



**Submission No. 35
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**Townsville City Council Submission To The
Queensland Government Impact of Petrol Pricing Select Committee.**

Townsville

16th of November 2005

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Appendix A: Report on Biodiesel Trial in Townsville City Council

About Townsville

The “Townsville region”, with a population of 160,000, is regarded as the capital of North Queensland. It provides the northern link for State and Federal Governments, and a commercial centre for the agricultural, mining, manufacturing, engineering, business and financial services, retail, hospitality and community and cultural services sectors.



The City started life in 1864 as a port for the fledgling pastoral industry. Following the discovery of gold in the hinterland, the town developed into the principal administrative and logistical centre for North Queensland.

Today, Townsville City covers an area of approximately 1860 sq kilometres, and has a population of 98,000. The city has a 5 year average annual growth rate in the vicinity of 2 percent, with recent figures exceeding the annual State average of 2.2 percent.

The Townsville City Council employs nearly 1000 people and manages an annual budget in the vicinity of \$260 million. Council has a fleet of 315 vehicles. These vehicles consumed some 1.73 million litres for the 12 months to October 2005 at an average net¹ price of 98 cents per litre. Fuel expenditure for the previous twelve months was \$1.7 million.

¹ Exclusive of the Queensland Fuel Subsidy Scheme rebate and the Federal Energy Grants Credits

Executive Summary

Biofuels:

The Townsville City Council currently uses E10 and is trialling a B20 Biodiesel for its fleet. Council's experience of the competitiveness of these fuels is not positive.

Council purchases bulk diesel, net of subsidies, for 98 cents per litre. Biodiesel, which is produced in NSW and road transported in 210 litre drums, costs \$1.56 per litre. Of this, 60 cents is transport costs. At a 20% blend biodiesel adds 11.6 cents per litre to the cost of fuel.

Biodiesel increases fuel consumption by approximately 4 percent. Council currently consumes approximately 1,180,000 litres per annum. Conversion to Biodiesel would increase consumption by around 47,000 litres per annum.

When factoring in both the increased cost per litre (11.6 cents) and the increase in consumption, Council would increase its expenditure on diesel by approximately \$142,332.00 per annum.

Discussions with the supplier² have indicated that the freight cost can be reduced to about 8 cents per litre if supplies are transported to Townsville in a bulk tanker. This would reduce the extra cost of biodiesel to about 1.2 cents per litre. Council will now investigate opportunities to partner with other organisations to see if this is feasible.

Due to additional transport costs, the cost to Council of E10 is marginally higher than it would pay for unleaded. Additionally, fuel consumption is increased by approximately 3 percent. On the basis of these factors it is anticipated that Council will see an increase in costs in the vicinity of \$9,000.00 annually. A further \$9,000.00 was required to convert Council's bowsers.

Clearly the message is that alternative fuels are not financially competitive. This is surprising since the Australian ex-refinery cost of production for unleaded, at a global oil price of approximately US\$60 per barrel, is in the vicinity of 60 cents per litre. This compares poorly against that Australian Governments own 2003 estimates for C Molasses derived ethanol which can be produced ex-refinery for between 30 and 40 cents per litre. Therefore, biofuel alternatives should be cheaper than conventional fuels.

This discrepancy can be explained by economies of scale within the transport process.

The Townsville City Council calls on the Federal Government to mandate the use of biofuel's and create the economies that will see both E10 and Biodiesel competitive with conventional fuels, whilst creating new industry, improving national security and mitigating environmental degradation.

² Biodiesel Industries Australia

Financial Implications of Fuel Prices:

Council has a fleet of 315 vehicles. These vehicles consumed some 1.73 million litres for the 12 months to October 2005 at an average net³ price of 98 cents per litre. Fuel expenditure for the previous twelve months was \$1.7 million.

In July of 2004, Council was paying an average 70.4 cents per litre for its fuel. By July of 2005 this had increased to 96.7 cents with prices peaking in September at 112.6 cents before moderating in October to 111.2. Since July of 2004 Councils per litre fuel costs have increased by nearly 58 percent. In nominal terms, this equates to the expenditure of \$58,000.00 more on fuel in the month of October 2005 than for a comparable quantity in July of 2004.

Federal Funding:

The Federal Government collects \$13 billion annually in fuel excises. Through its AusLink program, it has allocated a total of \$12.7 billion for land transport infrastructure over five years. Of this, Queensland receives \$1.85 billion. This equates to annual national land transport (Road and Rail) expenditure of some \$2.54 billion, and annual Queensland expenditure of \$370 million, against fuel excise income of \$13 billion.

The AusLink White Paper allocates \$210 million, over 5 years, for road infrastructure construction and maintenance on the Bruce Highway north of Caboolture. This equates to \$42 million annually for an area covering over 80 percent of the State. In addition, \$80 million, over four years, has been provided to flood proof the Bruce Highway near Tully. These funds are well short of the \$720 million required as indicated in the National Highways System Forward Strategy Report.

The Townsville City Council considers the Australian Government commitment to North Queensland to be inadequate. There are a number of key transport infrastructure projects that require immediate funding commitments including:

- Commitment to contribute to the construction of the Townsville Port Access Project;
- Support in ensuring that the Mount Isa – Townsville road and rail corridor is upgraded to meet the major growth occurring in the North West Minerals Province; and,
- AusLink funding for appropriate flood mitigation work for rail infrastructure on the North-South transport corridor between Townsville and Cairns.

Queensland Fuel Subsidy Scheme:

The Townsville City Council is able to claim the 8.354 cents per litre subsidy directly. It therefore receives all its entitlement as a consumer. This scheme provides an annual rebate of almost \$110,000.00 to Council. The Townsville City Council would therefore not support any actions that may place this funding at risk.

³ Exclusive of the Queensland Fuel Subsidy Scheme rebate and the Federal Energy Grants Credits

Introduction

On 25 August 2005 Premier Peter Beattie moved a resolution in the parliament to establish a select committee to inquire into petrol pricing in Queensland. This Committee, in accordance with the resolution, is inquiring into a range of petrol pricing issues including the following Terms:

- 1) The extent to which current petrol prices increase the competitiveness of alternative fuel sources such as E-10;
- 2) The economic and financial consequences of current fuel prices with a particular emphasis on regional Queensland and outer metropolitan areas;
- 3) Practical ways that consumers can reduce their petrol bills;
- 4) Whether existing information on the fuel efficiency of different makes of motor vehicles is sufficient;
- 5) The extent to which recent fuel increases could be moderated through enhanced domestic competition, and how the Australian Competition and Consumer Commission powers could be strengthened to deliver enhanced competition;
- 6) Whether Queensland receives its fair share of road funding;
- 7) The capacity and benefits of the Federal Government to reduce fuel excise to ameliorate the impact of high fuel prices on families and business;
- 8) Whether Queensland motorists are receiving the full benefit of the 8.354 cents per litre subsidy; and
- 9) The efficiency of administration for the Bulk End Users Scheme.

On the 16th of November 2005, the Committee visited Townsville. This submission was presented to the Committee during this visit.

Term 1 The extent to which current petrol prices increase the competitiveness of alternative fuel sources such as E-10;

The Australian Government publication “*The Appropriateness of a 350 Million Litre Biofuels Target* (December 2003)”⁴ found that the threshold price for E10 is determined by oil price, exchange rates, taxation and/or subsidy regimes and the relative energy content of ethanol.

The study found that, assuming a medium to long-term (2008-2012) petrol production cost of 29c/L, oil at US \$23 dollars per barrel, an Australian/US exchange of 65 cents and an ethanol energy content of 68 percent, the medium to long-term threshold price for ethanol (without subsidy), was 20c/L. This is to say, that over the long run and without subsidy, only in cases where the average cost of production is at or below 20c/L (2003), is it likely that ethanol would compete with petrol.

The Report then reviewed the likely break-even revenue required for the production of ethanol. It noted that these outcomes are dependent on the feedstock with waste starch; C, B and A molasses; and cereal grains being modelled. The following was found:

- Waste starch was estimated to be below the threshold price of 20c/L. However, the report noted that stocks were limited and new investment was unlikely. Capital costs, for new production facilities from all feedstocks, were estimated at between 7 and 9c/L, which would then have this product exceed the threshold.
- Ethanol produced from whole cereal grains generates crushed grain meal, which is a valuable by-product for use as livestock feed. Given this, the net required revenue for ethanol based on cereal grains (and new capacity) was estimated to be 32c/L - significantly higher than the 20c/L threshold.
- Finally, the report found that the cost of ethanol using C molasses is influenced by the supply and demand for raw sugar. The net required revenue for production based on C molasses was estimated at 26c/L for existing capacity, and 33c/L for new. This was again higher than the threshold of 20c/L. Ethanol produced from B and A molasses was not considered to be viable.

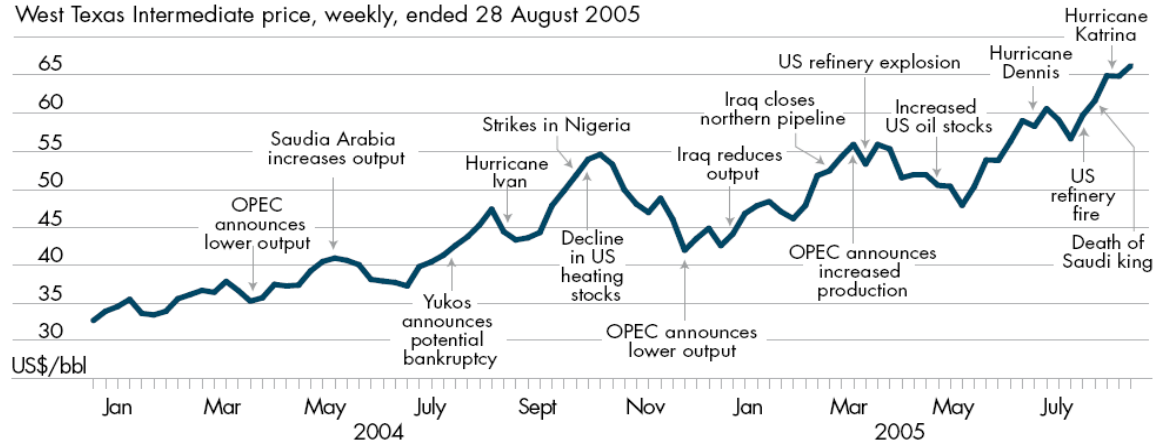
In summary, the report found that, with the exception of existing Waste Starch, none of the feedstocks would meet the viability threshold (based on long-term petrol production cost of 29c/L) of 20c/L (2003).

It is now clear that the ABARE assumptions were significantly wrong. In 2003, oil prices were around US\$27 a barrel and ABARE had forecast a gradual easing into 2004 to US\$24.75. Over the medium term ABARE viewed that prices would settle around US\$21. Instead, prices spiked to US\$70 in August 2005 before easing to US\$58 in November.

⁴ The Appropriateness of a 350 Million Litre Biofuels Target – CSIRO, ABARE, BTRE – December 2005 p. 20

Crude oil prices

West Texas Intermediate price, weekly, ended 28 August 2005



Source: ABARE Australian Commodities (September 2005).

Whilst a sensitivity analysis of these figures was not provided, the authors did give some insight into a higher oil price scenario by concluding: “As a point of comparison, if the world price of oil were to increase to US\$30 a barrel by 2012, the benchmark price of unleaded petrol would increase to A40c/L”.

Under such a scenario (\$30 oil), most feedstocks becoming viable. At the existing real term (2003) price of around US\$60 a barrel, we could assume a benchmark ex-refinery price of around A70c/L. At this threshold, E10 at 30-40c/L, is competitive.

Offsetting this effect are the assumptions for the A\$. The report assumed an A\$ averaging US68c in 2003-2004 before returning to a trend level of US65c in the long run. Contrary to this forecast, the A\$ continued to climb in 2004, peaking at close to US80c in 2004 and 2005 before moderating to US75c in November 2005. Whilst a return to US65c is possible, the A\$ is proving to be stickier than anticipated.

On the basis of the above, the Townsville City Council submits that the current petrol prices should increase the competitiveness of alternative sources such as E10, however, as is discussed within Term 3, this improvement is not flowing to the consumer. This is significantly due to economies of scale within the transport process, a situation that would be overcome with the mandating of E10.

Term 2: The economic and financial consequences of current fuel prices with a particular emphasis on regional Queensland and outer metropolitan areas;

The Townsville City Council has a fleet of 315 vehicles. These vehicles consumed 1.73 million litres of fuels, for the 12 months to October 2005, at an average net⁵ price of 98 cents per litre. Fuel expenditure for the twelve months to November was \$1.7 million.

In July of 2004, Council was paying an average net 70.4 cents per litre. By July of 2005 this had increased to 96.7 cents with prices peaking in September at 112.6 cents before moderating in October to 111.2. Since July of 2004 Councils per litre fuel costs have increased by nearly 58 percent. In nominal terms, this equates to the expenditure of \$58,000.00 more on fuel in October of 2005, than for a comparable quantity purchased in July of 2004.

Whilst the financial implications for Council are easily demonstrated and understood, the effects on the average North Queenslander is more difficult to determine.

The latest Household Expenditure Survey was conducted in 2000. This survey found that the average household consumption on fuel was \$24 per week. Average Queensland pump prices in 2000 were in the vicinity of 80 cents per litre. Extrapolating this out we determine that average household consumption was in the vicinity of 30 litres per week.

Assuming the same propensity to consume, and at an average Queensland price of 114.8 cents per litre as recorded on the 11th of November, this same household would now be paying \$34.40 per week in fuel. This represents a 43.3% increase.

It should be highlighted that the Household Expenditure Survey only records average figures for Australian households. These figures are not representative of the experience of an average working regional household with kids whose expenditure levels would be much higher. Within these households, figures of \$70 - \$80 per week are quoted. For these household, which are highly price sensitive, the relative increase has a much greater impact.

Whilst the direct impact of increasing fuel prices is alarming, of greater concern are the secondary effects that transport costs will have on inflation. To date, it is widely believed that businesses have been hesitant to pass on increases preferring instead to forego profits. This is unlikely to continue however with a number of supermarkets warning of increases and two of the nation's largest dairy suppliers recently raising the price of two-litre milk by 16c. It is this second wave of effects from petrol prices that is likely to most impact on households through increases in the cost of other consumables and debt (interest rates). Nowhere will this impact be greater than in Regional Queensland where the distance from markets, and reliance on transport, is so great.

⁵ Exclusive of the Queensland Fuel Subsidy Scheme rebate and the Federal Energy Grants Credits

Term 3: Practical ways that consumers can reduce their petrol bills

Whilst the Townsville City Council would like to report that its use of E10 and Biodiesel has had a positive effect on its expenditure, unfortunately this is not the case.

Council is currently trialling B20 (20% biodiesel and 80% normal diesel). In August of 2005 Council purchased its bulk diesel, net of subsidies, for 98 cents per litre. Biodiesel, which is produced in NSW and road transported in 210 litre drums, costs \$1.56 per litre. Of this, 60 cents is transport costs. At a 20% blend biodiesel adds 11.6 cents per litre to the cost of fuel.

Biodiesel increases fuel consumption by approximately 4 percent. Council currently consumes approximately 1,180,000 litres per annum. Conversion to Biodiesel will increase consumption by approximately 47,000 litres per annum.

When factoring in both the increased cost per litre (11.6 cents) and the increase in consumption, Council will increase its expenditure on diesel by approximately \$142,332.00 per annum.

Discussions with the supplier have indicated that the freight cost can be reduced to about 8 cents per litre if supplies are transported to Townsville in a bulk tanker. This would reduce the extra cost of biodiesel to about 1.2 cents per litre. Council will now investigate opportunities to partner with other organisations to see if this is feasible.

Most of Councils petrol fleet is running on E10. Due to transport costs, the cost to Council is marginally higher than it would pay for straight unleaded. Additionally, fuel consumption is increased by approximately 3 percent. On the basis of these factors it is anticipated that Council will see an increase in costs in the vicinity of \$9,000.00 annually.

Council also operates a small fleet of Hybrid vehicles. Whilst the whole of life competitiveness and performance of these vehicles are improving, they are yet to reach a position where they can be considered an alternative to most of the Councils current fleet.

Term 4: Whether existing information on the fuel efficiency of different makes of motor vehicles is sufficient

The Townsville City Council is happy with the existing measures to inform consumers of the comparable fuel efficiency of different vehicles. Some benefit may however be gained through the provision of information for comparable vehicles so that an informed comparison can be made.

Term 5: The extent to which recent fuel increases could be moderated through enhanced domestic competition, and how the Australian Competition and Consumer Commission powers could be strengthened to deliver enhanced competition;

The Townsville City Council is supportive of competitive markets providing efficient outcomes for consumers. However, it would note that the need for reform would appear to be at the production and refining stage, and not at the retail level, which would most likely require improving return in order to support additional participants.

Unfortunately, the most influential components of the oil industry (oil production and refining) are not significantly subject to Australian jurisdictions and are unlikely to be affected by any reforms within Australia.

Term 6: Whether Queensland receives its fair share of road funding;

The Federal Government currently collects \$13 billion annually in fuel excises. Through its AusLink program, it has allocated a total of \$12.7 billion for land transport infrastructure *over five years*. Of this, Queensland receives \$1.85 billion. This equates to annual national land transport (Road and Rail) expenditure of some \$2.54 billion against fuel excise income of \$13 billion.

The AusLink White Paper allocates \$210 million, over 5 years, for road infrastructure construction and maintenance on the Bruce Highway north of Caboolture. In addition, \$80 million of works, over four years, has been provided to flood proof the Bruce Highway near Tully. These funds are well short of the \$720 million of work required over five years as indicated in the National Highways System Forward Strategy Report 2004/05 to 2008/09.

The Townsville City Council considers the Australian Government commitment to North Queensland to be inadequate. There are a number of key transport infrastructure projects in North Queensland that require funding commitments from the Australian Government over the next four years including:

- Commitment to contribute to the construction of the Townsville Port Access Project;
- Support in ensuring that the Mount Isa – Townsville road and rail corridor is upgraded to meet the major growth occurring in the North West Minerals Province; and,
- AusLink funding for appropriate flood mitigation work for rail infrastructure on the North-South transport corridor between Townsville and Cairns.

Given the extraordinary revenue flowing from transport activities, and the consistent and clearly demonstrable demand for increasing road, rail and port infrastructure spending, the Townsville City Council believes that the Federal Governments spending priorities should reviewed with a focus on infrastructure investment.

Term 7: The capacity and benefits of the Federal Government to reduce fuel excise to ameliorate the impact of high fuel prices on families and business;

As previously highlighted, the Federal government collects some \$13 billion annually in fuel excises.

The final result for the 2004/05 federal budget was a cash surplus of \$13.6 billion. For the 2005/06 fiscal period, the Federal Government is forecasting a surplus of \$8.9 billion. Net Federal Government debt is forecast to fall to under \$6 billion by July 2006. It is reasonable to assume therefore that debt retirement will have diminishing relevance within government fiscal policy.

Excise on petrol and diesel is currently set at 38.143 cents per litre. A 10 cents per litre reduction in this excise would reduce fuel excise revenue by some \$4 billion.

Notwithstanding the clear ability for excise reform, it is the Townsville City Council position that taxation reform should be considered within the context of increasing demand for:

- Local Government funding reforms that ensure a fair share of Federal tax revenue (1 percent);
- Increasing funding for Road, Rail and Port infrastructure;
- Funding for nation building projects;
- Funding to renew and revitalise cities (Building Better Cities); and,
- Increased funding for skills development including secondary and tertiary education and vocational training.

Term 8: Whether Queensland motorists are receiving the full benefit of the 8.354 cents per litre subsidy

The Townsville City Council is able to claim the 8.354 cents per litre subsidy directly. It therefore receives its full entitlement as a consumer. This scheme provides an annual rebate of almost \$110,000.00 to Council. It therefore oppose any actions that may place this funding at risk.

Notwithstanding this, the Townsville City Council does support the strengthening of measures designed to ensure that Queensland consumers receive the full benefit from this rebate.