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#### Diesel/Biodiesel Blends - Discussion Paper

In response to the Department of Environment & Heritage's discussion paper on the introduction of blending standards for biodiesel with mineral diesel we wish to make the following submission.

We are completely opposed to the introduction of prescriptive standards for blending.

Of greater concern however, is the timing of this initiative by the Department of Environment & Heritage. It follows the fundamental restructuring of the excise treatment for biodiesel initiated by Treasury in 2006 that saw the passage of the Fuel Tax Bill in June 2006. The consequences of the Fuel Tax Bill have been to fundamentally shift the customer base for biodiesel in Australia and this negatively impacted on the viability of the industry in this Country. Investment in the biofuels industry has been negatively impacted by the passage of this Bill, significantly affecting the viability of the whole biofuels industry.

However, the Fuel Tax Bill offered the scope to biodiesel producers to blend biodiesel with diesel and retain some benefits. This review puts this ability at risk.

The establishment of Australia's biodiesel industry is the responsibility of the Federal Government and the Department of Environment and Heritage. Without their support the industry will flounder – and this is what we see today, an industry that lacks real support. There is an absence of policy support for development of the biodiesel industry and as such the industry incurs the random approach to the development of rules by which it must operate, yet each time these rules are varied, they fundamentally shift the available customer base and so the viability of the industry is affected.

For example it is important to note that the Treasury Department drafted the Fuel Tax Bill 2006 to create a "level playing field" between biofuels and fossil fuels. The biofuels industry, less than a decade old, is now expected to economically compete against an industry that has been established and operating for over a century.

On the specific questions put in the discussion paper we comment as follows:

Should biodiesel blends be capped at 5% and meet the diesel standard?



No. The rationale for limiting the blending of the fuel is to protect vehicle owners from themselves. It ignores the reality that diesel is largely consumed by sophisticated users of the fuel who know the properties of its operation. Further at a retail level (to the public), Australia has a very low level of market penetration of diesel cars versus petrol cars and distribution is controlled by "Big Oil" for which these Companies develop their own branding and product standards. Imposing rules is unnecessary.

Quality of fuel is a significant hurdle facing the biodiesel industry, but one that can be easily met with Government support and encouragement for the biofuels industry. However, limiting biodiesel to a fuel blend of 5% would cap the total amount of biodiesel consumed annually in Australia to approximately 750 million litres per year. This is barely sufficient to cover the Federal Government's 2010 target for renewable fuels. The question should not be "*what biodiesel blend should be standardized?*", but should be "*how little petrodiesel should be blended with biodiesel to still produce a standardized fuel?*" This question should be answered with "*the petrodiesel limit should be determined by the capacity for biodiesel production in Australia*".



Should flexibility be allowed for density (or any other quality parameter)?

We support the variation to the density standard as we believe that this will offer greater flexibility in blending biodiesel and so increase the competitiveness of the fuel – any initiative that prefers biodiesel over mineral diesel should be supported.

Is Option 1 or Option 2 your preferred management option?

Neither option is preferred. Option 1 is not acceptable as it limits the use of a renewable fuel over its mineral counterpart to only 5%. Option 2 is presented in the paper as an alternative to Option 1 as some sort of compensation to the biodiesel industry by allowing producers an exemption to the density waiver. We are of the view that the density waiver should be given to a blended fuel regardless of the mix between biodiesel and diesel as this will broaden the scope for use of biodiesel, enhance its marketability and provide for the accelerated development of the industry in Australia. Any limitation of the blend to 5% is not supported.

Should a full B20 fuel quality standard be developed as outlined in Option 3?

No – the industry should be left to self regulation. Left to its own we are of the view that the industry will internally develop a quality assurance program to differentiate itself and its products. Over time those producers offering “quality” biodiesel and biodiesel blends will be recognised in the market. Comparative evidence of this is available in the European and USA markets.

As stated in the discussion paper a B20 standard has been developed for use by motor manufacturers in the US. This standard will be used as a guide for guidance by OEMs.

The argument presented in the discussion paper that the definition of a B20 standard will somehow assist in the development by OEM’s of warranty acceptance for use of the fuel and that this will somehow help the industry is ludicrous. OEM’s have no incentive to change their view based on the Standards determined for fuels in this country without some sort of regulation imposed on them by the Federal Government. So if it were that the Government was contemplating restricting importation of non-compliant vehicles and equipment to the country and further imposing compliance to be non discriminatory favour for the use of biodiesel blends in its fuel.

Further, the Federal Government could support the adoption of a Standard blend by developing policy requiring all Government diesel vehicles and equipment convert to use a blended biodiesel fuel. Through procurement the Federal Government would then have some commercial influence over the warranty position of OEM’s as it would then logically favour only suppliers capable of meeting the fuel supply intended.

We think these initiatives are highly unlikely in the current circumstances and as such any regulation to limit blending at B20 unfairly penalises the biodiesel industry.

In reality commercial adoption of the use of the fuel will come from it being offered competitively cheaper, and then the pressure on OEM’s to allow the usage (we do not believe OEM’s provide warranties for any fuel – fossil or renewable) will be driven by competitive pressures that we are already seeing in the supply of certain vehicles and equipment.



If so which parameters should be included?

There should be no additional testing parameters imposed on the industry. The testing regime submitted in response to this discussion paper by the Biodiesel Association of Australia should be implemented for the testing of all biodiesel blends.

Should a simplified B20 standard be developed as outlined in Option 4?

No – the industry should be left to self regulation. See above.

If so which parameters should be included?

There should be no additional testing parameters imposed on the industry. The testing regime submitted in response to this discussion paper by the Biodiesel Association of Australia should be implemented for the testing of all biodiesel blends.

Should a “B5 only” cap be adopted or should both B20 and B5 blends be permitted?

There should be no caps on the blending of biodiesel with mineral diesel. To the contrary, the industry should be encouraged and incentivised to maximize blends.

Are there any other management options that should be considered?

The Government and the Department of Environment and Heritage should be encouraged to support the development of the biodiesel industry and the usage of the fuel through:

- Providing policy certainty to the industry;
- Supporting the industry development of a quality assurance program
- Funding research initiatives for the development of alternative feedstocks and other initiatives relevant for the industry
- Expanding and permanently extending the Cleaner Fuels Grant Scheme to truly prefer renewable fuels to fossil fuels

The Federal Government should also develop its own consumption policies to encourage the use of biodiesel by its various departments and instrumentalities, and report on the take up of the fuel by those departments.

The Department of Environment and Heritage should develop policies to prefer the use of biodiesel in certain special environments where the biodegradable characteristics of the fuel offer advantages over fossil fuels – such as use of the fuels in marine environments, National Parks, and environmentally sensitive areas. The Department should further consider mandating the use of biodiesel in confined environments where the benefits of the reduction in polyaromatic and sulphur emissions is of concern – such as underground mining.

Labelling

Should B5 blends be labeled?

No



If so, is a statement that the fuel "contains 5% biodiesel" or "up to 5% biodiesel" sufficient?

No

Should higher blends and neat biodiesel (B100) be labeled?

A blend of biodiesel that meets the diesel standard is diesel and should be labeled as diesel.

A blend of biodiesel that does not meet the diesel standard does not need labeling as the distributor will need to inform the user of the fuel of the tax position (ie. The percentage mix and tax paid and rebateable) to ensure that a user of the fuel complies with the Fuel Tax Act 2006. Further regulation relating to the marketing of these fuels is unnecessary.

Is additional information required?

No – manufacturers and distributors of biodiesel are capable of promoting the superior properties and benefits of the fuel to their customers and potential customers without further regulation.

If so, what information should be included on a label for higher blends of biodiesel?

Nil – see above.

Thank you for the opportunity to provide this submission. We would be please to make further comment and representation should the opportunity arise.

Yours faithfully,

A handwritten signature in black ink, appearing to read "C. Lovelady", with a vertical red line to its right.

Craig Lovelady  
Director

A handwritten signature in black ink, appearing to read "S. Gunzburg", written in a cursive style.

Dr Stuart Gunzburg  
Director