, force them to deal with the oil majors in a situation where the oil majors have significant market power and reduce the uptake of Biodiesel.

The issues BPL view as critical at this stage include:

1. Biodiesel – its attributes, environmental benefits and Government objectives;
2. Commercial (Distributor's, OEM's etc) and consumer confidence;
3. Industry needs for stability and development
 - a. Financial Viability;
 - b. Access to Market;
4. Quality Management and Blend Management Options;
 - a. Fuel Quality Standards;
 - b. Blending Options;
 - c. Information Requirements (labeling etc.); and
5. Industry regulation and representation.

BPL has reviewed and provided input to the combined submission of the Renewable Fuels Australia and the Biodiesel Association of Australia (the Industry Submission). BPL substantially endorses the views and positions contained in that submission.

However, there are certain issues where BPL holds a slightly different view or context. This submission therefore expands on and in some cases provides additional input or views to the industry submission.

1. BIODIESEL – ATTRIBUTES, ENVIRONMENT AND GOVERNMENT OBJECTIVES

The environmental benefits of Biodiesel are well known and documented. It is a renewable, biodegradable clean burning fuel. It is non-toxic, non-hazardous and is able to be blended in any ratio with normal diesel. It has slightly lower but comparable energy content to normal diesel, and provides better lubricity and ignition in the engine, which prolongs engine life.

The reduction in tailpipe emissions and greenhouse gas benefits are well documented and understood by Government and are detailed in the Industry Submission.

These factors have led the Government to establish a Biofuels target of 350 million litres by 2010. The Government has also provided substantial support through the Energy Grants (Cleaner Fuels) Scheme Act 2004 (EGCS), the Cleaner Fuels Grant Scheme (CFGS) and committed capital funds of approximately \$40 million through the Biofuels Capital Grants Program.

Unfortunately, the full benefit of these programs is being hindered by the timing of the phasing out of the EGCS and the CFGS and the impact on biodiesel of the Fuel Tax Act 2006.

Under the EGCS and the CFGS, the time period allowed for utilizing these incentives pre-empts the practical time needed for capital raising and construction of biodiesel plants to generate sales that benefit from the schemes.

The other major factor inhibiting development of the Biodiesel industry is the consequences of the changes introduced by the Fuel Tax Act 2006 which effectively deny the fuel tax rebate to large scale end consumers of Biodiesel other than where the blended fuel can be classified as diesel. This is a particularly regrettable for off road uses where biodiesel is well suited such as mining, marine, construction and agriculture.

BPL has previously raised its concerns of the detrimental impact of the Fuel tax Act 2006. All key industry participants believe and recommend that a workable Blend arrangement meeting strict quality requirements be devised such that blends up to B20 (or greater if they materially meet the diesel standard) are treated as normal diesel for the purposes of the Fuel Tax Act 2006. BPL strongly concurs with this recommendation.

2. COMMERCIAL USERS AND CONSUMER CONFIDENCE

It is critically important that the introduction of biodiesel into Australia's fuel industry is not crippled by bad practice and misleading information. DEH has an important role in policing fuel quality standards, however, BPL contends that the development of a workable arrangement for blends up to B20 (and beyond if such blends can meet the Diesel standard), backed up by a Code of Practice and Certification, is the most effective route to make biodiesel more widely available, accepted and used in the marketplace. The new Biofuels Association of Australia (BAA) will actively promote the benefits of biodiesel to the general motoring public. The NRMA has also committed financial and other resources to this effort.

The quality of B100 to be supplied into the Australian market is of paramount importance. As a minimum, this must meet the *Australian Fuel Standard (Biodiesel) Determination 2003 (as amended)*, and cold flow properties should be reported to prospective customers who can then decide to accept the fuel or not. Such wholesale users of Biodiesel will be well informed transport operators, readily able to make such decisions. These requirements must apply uniformly to local producers and importers.

This concern with quality is one of the principal drivers behind current moves to establish the BAA as a strong grouping of legitimate suppliers and marketers of biodiesel. One of its first acts will be to define and implement an Australian Biodiesel Code which will specify how B100 is to be supplied, tested and handled in the distribution chain so that quality to the end-user is assured.

3. INDUSTRY NEEDS FOR STABILITY AND DEVELOPMENT

a. Financial Viability

The Report of the Taskforce on Biofuels to the Prime Minister correctly noted that, *“Globally, and in the absence of subsidies, biofuels cost more to produce than petroleum fuels”*, and that *“...many countries have adopted policies to assist the production and use of biofuels. While national circumstances vary widely, in every case biofuel production has required significant government assistance”* (6).

This remains true in Australia. While the new Fuel Tax regime has provided support for the supply of biodiesel at the plant gate, this can only be effective if it is possible for potential customers to buy it at a price that is competitive with petroleum diesel at the plant gate. As stated above, the current workings of the Fuel Tax Act 2006 can make this difficult in the case of Blends that do not meet the Diesel Standard.

If Government wishes to achieve its biofuels objectives, we believe it should be prepared to consider what is required to enable blends up to B20 (and higher if the blend substantially meets the Diesel Standard) to be made available on a reliable, consistent basis to vehicle operators who want it at a price competitive with petroleum diesel, and be prepared to adjust policy where necessary.

An arbitrary B5 capped blend will have a serious detrimental impact on industry viability.

b. Access to Market / Barriers to Entry

The market for diesel in Australia is 15 billion litres. Biodiesel will be sold directly as a substitute for diesel. Under the current Excise arrangements, the only real route to market for biodiesel is as a blend with mineral diesel. This means, the only distribution channel for biodiesel is through existing distribution channels for diesel.

A major issue is the identification of the diesel market that is actually or realistically available for Biodiesel substitution. This requires an understanding of the available and potential infrastructure for blending and the ‘willingness’ of distributors to engage in the purchase and sale of biodiesel. Their ‘willingness’ is a function of, inter alia, the economics of the trade-off between the capital investment required for blending facilities and the return available on the sale of Biodiesel blends, the strength of their environmental convictions and the market demand for Biodiesel blends.

To date, the majority of Biofuels sales and growth has been pushed by independents that use it as a competitive hedge against oil majors and to provide an environmental point of differentiation.

A B5 capped blend standard would seriously diminish the potential uptake of independent fuel distributors who are currently the major supporters of Biofuels. This will further reduce the amount of competitive pressure independents can bring to bear in a closely held market. It would directly cut across independents being able to use Biofuels as a competitive lever against the major oil companies. This will have the effect of reducing the overall market for biodiesel and force Biodiesel producers into sales strategies in a narrower market with only the major oil companies as potential customers.

In addition to the impact on independents, a capped B5 blend standard may also effectively cap the market well below available production capacity. The Diesel market is estimated at 15 billion litres per annum. In practical terms, with blending a required pre-requisite for biodiesel, only approximately 50 – 65% of the total market is actually available for substitution by biodiesel. This is due to geography, infrastructure requirements for blending, freight and logistics etc.

At 50% of the theoretical market, this leaves 7.5 billion litres. A 5% volume cap will provide a practical market size of 375 million litres. This is less than the available capacity that will be on-line in Australia by the end of 2007.

A B5 capped blend would also magnify the difficulties of any producer which attempted to blend itself by increasing the logistical problems of handling large amounts of petroleum diesel with the associated storage, distribution and working capital costs.

4. QUALITY MANAGEMENT AND BLEND MANAGEMENT OPTIONS

a. Fuel Quality Standards

Australia currently has Standards for Diesel and Biodiesel. These are the primary tools for developing a credible and quality assured industry. Any biodiesel must comply with the Standard.

Quality assurance and adherence of all industry participants to these standards must be delivered through strong industry self-regulation and appropriate government controls. The establishment of one peak industry body and a code of conduct and compliance as detailed below is an appropriate method to address this.

b. Blending Options

BPL submits that strict adherence to the *Australian Diesel Fuel Standard* and the *Australian Biodiesel Standard (B100)*, will motivate producers and blenders to maximise the impact of biodiesel's environmental and health benefits, and simultaneously address the interests of government, industry, and the consumers.

The national automotive diesel standard is the fundamental performance standard which, when met, deems a fuel fully fit for use in diesel engines. It also allows for differences in the nature of crude oils used by refineries to produce automotive diesel.

We support the contention in the Industry Submission that at this point in the industry's development biodiesel should be considered no different from any other feedstock used in the manufacture of a fuel that meets the requirements of the automotive diesel standard. An essential proviso is that the biodiesel component used in any blend must comply with the *Fuel Standard (Biodiesel) Determination 2003*.

This should be readily achievable from a practical point of view as Australian biodiesel producers do not qualify for the producer grant of 38.143 cents per litre unless the fuel they manufacture complies with the B100 standard. In addition, an excise manufacturer's licence must be held to produce biodiesel or biodiesel blends.

If, however, it is intended or felt there is an absolute need for government regulation over blends, BPL strongly contends that any regulated position must allow for Blends of at least B20, and potentially higher if those blends can be demonstrated to substantially comply with the Diesel Standard. A maximum Blend capability of B5 will jeopardize the future of the industry. It would result in a significant weakening of the competitive positions of independent fuel distributors with materially adverse flow on effects to the biodiesel industry.

c. Information Requirements (labeling etc.)

We agree with the need for appropriate labeling and identification of Biofuels to consumers. The proposals set out in the Industry Submission are consistent with our views.

5. INDUSTRY REGULATION AND REPRESENTATION

An important issue for the development of the Biodiesel industry is the formation of the BAA and the implementation of the Australian Biodiesel Code. In August 2006, members of the existing Renewable Fuels Australia and the Biodiesel Association of Australia commenced discussions on merging or forming a new organisation to be known as the BAA.

We believe that a single, well-resourced, fully representative organisation will be better able to advance the interests of legitimate biofuels producers and marketers in Australia. At the time of writing, these moves are well advanced, and it is hoped that the new BAA will be in place early

in 2007. One of the early tasks will be to develop and implement the Australian Biodiesel Code to establish good practice in all aspects of biodiesel supply, testing, blending and distribution. This may well draw on the existing US Code BQ9000 and European ISO 9000, but adapted for Australian conditions. A considerable amount of work has already been done to define what is needed.

BPL also believes that it will be important initially to have some rigorous DEH quality checking at the point of biodiesel sale to the end-consumer so that public confidence can be built. We believe it will also be appropriate for BAA to receive some financial support from government for the development and implementation of the Code.