



**Submission to the
New South Wales Department of Customer Service**

on the

**Biofuels Statutory Review
Discussion Paper**

29 October 2019

ABOUT AIP

The Australian Institute of Petroleum (AIP) was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards. AIP provides a wide range of factual information and industry data to assist policy makers, analysts and the community in understanding the key market, industry and other factors influencing Australia's downstream petroleum sector.

AIP is represented on key statutory and advisory bodies including the National Oil Supplies Emergency Committee (NOSEC), the Fuel Standards Consultative Committee (FSCC), the Oil Stewardship Advisory Council (OSAC), the New South Wales Biofuels Expert Panel and the National Remediation Framework Steering Group (NFRSG). AIP sponsors or manages important industry health and environmental programs and the Australian Marine Oil Spill Centre (AMOSC) is a wholly owned subsidiary of AIP.

AIP is pleased to present this Submission to the NSW Department of Customer Service on behalf of AIP's core member companies:

BP Australia Pty Ltd
Caltex Australia Limited
Mobil Oil (Australia) Pty Ltd
Viva Energy Australia Pty Ltd

About AIP Member Companies

AIP member companies operate across the liquid fuels supply chain including crude and product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail. Underpinning this supply chain is considerable industry investment in supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. Over the last decade, AIP member companies have invested over \$10 billion to maintain the reliability and efficiency of fuel supply meeting Australian quality standards.

AIP member companies play a very significant role in delivering the majority of bulk fuel supply to the Australian market.

- In relation to conventional petroleum fuels, AIP member companies operate all major petroleum refineries in Australia and supply around 90% of the transport fuel market.
- In relation to gaseous fuels, AIP member companies are the major suppliers of bulk LPG to the domestic market, representing around two thirds of the market.
- In relation to biofuels, AIP member companies are the largest suppliers of ethanol and biodiesel blended fuels to the Australian market.

Given this background and their significant role in the Australian fuels supply chain and broader economy, AIP member companies have a very strong interest in biofuels and the maintenance of liquid fuel supply reliability.

Contact Details

Should you have any questions in relation to this submission, or require additional information from AIP, the relevant contact details are outlined below.

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1. Key Messages

- The Australian Institute of Petroleum (AIP) supports market-based mechanisms for the supply of fuel in Australia, which have delivered a strong, competitive fuels market with robust supply security.
- AIP believes that biofuels have a place in the Australian fuels market where they are available at a competitive price, reliably supplied, acceptable to consumers, produced sustainably, and provide net greenhouse gas reductions.
- Despite not supporting intervention in what is a well-functioning and competitive market, AIP and member companies have and continue to comply with biofuels mandates.
- AIP member companies have invested significantly in biofuels related infrastructure throughout the supply chain in terminals infrastructure, logistics and retail site conversions.
- Despite this significant investment, consumer demand continues to be the single greatest barrier to achieving compliance with the ethanol mandate, while there also remains significant challenges with securing sufficient volumes of economic, fit-for-purpose biodiesel.
- AIP believes that the biofuels mandate is not, nor is likely, to meet the objectives of the Act. Indeed, there is yet to be any significant investment or expansion in new commercial biofuels production since the introduction of the mandate and it is not generating new jobs or providing additional regional development opportunities. Similarly, the greenhouse, air quality and other environmental benefits are highly contestable.
- AIP contends that both the six percent ethanol mandate and the two percent biodiesel mandate should be considered as aspirational, rather than firm targets, particularly given the significant investment by the downstream petroleum industry, wide availability and ongoing consumer aversion.
- Despite the significant challenges over the 12-year operation of the mandate, AIP believes that the mandate is by and large operating in a steady state from a compliance point of view.
- As forecast by IPART during the previous review of the mandate in 2015, additional policy levers to meet an increased mandate have come at significant cost to the fuels industry and consumers and at the same time, performance against the mandate has dropped.
- AIP therefore does not support any additional changes to the mandate that aims to increase regulation in an attempt to try and meet what is in effect an arbitrary target. Ultimately, consumer aversion to biofuels has always, and continues to be, the biggest barrier to meeting the mandate.
- AIP encourages Government to review the ethanol mandate of 6 percent and the 2 percent biodiesel mandate to establish more achievable and sensible targets consistent with consumer appetite.
- AIP supports efforts to reduce the regulatory burden on fuel companies, including continued efforts to streamline the reporting process and the exemptions process. AIP also supports extending the timeframe beyond 2 years for current exemption holders.
- AIP also supports maintenance of the Expert Panel in its current form, as well as maintaining IPART's current functions.
- Any proposed change to the mandate or its provisions requires a comprehensive program of consultation, including through a comprehensive Regulatory Impact Statement process to ensure any assumed benefits appropriately outweigh the costs.

2. Introduction

The Australian Institute of Petroleum (AIP) strongly supports market-based approaches for the supply of fuels in Australia. A market-based approach has delivered Australia a highly competitive fuel market that provides the consumer with a secure supply of fuels of an assured quality, delivered reliably at a reasonable price in a geographically dispersed supply chain.

Given the demonstrated benefits of a market-based framework for liquid fuel supply, AIP only supports market intervention when there is demonstrated market failure that the market, or consumers, cannot efficiently resolve, and the intervention would result in a net benefit overall. In addition, any policy that intervenes in the fuels market must be based on sound science, rigorous economic analysis, equitable application to market participants, and transparent assessment and implementation, while minimising unintended consequences. Such interventions should be regularly reviewed to ensure their efficiency and effectiveness in meeting policy objectives and amended or removed as appropriate.

AIP Position on Financial Incentives for Biofuels

AIP supports the use of transparent financial incentives (excise concessions, production grants and technology and market facilitation grants) to facilitate and encourage the use of biofuels and alternative fuels in Australia provided those incentives are either:

- short-term and aimed at offsetting some of the up-front capital costs associated with bringing the fuel or the fuel use technology to the market

or

- ongoing but solely aimed at recognising significant and demonstrated “well to wheel” environmental benefits of using the fuels compared to the current environmental performance of mainstream fuels.

In this context, AIP supports the policy of successive Federal governments of fuel excise neutrality based on the relative energy content of the individual fuels.

AIP Position on Biofuels Mandates

AIP strongly supports market-based approaches for the supply of fuels, including biofuels, in Australia. AIP considers that biofuels have a place in the Australian fuels market as long as they are:

- Available at a competitive price
- Reliably supplied
- Acceptable to consumers
- Produced sustainably

AIP believes that government policy in support of biofuels (e.g. for environmental benefits) needs to be:

- Transparent, with clear, credible and tested objectives
- Applied equitably to all industry participants
- Stable with regular review and clear timeframes for withdrawal of support
- Based on sound science
- Cognisant of other broader policy settings and commercial practice.

In principle, AIP does not support mandates requiring the use of any particular fuel as a way of increasing the demand for that fuel.

- While AIP members will work to comply with the requirements of any government imposed biofuels mandate, AIP believes that any mandates for biofuels aimed at helping to increase short-term

consumer demand must be designed so that they enable a sustainable, competitive and commercial market to develop in the medium to longer term for those fuels.

AIP believes that fuel mandates can result in higher cost fuels, reduced market price transparency for fuel suppliers and consumers, limit price competition and associated marketing innovation, and fail to encourage the development of robust and reliable fuel supplies.

AIP believes that any government support of, or mandates for, biofuels must recognise that:

- Biofuels are generally supplied to the market at a higher price than conventional fuels if the excise exemption is taken into account.
- While biofuels add new sources of supply to the market and thereby increase the diversity of the fuel mix, it is far from clear that this will result in more reliable fuel supplies. There are few suppliers of biofuels in Australia and Federal tax policies effectively prevent the use of imported ethanol and biodiesel. In addition, the inherent fragility of the nascent biofuels supply chains and the lack of redundancy in the biofuels supply system mean there is a significant risk of supply disruption given the demonstrated impact of droughts and flood on biofuels raw materials supply.
 - Any failure of domestic ethanol supply also imposes costs to convert the fuel supply chain from biofuels to RULP
- There is ongoing, consumer resistance to using biofuels and a proportion of the market, albeit declining, that cannot use ethanol blended fuels or are choosing new/different technology (e.g. Diesel, Electric Vehicles).
- There is ongoing resistance to using biodiesel blends, particularly from business customers.
- The benefits cited for a biofuels mandate remain questionable with little evidence to support them:
 - Regional development benefits (such as jobs and economic development benefits) have not been adequately tested and may not be the optimal use of such a significant implicit subsidy of biofuels producers by wholesalers, retailers and motorists. There is only a single ethanol producer in NSW despite the mandate being in operation for 12 years.
 - The environmental benefits are questionable, particularly on a life-cycle basis, and should be retested under the current fuel, supply chain set-up and vehicle standards.
- If the carbon emissions abatement estimates for biofuels are robust, then biofuels projects should be eligible to apply for support under the Commonwealth Government's Emission Reduction Fund if they are competitive with other abatement options.
- While biofuels mandates and targets may have helped to create increased consumer demand:
 - The difference between the excise equivalent customs duty for ethanol imports and the effective zero rate of excise for domestically produced ethanol has made ethanol imports uncompetitive and impeded the development of a properly functioning ethanol market and supply chain
 - There is ongoing uncertainty surrounding biofuels supply reliability
 - There is no guarantee of effective competition involving a diverse number of ethanol producers in the wholesale biofuels markets, as this depends on the balance of supply and demand which, in a truly competitive fuels market, would include imports
 - The compliance regime that has developed in NSW, and more recently in Queensland, lacks predictable and equitable outcomes for all participants in the market.

3. Responses to Questions in the Discussion Paper

Scope of Biofuels Act and Regulation

1. Are the objects of the Biofuels Act and Regulation still valid? Why or why not?

The primary objective of the Biofuels Act is to support the development of a sustainable and competitive biofuels industry in NSW.

The secondary objectives are to:

- Improve air quality
- Address climate change by reducing greenhouse gas emissions
- Provide consumers with cheaper fuel options
- Reduce reliance of NSW on imported petroleum products, and
- Support regional development.

These are considered in turn below.

Sustainable and competitive biofuels industry in NSW

The NSW mandate has necessitated significant capital expenditure by fuel wholesalers and retailers to ensure the necessary, discrete infrastructure is in place to supply biobased fuel. This investment (along with the requirements for fuel retailers to achieve mandated volumes) has provided a market assurance to existing biofuel producers to underpin their production, so long as there is sufficient consumer demand for these fuels. However, the cost of this assurance has clearly been at the expense of fuel companies and consumers with almost all financial benefits of the mandate accruing to biofuel producers.

Unfortunately, this assurance has not led to any significant investment in a broader biofuels industry in New South Wales or stimulated the necessary size and scale of investment to provide a competitive biofuel offering in the State. It remains the case that there is only a single ethanol producer in NSW despite the mandate being in operation for 12 years, with only two ethanol producers in Queensland (both of which were in operation prior to the introduction of the mandate in that State). It is therefore reasonable to conclude that despite the extended time in which the mandate has been in operation, and the significant investment by the fuels industry, the mandate has not achieved its primary objective.

Improve air quality

Air quality benefits cited from the use of biofuels is deeply contested, with a number of studies concluding that biofuels could in fact worsen air quality versus conventional petroleum use depending on the feedstock used for biofuel production.

Tailpipe emission performance of petrol fuelled vehicles has improved dramatically since 2002 because of the rapid and significant impact of the Cleaner Fuels Program for conventional fuels as evidenced in Chart 1 below. The cleaner fuels standards and the changes to motor vehicle technologies has seen very dramatic drops in urban air pollution levels from motor vehicles with most pollutants reducing to less than 30% of 2000 levels, and carbon monoxide emissions reducing to about 10% of 2000 levels.

Australian urban air quality is generally good with pollution levels in most cities well below the target levels set by Australian governments. The major continuing problem is ozone formation, which is a smog precursor largely related to emissions of volatile organic compounds (VOCs) and oxides of nitrogen (NOX)

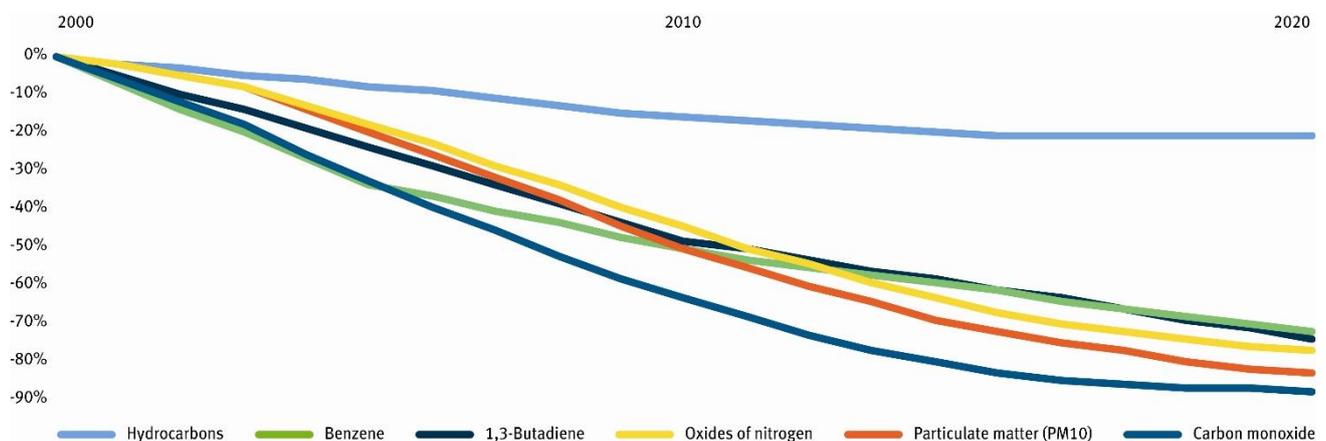
- The use of E10 blends reduces tailpipe emissions of carbon monoxide (CO) and VOCs but emissions of oxides of nitrogen (NOX) are increased. Evaporative emissions of VOCs are also increased.

- The emissions of some air toxic compounds (e.g. benzene, 1,3 butadiene) are reduced by the use of E10 blends while other air toxics are increased (e.g. aldehydes)
- The US Energy Information Administration found that ethanol blended petrol can increase ground level ozone¹

There may be some indications of reduced small particulate matter emissions from the use of E10

- However, a US EPA draft regulation² impact statement for the US Renewable Fuel Standard Program in September 2006 found that evidence of tailpipe emissions reductions from cold weather climates was “too limited to support a quantitative estimate of the effect of ethanol on PM emissions”
- Particulate emissions from petrol vehicles are generally not considered to be a significant problem and are not regulated anywhere in the world
- The Prime Minister’s Biofuels Taskforce recommended that further examination was required on the health benefits of ethanol blends and the Australian Government is currently undertaking that study.

Chart 1: Reduction in vehicle emissions from cleaner fuels (petrol and diesel)



AIP considers that at best, there is a marginal environmental benefit from the use of biofuels given the ongoing improvement in vehicle technologies and conventional fuels.

Address climate change by reducing greenhouse gas emissions

There is capacity for Biofuels to reduce greenhouse emissions, so long as they are produced responsibly, use carefully selected raw materials, and are assessed for their benefits from “well to wheel”. AIP has found little evidence to support claimed greenhouse benefits under current production and supply arrangements for biofuels, particularly on a full life cycle basis. Claims are made that the savings from a 10 per cent ethanol/biodiesel mandate would lead to emissions saving of 0.26 to 0.29 kg per litre of petrol and diesel respectively.

However, recognising the lifecycle emissions intensity of ethanol and biodiesel (as set out, for example, the Productivity Commission report *Carbon Emission Policies in Key Economies*³) indicates that these savings would be reduced to between 0.09 and 0.11 kg per litre for petrol, and to between 0.14 and 0.22 kg per litre for diesel. This is a reduction in the claimed savings of between 24 and 65 per cent.

¹ https://www.eia.gov/energyexplained/index.php?page=biofuel_ethanol_environment

² *Renewable Fuel Standard Program Draft Regulatory Impact Analysis*, United States Environment Protection Authority September 2006

³ <http://www.pc.gov.au/inquiries/completed/carbon-prices/report/carbon-prices.pdf>. See table M.2.

Furthermore, any greenhouse savings should be considered from an economywide perspective. It should also be considered from the perspective of the cost of achieving the abatement and not just the amount of abatement achieved. Biofuels are well recognised as high cost abatement. As the Productivity Commission concluded:

In summary, while the results for biofuels vary and are particularly sensitive to assumptions about life-cycle emissions intensities, most biofuel policies are high-cost means of achieving abatement. Cost per tonne of abatement — as measured by the implicit abatement subsidy — is typically A\$300–A\$600/t CO₂-e and possibly as high as A\$800/t CO₂-e. (PC 2011 *Carbon Emission Policies in Key Economies*, p. 144)

Provide consumers with cheaper fuel options

In its 2015 analysis, IPART⁴ found:

The current price of E10 does not represent value for money. Ethanol contains 31.6% less energy per litre than petrol and, on average, using E10 increases fuel consumption by about 3%. To make E10 competitive, it needs to be about 3% cheaper than RULP. The average price difference of 2.2 cpl (April to June 2014) means E10 is only about 1.5% cheaper than RULP.

Although E10 is priced at a small discount to RULP, the price differential has remained between 2 and 3 cpl since the IPART analysis, with the average difference in 2018-19 being 2.3cpl. This has largely been due to the higher cost of ethanol supply against the relative price of MOGAS.

IPART is required to determine a reasonable price of ethanol. Its determined price does not cap the wholesale price of ethanol. Rather, if wholesale prices exceed IPART's determined price, then the Minister may exempt volume fuel retailers from meeting the ethanol mandate. IPART has found that wholesale ethanol prices have increased in recent years.

Ultimately, IPART concluded in its 2018-19 Draft Ethanol Market Monitoring Report that “depending on the vehicle, some motorists will be better off buying E10, while others will need to buy more E10 to travel the same distance compared to regular unleaded fuel, which may offset the price per litre saving.”

Reduce reliance of NSW on imported petroleum products

Biofuels add significant risk and complexity for fuel suppliers.

While biofuels add new sources of supply to the market and thereby increase the diversity of the fuel mix, it is far from clear that this will result in more reliable fuel supplies. There are few suppliers of biofuels in Australia and Federal tax policies effectively prevent the use of imported ethanol and biodiesel. In addition, the inherent fragility of the biofuels supply chains and the lack of redundancy in the biofuels supply system mean there is a significant risk of supply disruption given the demonstrated impact of droughts and flood on biofuels raw materials supply.

The risk to supply at competitive prices is being demonstrated in the current drought. As outlined in the NSW legislative assembly by Hon Walt Secord on 24 October 2019

“yesterday's briefing from Manildra said that the drought is hitting so hard that they are unable to get wheat in Australia—they get very, very poor quality wheat—and they are importing it, for the very first time, at very high rates”

The same was true during the Queensland floods of 2012 (where biofuels had been supplied to the market without the need for a mandate). This break in supply led to a significant long-term decline in demand for ethanol blended fuels.

⁴ IPART (2015) *Options to increase the uptake of ethanol blended petrol*, p4

Furthermore, ethanol is contributing a declining share against imported fuel. The following table highlights this declining share both in terms of overall volume and the relative market share.

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Ethanol-Blended fuel | 2206.7 | 2155.3 | 2091.3 | 1935.4 | 1777.4 | 1713.2 | 1575.5 | 1569.1 | 1433.4 |
| All Gasoline and Gasoline Blends | 6088.2 | 5916.1 | 5810.5 | 5636.2 | 5606.0 | 5802.0 | 5771.0 | 5869.6 | 5679.5 |
| Ethanol as % of All Gasoline | 36.25% | 36.43% | 35.99% | 34.34% | 31.71% | 29.53% | 27.30% | 26.73% | 25.24% |

Source: Australian Petroleum Statistics

From the fuel supplier industry perspective, the inclusion of biofuels in the supply chain increases the complexity of operation and therefore the cost of supply through the need to handle a discrete new product with specific hygiene requirements to handle a bio-component, such as the threat of fungal contamination. At the same time, the mandate is not meeting its objective of reducing imported petroleum products.

Support regional development

AIP is unable to find any evidence to support the mandate contributing to regional growth and/or jobs creation in New South Wales.

The most commonly quoted desktop study on jobs creation, albeit focused on Queensland, was conducted by Deloitte Access Economics (DAE) and Corelli Consulting⁵ in support of the proposition that biofuels and bioproducts would lead to an increase in economic output (at a state level) and to an increase in state employment.

However, a correct reading of the DAE/Corelli report does not provide any support for a biofuel mandate and does not indicate that such a mandate — or any other subsidies for biofuels or bioproducts — would lead to net economic benefits.

The DAE/Corelli report indicates that the economic impact of a sample of **viable** new manufacturing biorefinery facilities could increase gross state product by \$1.8 billion a year and support over 6 640 employees in Queensland by 2035. There are two important points to note about this result:

- First it refers to commercially viable facilities that do not require a subsidy; and
- The employment effects only refer to Queensland, and not national results.

These points are considered in turn below.

Commercial projects assumed

A key feature of the DAE/Corelli report is that it presumes that each of the projects examined are commercially viable:

The economic impact analysis employs the assumption that these are commercial projects operating without government subsidies...(p32)

The report also argues strongly against any form of subsidies:

Foreign governments (and therefore taxpayers) have in some cases contributed significant funds to the biorefinery sector. While this does undoubtedly provide the sector with a boost, it distorts the allocation of resources in the economy, and means scarce public funds are captured mostly by owners of the subsidised businesses. Sound public policy principles recommend against this type of intervention. (p32)

⁵ https://cms.qut.edu.au/_data/assets/pdf_file/0004/482728/ife-biorefinery-report.pdf

This is an important set of assumptions in the context of the Biofuels to bioproducts report which ultimately proposes a range of government interventions. The DAE/Corelli report does not simulate the impacts of output subsidies for products that are not commercially viable. Rather, it simulates the impact of illustrative projects with returns ranging from 17 per cent to 32 per cent — healthy commercial returns. With these assumptions, it is inevitable that the modelled projects would increase Queensland gross state product.

Effectively, the Deloitte/Corelli analysis implies that there is no case for subsidies (in the form of mandates or otherwise) to the biofuels industry. Rather, economic benefits emerge through the normal process of the adoption of a commercially viable product.

Queensland results only

It is worth noting, that only Queensland results are reported by DAE/Corelli. It is very likely, however, that the employment increase in Queensland would be offset by reductions elsewhere. This is because the typical economic assumptions underlying the type of model used by DAE/Corelli is to have fixed employment at the national level, but employment varying by state or region. By assumption and consistent with economic theory, the increase in employment in Queensland would be offset by reductions elsewhere in Australia. The employment benefits, therefore, cannot be extrapolated to the rest of Australia. The same can be assumed for New South Wales.

2. Are there any other economic, social, environmental and consumer costs and benefits associated with biofuels that Government should further consider to ensure the regulatory regime is effective?

Given the inability of the NSW Mandate to meet existing objectives under the Act, AIP does not consider there are further benefits to be gained. Indeed, the mandate comes at a cost to NSW consumers, as found by IPART in its 2015 reviews:

Most options to increase ethanol uptake would increase the cost of an already expensive policy, with little economic gain for the NSW community. Further, measures to increase ethanol uptake by reducing consumer choice would strengthen Manildra Group's already substantial market power.

The international experience has been consistent with the Australian experience in many countries, including:

- A study in Spain looking at the costs and benefits of mandatory targets for biofuel consumption concluded there was a likely economic welfare loss from such targets:

In contrast, analysing the whole effect on the economy, the use of biofuels is displacing income from other economic sectors, resulting in a net negative impact... Concluding, the study shows that the introduction of mandatory targets of biofuel consumption along the timeframe of 2008–2020 in Spain could result in a welfare loss for the Spanish society. a mandate (Santamaria and Azqueta 2015 'Promoting biofuels use in Spain: A cost-benefit analysis' *Renewable and Sustainable Energy Review*, vol 50, October⁶.)
- A study in the UK noted the high cost and uncertainty surrounding biofuels policies, concluding:

The U.K.'s biofuel policy's success at meeting its stated objectives has been subject to debate. This report shows that, in some instances, the benefits to the U.K. biofuels sector and economy from biofuel policies have been few, unclear or require greater monitoring and elaboration in order to examine the related costs and benefits of meeting the U.K.'s biofuel policy objectives. (Charles et al 2013 *Biofuels — At what cost? A review of costs and benefits of UK biofuel policies*⁷.)

⁶ <https://www.sciencedirect.com/science/article/pii/S1364032115005250>

⁷ <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.398.7439&rep=rep1&type=pdf>

- In the United States, an Environmental Protection Agency (EPA) briefing on the economics of biofuels, while recognising some benefits, also points out a number of significant costs:
 - On the other hand, because many biofuel feedstocks require land, water, and other resources, research suggests that biofuel production may give rise to several undesirable effects. Potential drawbacks include changes to land use patterns that may increase GHG emissions, pressure on water resources, air and water pollution, and increased food costs. Depending on the feedstock and production process and time horizon of the analysis, biofuels can emit even more GHGs than some fossil fuels on an energy-equivalent basis. Biofuels also tend to require subsidies and other market interventions to compete economically with fossil fuels, which creates deadweight losses in the economy. (EPA *Economics of Biofuels* ⁸.)
- A nuanced study looking at EU policies points out a wide range of costs and benefits and casts some doubt on the policy. It draws an interesting comparison between the costs, which are equivalent to the finances of a small country, and the benefits which are equivalent to the finances of a small town (Charles et al 2013 *Biofuels — at what cost. A review of costs and benefits of EU biofuel policies*⁹).

3. Are there any developments, innovations or emerging trends in the broader transport or fuel industry that Government should consider in assessing the biofuels regulatory regime?

The fuels, transport and related issues are constantly changing and evolving. The capacity for industry to respond to these challenges and to meet market/consumer needs is not helped by Government attempts to pick winners. Companies will always seek to gain a competitive advantage where it is economically sensible to do so. Any requirement to service emerging industries at Government request requires a reallocation of scarce resources where it may not be best served. This is particularly true with Governments attempting to choose emerging transport technologies such as electric vehicles, hydrogen vehicles or other emerging technologies.

The Passenger Transport Task

Passenger transport in Australia is changing with population growth and developments in public transport and city planning. Consumer preferences and new vehicle technologies are also playing a role in these trends and will continue to do so.

In Australia's metropolitan centres, total travel has increased vastly over time, reflecting the significant underlying population growth in capital cities. Australia's major cities continue to sprawl outwards leading to longer average trip times. This has resulted in a major increase in the total annual transport task in passenger-kilometres (pkms).

The servicing of this passenger transport task is dominated by private motor vehicles, which account for around 90 per cent of the motorised pkm task within our capital cities. Over the last decade or so, however, there has been a rise in passenger numbers across many Australian urban public transport systems, particularly as a result of expansions to transport infrastructure and services.

In terms of passenger vehicles, consumer preferences and utility remain the strong driver of private transport trends. Australian consumers continue to have a very strong preference for Sports Utility Vehicles (SUVs), which account for around 40% of total new passenger vehicle sales. There also continues to be steady growth in sales of new diesel passenger vehicles, albeit off a low base.

⁸ <https://www.epa.gov/environmental-economics/economics-biofuels>

⁹ https://www.agrireseau.net/energie/documents/biofuels_subsidies_eu_review.pdf

Electric and Hydrogen Vehicles

A more recent development in passenger transport has been the interest and growth in Electric Vehicles (EVs), particularly Hybrid vehicles, which have grown rapidly from a very low base in recent years.

Ambitious targets, government policy and subsidies including purchase incentives, have lowered vehicle costs, extended vehicle ranges, and reduced consumer barriers. Lower battery costs and improvements in battery density over recent years have also played a role, together with the renewables share in electricity generation and growth in the EV portfolios of OEMs.

While the sector has developed at a rapid pace, the impact on the total vehicle population is still hardly noticeable in most nations. In 2016, it has been estimated that the worldwide number of EVs on the road passed the 2 million mark (61% of them are battery electric vehicles or BEVs and 39% plug-in hybrids electric vehicles or PHEVs). This represents a market share of less than 1% compared with the total number of passenger vehicles on the road worldwide of around 1 billion. However, in some markets the market share is significantly higher (Norway 24%), and in recent years China has passed the United States as the main market for EVs worldwide.

In Australia, of the 1 million new vehicles typically sold each year, EV sales have been around a thousand vehicles a year in recent years, increasing to 1,839 EVs and PHEVs in 2018 (according to the FCAI). As a result, EVs represent a very small share of the 14 million passenger vehicle fleet in Australia with an average vehicle age of 10 years. Australian motorists have also typically favoured hybrids over pure electric vehicles (BEVs).

The extent of the future EV contribution to the passenger transit task, in Australia and globally, is not clear. There are wide ranging forecasts of future EV uptake, but all research and modelling suggest they will be more common globally by 2040.

Future EV uptake is complex and critically dependant on a wide range of factors.

For example, including:

- *Vehicles* – vehicle mix, technology, performance, production, costs and existing fleet turnover
- *Batteries* - production capacity, storage/density, reliability, cost and disposal
- *Key input markets and pricing* – lithium and electricity market developments and pricing
- *Distribution Network* – availability of recharge infrastructure and network and related costs
- *Consumer demand and preferences* – demand, convenience, vehicle/transport preferences.

A competitive free market with a predictable regulatory framework that does not pick winners and losers will best serve consumers, suppliers, investors, and local communities in developing economic prosperity, energy security, and environmental protection.

Accelerating the EV uptake, beyond current market and technical constraints, needs to be carefully considered and managed, particularly given linkages and dependences to other energy sectors (electricity) and to key input markets (batteries/lithium).

Although hydrogen may have the benefit of being able to utilise existing fuelling infrastructure with minimal change, hydrogen vehicles remain in their infancy with both vehicle supply and supporting fuelling infrastructure extremely limited.

AIP believes that alternative energy sources and vehicles will have a place in a diversified Australian passenger transport market, as long as they are available at a competitive price, reliably supplied, acceptable to consumers, and produced sustainably.

A market-based policy framework will best facilitate the uptake of electrified passenger vehicles on reliable, sustainable and competitive market terms. It will also encourage a lower emissions energy supply and use that avoids market distortions, increased energy prices and lower transport fuel security.

The development of robust, efficient and commercial markets for all transport fuels and vehicles will be best supported by:

- policy and investment stability
- a level playing field for competing transport fuels/vehicles and market participants
- the minimum level of efficient and well-targeted government regulation.

Second generation biofuels

As part of some AIP member company's broad global energy portfolio, investments are being made in a range of energy and emission technologies, including as some of the largest investors globally in research and development of new and emerging biofuel technologies. This focus has included second and third generation biofuel technologies, but these remain some way off being available for commercial application.

Similarly, while there has been some optimism relating to cellulosic ethanol over the past two decades, and considerable grant funding provided by the US Government and others, the technology remains some way from being commercial. This has largely been due to the high cost of enzymes, as well as poor efficiency conversions.

AIP therefore believes that although commercialisation of second-generation biofuels is firmly on the radar of AIP, its member companies and the broader fuels industry, it remains at a very early stage globally and locally. A substantial development effort and funding is required to prove, scale up and apply new technologies. These processes span multiple years and require substantial resources. Mandates are not proven to be effective, and are potentially detrimental, in facilitating and stimulating these critical early stage developments.

Application of Act

4. Are there any entities that should be included in or excluded from the Act? If so, which entities and why?

AIP has consistently argued that the NSW Mandate should not distort the fuels market, and as such, all fuel retailers should have the obligations to supply biofuels. AIP is aware that local market competition has been distorted due to some retailers requiring significant investment in biofuel infrastructure whereas other local competitors have not been exposed to similar costs.

However, AIP also appreciates that the costs associated with the supply of biofuels can be substantial particularly for small retailers and could lead to site closure. AIP continues to support retail site-level compliance on the basis that the retailer can have the greatest influence over consumer purchasing behaviour. As such, AIP would encourage the removal of all reporting obligations for fuel wholesalers. Such reporting only serves as an administrative/red-tape burden for wholesalers with no discernible benefit to Government. Indeed, wholesale reporting can lead to data distortion, double counting and over reporting.

AIP therefore supports the current arrangements for entities under the Act.

5. Are the definitions of volume fuel retailers and primary wholesalers adequate? If not, how could the definitions change?

Market participants have operated for many years under current definitions and AIP sees no credible case for change.

6. Does the Act appropriately balance the interests of small businesses with the broader objectives of the mandate? Please provide comments.

AIP does not, as a general principle, support differentiated treatment between small and large business. This is especially true in the retail fuels market where local market competitive factors are critical. AIP's large members consider the viability of their sites at the individual retail site level and do not cross-subsidise lower performing sites across the network.

As previously noted, the Act does recognise the cost impacts of the biofuels mandate on smaller sites. Furthermore, the exemption regime provides for appropriate differentiated treatment of smaller retailers.

While not supporting differentiated treatment, AIP considers that the Act provides an appropriate balance given the impacts of the mandate on smaller sites (as opposed to smaller retailers).

Minimum biofuel requirements

7. Should the prescribed mandate for ethanol and biodiesel sales remain at the current rate? If not, how should it change and why?

AIP considers that biofuels have a place in the Australian fuels market as long as they are:

- Available at a competitive price
- Reliably supplied
- Acceptable to consumers
- Produced sustainably

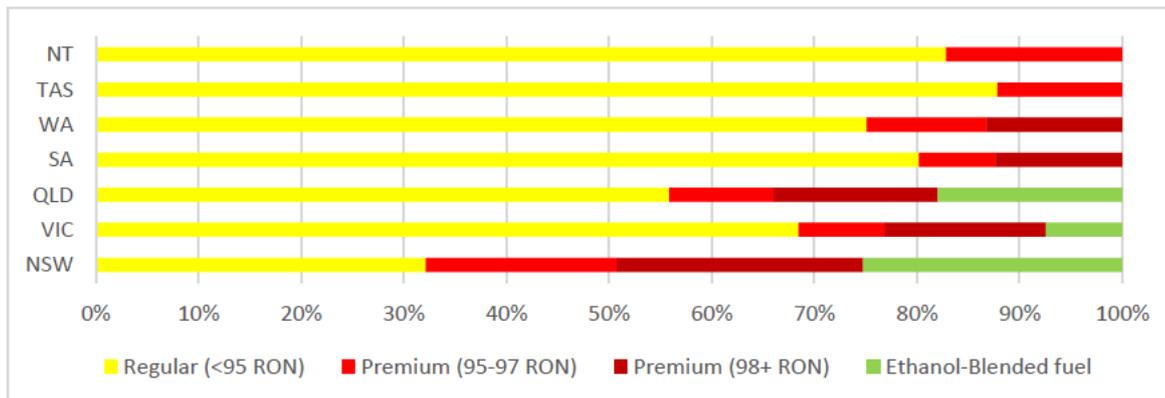
This does not mean that a mandate is required to support that supply. Indeed, there had been strong supply of biofuels into Queensland prior to that State introducing a mandate, as well as continuing sales into Victoria where there is no mandate in place. Federal excise concessions at the Federal level have also distorted the market which has prevented the importation of biofuels into Australia and removed much needed competitive tension in the market.

In relation to ethanol, AIP has consistently advised the NSW Government that sales of ethanol blended fuels at around 2-3 percent is achievable, but any greater sales volumes are heavily constrained by a range of factors, including:

- Consumer research showing strong opposition to ethanol from a significant proportion of motorists
- Discontent from consumers having to pay for premium grade petrol or change service stations if regular grade petrol was not available.
- Uncertainty around the warranty conditions for passenger vehicles and commercial transport operators utilising biodiesel blends.
- Opposition from fuel distributors and wholesalers obliged to spend additional capital on biofuel distribution assets which could (and have) become stranded, which suggest that any mandate policy is critically dependant on customer/market demand.
- Strong public opposition from independent service station owners required to convert service stations and/or to undertake premature site refurbishment in order to supply biofuels.

- The importance of comprehensive application of a mandate applying to all retailers, not just primary wholesalers and major retailers; liability must rest with the entity that has control over the choice of fuel sold at a site.

It is highly unlikely that NSW will ever meet the 6 percent ethanol mandate, due primarily to a lack in consumer demand for ethanol blended fuel. The proposal to remove ULP from the forecourt under the O’Farrell Government led to a significant shift towards premium fuel offerings. This has seen NSW consumers as by far Australia’s highest purchasers of PULP at over 40 percent, as shown in the following chart for 2018-19:



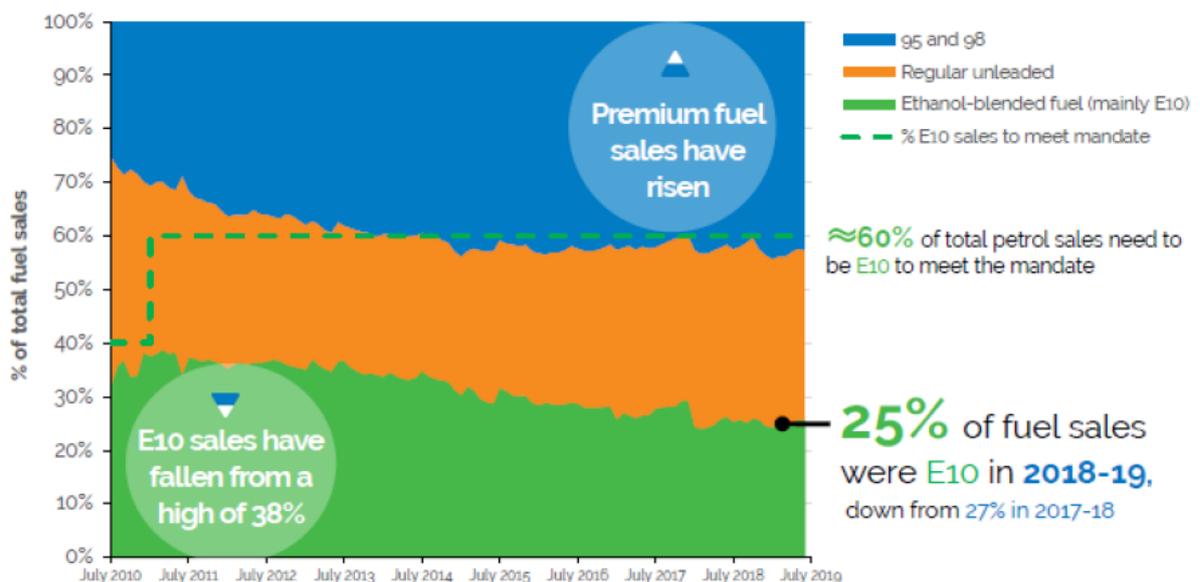
Source: Australian Petroleum Statistics

The challenge in achieving the 6 percent mandate is also supported by IPART in its recent 2018-19 monitoring report:



Sales of E10 continue to fall

Even though ethanol is widely available and competitive with other fuels, the ethanol mandate has not been met.



IPART has consistently noted that the 6 percent mandate cannot be achieved without introducing changes in policy that would come at significant cost to industry and to NSW consumers.

Ultimately, the requirement to meet a 6 percent mandate has simply led to the need for fuel retailers that supply ethanol blended fuel to regularly apply for exemptions simply on the basis that consumer aversion means they are unable to meet the target (despite them taking all reasonable steps to meet the mandate). AIP remains firmly of the view that achieving an arbitrary figure of 6 percent should not be the objective or compliance metric for the mandate.

AIP would therefore encourage Government to review the mandate of 6 percent to a more achievable and sensible target consistent with consumer appetite.

In relation to biodiesel, supply remains challenging. Biodiesel supply all but ceased in NSW, although this may change slightly with the recent restart of a facility at Barnawartha that had previously gone into administration. AIP is yet to be able to make an assessment on the impact of this re-start.

In the case of the single supplier of biodiesel in Queensland, AIP members have struggled to source sufficient supplies of fit-for purpose biodiesel to meet that local mandate, let alone supply another State.

Over the past two years, AIP member companies have identified a number of product quality (PQ) concerns with this biodiesel producer, and their production capacity is insufficient to consistently supply sufficient volumes of biodiesel that meet the Fuel Quality Standards Act (FQSA) to allow AIP member companies to work towards meeting the 0.5% mandate.

The fuel industry has a strict PQ regime which requires certification of each batch of fuel. The parameters tested are regulated under the mandatory FQSA with fuel company reputations dependent on it.

AIP and member company PQ concerns have related to:

- Product sampling equipment
 - Appropriate equipment is required to ensure samples can differentiate samples from each part of the tank, so that test results on laboratory certificates reliably represent the tank contents
- Product sampling technique
 - Correct sampling in accordance with a recognised method is paramount to properly represent the batch for certification testing
- Laboratory accreditation
 - The FQSA requires B100 diesel to meet standards for 24 parameters. AIP members require that the laboratory is NATA accredited for each test method for each parameter.
- Cloud Point/Low Temperature Operability
 - Biodiesel must be fit-for-purpose and appropriate for the season. All diesel contains necessary wax, but the wax can crystallise at lower temperatures (the cloud point). Certain biodiesels can raise the cloud point of the blended product, presenting potential operability issues. Suppliers need to ensure against this.

As the supplier of more than 90 percent of the primary fuels into the Australian market, AIP member companies take their responsibility to supply fuel that meets Australian quality specifications extremely seriously. In addition, these fuels must not compromise customer experience or company reputations. AIP member companies therefore require that all third-party producers/suppliers demonstrate their product meets product quality specifications and are fit-for-purpose.

AIP members have made significant progress with the sole Queensland supplier, though concerns remain around cloud point and winter blended biodiesel. Although the concerns listed are common across the AIP membership, each company has a unique experience and/or addresses these concerns in commercial agreements.

It also remains the case that current excise arrangement preclude economic supply of imported biodiesel. This has led to underutilisation of biodiesel tankage and blending infrastructure that has been installed at significant cost to AIP members. Further investment is unlikely and indeed unwarranted, until there is greater certainty in supply of B100.

Clearly, any supply secured from the Queensland producer would be used to meet the mandate in that State and would therefore not contribute to meeting the NSW mandate.

AIP members also face a lack of demand for biodiesel from large/bulk business users, with many stipulating specific contractual provisions prohibiting supply of biodiesel blends.

While the pragmatic approach to NSW exemptions for biodiesel supplies has been welcome, AIP considers that a revision of the NSW biodiesel target to reflect these challenges is also appropriate.

In relation to the minimum biofuel requirements for retailers, AIP believes that the two requirements to make biofuels available and to make them as accessible as other types of petrol is appropriate as an objective, but with some caveats.

Service stations understand their markets intimately, including the purchasing patterns and preferences of their customers and their local competitive settings. While AIP understands why the Government may be pushing for clear biofuel availability criteria for a retailer, AIP has consistently maintained that sites will always provide the preferred product of their customers, including biofuels. As purchasing patterns change, so too will the service station in its need to meet that changing demand. For example, we have seen in the past 10 years a large increase in the demand for diesel for consumer vehicles. This has led service station operators to being to offer more diesel on regular pumps that just having a dedicated diesel pump which was generally only used by trucking customers.

It cannot be realistically expected that sites can force consumers to purchase a product they do not wish to buy or provide over-capitalised and unnecessary infrastructure to support a low demand product. NSW consumers have in recent years demonstrated an aversion to purchasing E10, thereby highlighting the importance of the Government's proposed consumer awareness campaign and price regulation in addressing the aversion and changing those purchasing decisions. If, as the Government expects, consumers become more willing to purchase biofuels as a result of these two measures, sites will of course respond as outlined in the example of diesel above.

AIP has consistently maintained that strict availability criteria including, for example, nozzle matching with other fuels, will not force consumers to purchase a particular fuel type. AIP believes that appropriate discretion in terms of regulatory compliance enforcement for availability is strongly advisable until such time as the consumer education campaign and the wholesale ethanol pricing arrangements potentially take effect. Sites should of course make biofuels both available and accessible, but it would be a perverse outcome if retailers were forced to seek exemptions on the basis they needed to explicitly match E10 with any other fuel, regardless of how available E10 was, whether their local competition were also selling E10 (or potentially had an exemption), or how unwilling consumers were to purchase it.

AIP therefore believes that E10 should be both available for sale and accessible by customers but proposes that the availability criteria in Section 7 be amended to remove the reference to “as any other type of petrol available to a customer for that purpose.”

8. Are the biofuel sustainability standards adequate? Please provide comments.

AIP has no specific opinion on the appropriate or relevant sustainability criteria for biofuel producers but believes that sustainability is a critical element of the acceptability and credibility of the mandate to consumers and fuel suppliers, and any assessment of sustainability must be based on full life cycle analysis using sound science. AIP does note, however, that whatever pathway the Government adopts, it should not compromise the:

- reputation of fuel wholesalers and retailers
- sustainability credentials of the scheme
- greenhouse certification requirements
- objectives of the Act.

Similarly, the compliance requirements to provide the necessary sustainability assurances should remain with biofuel producers and not be placed on fuel wholesalers.

9. Are there emerging industry standards or developments that should be taken into account when assessing and defining sustainability?

See response to Question 8.

Exemptions from the biofuels requirements

10. Is the exemption process for not meeting the minimum biofuels requirements adequate? Should the factors that the Minister must take into account before granting an exemption change?

For the majority of the operation of the biofuels mandate, AIP and members companies have found the exemption process to be particularly challenging with a range of unreasonable expectations placed on fuel retailers. As previously noted, companies have invested significantly to ensure ethanol blended fuel is available for purchase by consumers, focusing initially on higher demand centres and then expanding to the point where E10 is widely available. Opportunities to further retrofit at additional larger volume sites that would be required to meaningfully shift ethanol demand are largely diminished.

AIP has previously identified the following scenarios where retailers are likely to seek exemption and the proposed exemptions that should be available within the regulations:

1. Those service station sites that are below the specified threshold
 - Automatic exemption granted
2. Those currently meeting all reasonable steps criteria, but cannot meet the specified sales volumes due to factors outside their control such as through consumer aversion
 - Automatic exemption granted, supported through documentation demonstrating all reasonable actions have been undertaken
3. Those currently undertaking actions, such as site modification, to bring the site into compliance
 - Automatic exemption consistent with supporting documentation provided by the service station operator outlining the period required to complete the actions
4. Those currently engaged in a detailed assessment of the pathway to compliance, such as through site modification, and demonstrated through the sourcing of appropriate professional advice, quotes and other relevant supporting material

- Automatic exemption granted, for period of between 3-6 months, supported by documentation demonstrating what investigative actions are being undertaken
- 5. Those that have taken reasonable steps but are unable to meet compliance obligations due to economic or other extraordinary grounds demonstrated by the retailer
 - Exemption to be granted following Expert Panel assessment of supporting documentation such as quotes for site modifications.

Over the past two years, this has been reflected in the reforms to the exemption process and the criteria for exemptions which has delivered a more pragmatic approach and recognises the work undertaken by retailers. AIP has appreciated this approach.

AIP now believes that the exemption process is largely working well, although could be improved through reducing the overall reporting burden, the timeframes on which companies are required report (extending from quarterly reporting to annual reporting) and extending the length of time that exemptions are granted, potentially up to 5 years. The extended exemption period is to reflect that retailers have done all they can to supply biofuels with sales volumes simply reflect consumer demand.

11. What is the process like to seek an exemption? Are there any changes that could be made to ensure the process is as seamless and as user-friendly as possible?

Historically, the exemption application process has been challenging. However, the recent reforms noted above have significantly streamlined the application process. The requirement to report nozzles every quarter represents a significant burden for fuel retailers, as although nozzle configuration may not change, it requires companies to verify that the actual nozzle numbers across the network is as reported.

12. Is the Biofuels Exemption Framework and Guidelines document easy to understand and comply with? Should any of the matters outlined in the Guidelines be included instead in the Biofuels Regulation to ensure abundant legal clarity?

Following extensive consultation and debate with industry and other stakeholders, AIP believes that the 2017 revision of the Exemption Framework and Guidelines document has delivered an approach that is easy to understand and comply with.

AIP does not support any modification.

Registrations, returns and records

13. Are the current registration, return and record keeping requirements adequate? Please provide comments.

All AIP members, where required, are registered and provide returns and keep records as stipulated.

AIP believes that the type of data sought is appropriate, with the exception of data as previously discussed.

Given the relative pace of change across the industry, improvement could be achieved by extending the reporting period to annual or at most 6 monthly intervals.

AIP does not, however, support any requirement on wholesalers to report on the basis that the compliance obligation rests at the retail site level. Placing such a requirement on wholesalers simply serves as a red-tape burden for no compliance purpose, nor any other additional benefit. Indeed, the gathering of such data

is likely to contaminate the overall data set across the state as it will be onerous and complicated to reconcile the wholesale fuel volumes against retail volumes. For example, wholesalers supply fuel across state boundaries in either direction between their bonded/licenced facilities in their supply chains which cannot be accounted for as part of the reporting. Similarly, wholesalers come together at bulk fuel terminal facilities that could lead to issues with double counting.

14. How much time approximately does it take primary wholesalers, volume fuel retailers and other operators of service stations to provide the return to NSW Fair Trading?

Member experience varies, depending on a range of factors including but not limited by internal reporting systems and infrastructure, individual corporate compliance requirements, size of the retail network (e.g. nozzle counting), consistency with other reporting requirements and exemption application (both prospective and retrospective) requirements. The consistent message, however, is that the reporting burden is significant, requiring substantive human resourcing each quarter. AIP believes this could be substantially improved through a reduction in the regularity of reporting, along with the requirement to count nozzles as previously discussed.

15. What other reporting and financial regulatory requirements are primary wholesalers, volume fuel retailers and other operators of service stations required to comply with? For example, at the Commonwealth level.

AIP members are exposed to a significant reporting burden through a range of mandatory reporting requirements beyond the NSW Biofuels Mandate. These include, but are not limited to:

- Federal Government Mandatory Fuel Reporting Regime,
- ACCC/competition law reporting requirements
- Fuel price transparency laws, including NSW Fuel Check and similar requirements in other jurisdictions
- ASIC and other relevant financial and shareholder reporting
- Extensive environmental, work health and safety regulations at refineries, terminals, retail sites and airports across all levels of government
- Employment law
- Measurement law.

The role of the Independent Pricing and Regulatory Tribunal (IPART)

16. Are IPART's functions and role adequate to help achieve the objectives of the Biofuels Act? Please provide comments.

AIP has found IPART generally produces quality analysis that has been a useful contributor in the assessment of policy options in relation to biofuels. Unfortunately, the findings of this analysis have not always been adopted, such during the 2015 review.

AIP supports IPART's current role and functions to determine a reasonable wholesale price and to monitor the retail market.

17. Are there any other functions, research or role could IPART take in the biofuels regulatory regime?

AIP sees no further role for IPART beyond its current functions.

18. What information and data would be useful in ensuring regulation fosters a competitive biofuels industry?

Based on the high quality of IPART reporting, AIP sees no case for increasing the data sought from fuel wholesalers and retailers. There is already significant reporting burden on these entities.

AIP notes that a competitive biofuels industry has not, nor cannot, be fostered/delivered through regulation without negatively impacting other industries and consumers. Rather, the biofuel producers must provide a long term, sustainable competitive offering that meets consumer demand.

Compliance and enforcement

19. Is the current compliance and enforcement approach working well? Please provide comments.

AIP understands that the compliance and enforcement approach appears to be appropriate and working well based on experience from member companies. AIP notes however that it does not have full visibility of enforcement activity by NSW Fair Trading.

20. Is the current approach appropriate and should any changes be made (such as to penalty amounts) to make the compliance and enforcement approach more effective?

AIP is not in a position to provide informed judgement on either the structure or quantum of the penalty notices. However, we emphasize that there is a large degree of subjectivity in assessing whether a business has taken all reasonable steps to meet its obligations and in that context, a penalty notice is an inappropriate tool given there would be an inherent need for the regulator to make such a subjective judgement. Furthermore, there is an immaturity in the biofuels market, as well as the dynamism of the conventional fuels market that does not lend itself to a penalty approach.

As previously outlined, AIP does not support intervention in the fuels market in the form of mandates. In effect, the mandate results in a transfer of wealth from the consumers and commercial customers to biofuel producers. Furthermore, the costs of complying with a mandated percentage supply of biofuels that is in no way grounded in consumer demand, rest solely on the fuel supply industry. These costs must ultimately be recouped from NSW consumers.

In that context, and as discussed throughout this submission, AIP seeks a pragmatic compliance regime that recognises the challenges for fuel wholesalers and retailers and the significant costs already imposed by the mandate. AIP opposes substantial punitive measures that impose substantial additional regulatory, compliance and financial risks on the fuel industry. AIP is not aware of any significant acts of wilful noncompliance or long-term risk of such behaviour to support the imposition of these proposed increased punitive measures.

Rather, such an approach would purely be a revenue raising exercise and potentially have no impact on the amount of biofuels sold. Effectively, to avoid non-compliance and resulting penalties, wholesalers and retailers would either be selling at a loss of margin (e.g. if a supplier was uneconomically discounting to try and sell more product, while potentially still not meeting the mandate, thus threatening the viability of the site) or alternatively paying fines for not making uneconomic site modifications/selling sufficient volume.

AIP therefore strongly urges Government to examine compliance through an incentives lens, rather than a punitive one. It remains the case that an increase in consumer demand is what will ultimately determine the achievability of the mandate.

The Biofuels Expert Panel

21. Is the role and composition of the Biofuels Expert Panel still valid? Please provide comments.

AIP was, and continues to be, a strong advocate for the Biofuels Expert Panel. The panel has provided an opportunity for Government to regularly come together with competing interests (with representatives from fuel suppliers, biofuel producers and motoring advocates) to test and work through issues relating to the mandate. This relates not only to the assessment of exemption applications, but also extends to the development of the exemption framework and other policy related matters.

AIP believes that the Expert Panel has been effective at revising the exemption framework to ensure liable parties meet, or work towards meeting their obligations, but do so in a manner that more accurately reflects market realities. AIP does not believe that this latter point would have been achievable without the Expert Panel.

AIP, and member companies, therefore supports retention of the Expert Panel in its current form. The Expert Panel could meet less frequently, assuming reforms to liable party reporting and exemption applications are instituted.

22. Do you have any other general comments on the biofuels regulatory regime? Please provide further detail.

4. Conclusion

AIP strongly supports market-based approaches for the supply of fuels, including biofuels, in Australia. AIP considers that biofuels have a place in the Australian fuels market as long as they are:

- Available at a competitive price
- Reliably supplied
- Acceptable to consumers
- Produced sustainably

AIP believes that government policy in support of biofuels (e.g. for environmental benefits) needs to be:

- Transparent, with clear, credible and tested objectives
- Applied equitably to all industry participants
- Stable with regular review and clear timeframes for withdrawal of support
- Based on sound science
- Cognisant of other broader policy settings and commercial practice.

In principle, AIP does not support mandates requiring the use of any particular fuel as a way of increasing the demand for that fuel. While AIP members will work to comply with the requirements of any government imposed biofuels mandate, AIP believes that any mandates for biofuels aimed at helping to increase short-term consumer demand must be designed so that they enable a sustainable, competitive and commercial market to develop in the medium to longer term for those fuels.

Despite the significant challenges over the 12-year operation of the mandate, AIP believes that the mandate is by and large operating in a steady state from a compliance point of view. AIP members have invested substantially in terminal and retail infrastructure in an effort to meet the mandate. However, AIP does not believe that the 6 percent ethanol mandate will ever be met, rather sales volumes of around 2 percent (and therefore a more appropriate mandated target) better reflect consumer demand.

As found by IPART during the previous review of the mandate, policy levers to meet an increased mandate have come at significant cost to industry and consumers and at the same time, performance against the mandate has dropped.

Furthermore, the mandate has not delivered on any of the objectives of the Act in relation to developing a competitive and sustainable biofuels industry in NSW, nor has it delivered on any of its secondary objectives.

AIP therefore does not support changes to the mandate that aims to increase regulation in an attempt to try and meet what is in effect an arbitrary target. Ultimately, consumer aversion to biofuels has always, and continues to be, the biggest barrier to meeting the mandate.

AIP supports efforts to reduce the regulatory burden on fuel companies, including continued efforts to streamline the reporting process and the exemptions process.

AIP would be pleased to discuss this issue further with Department of Customer Service.