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AUSTRALIAN LOT FEEDERS' ASSOCIATION

By email: petrol@parliament.qld.gov.au

25 November 2005

Mr. R. Hansen
Research Director
Impact of Petrol Pricing Select Committee
Parliament House
Brisbane QLD 4000

Dear Rob,

Re: Australian Lot Feeders' Association Submission to Impact of Petrol Select Committee

The Australian Lot Feeders' Association (ALFA) has prepared the attached submission to the Petrol Pricing Select Committee.

ALFA Vice President and Chairman of the Association's Feed Commodities and Nutrition Committee, Mr. Kevin Roberts, will attend the Committee Hearing on Monday 28 November 2005 at the Yeronga Services Club in Brisbane at 9.30 am and will speak to the submission.

Thank you for your assistance in providing details on the terms of reference and hearing venues etc.

Yours sincerely,

Malcolm Foster

Malcolm Foster
President ALFA

Australian Lot Feeders' Association (ALFA) Submission to Impact of Petrol Pricing Select Committee

ALFA submits the following viewpoints focusing on several aspects of the Select Committee's Terms of Reference (ToR's).

The ToR's addressed include the following:

- The extent to which petrol prices increase the competitiveness of alternative fuel sources such as E10

- The economic and financial consequences of current fuel prices with a particular emphasis on regional Queensland and outer metropolitan areas

- The capacity of the Federal Government to reduce fuel excise to ameliorate the impact of high fuel prices on families and business.

1. Executive Summary

The cattle feedlot industry helps underpin the Queensland rural economy through grain, cattle and other input purchases. Feedlot capacity in Queensland grew by 18% over the past year. This and other grain dependent livestock industries, are contributing significantly to regional growth and employment. This growth is put at risk by government induced distortions in the feedgrain market through ethanol subsidisation.

There is an assumption in Queensland Government biofuels policy, that grain based ethanol production should be subsidised on economic and environmental grounds. The policy also suggests that there will not be any significant disadvantage incurred by other industries from that subsidisation.

The Queensland Ethanol Industry Action Plan contains a large number of State and recommended National Government interventions to stimulate ethanol production. This submission points out that grain dependent lot feeding is a growth industry that does not depend on government subsidies and that authoritative studies, including the report of the Prime Minister's Biofuels Taskforce, have recently shown that our industry is disadvantaged by such policies.

In our view, fluctuations in fossil fuel prices are a fact of life. The international price of crude oil reached a peak of almost US $71 per barrel at 30 August 2005 but had fallen to a little over US $57 per barrel by 18 November 2005. Higher prices, if they persist, will stimulate the development and production of energy alternatives. The commercial marketplace should be allowed to decide what role ethanol will play in this evolving energy market.

Further government intervention to support ethanol production is not justified under Australia's circumstances. Biofuel start-up grants have already been allocated by the

Australian Government, and the ethanol production subsidy will phase down, as announced from 2011, resulting in added ethanol import competition. This will increase competition in the liquid fuel market.

2. Current Ethanol Policy Settings

Ethanol currently has a major tax advantage over petrol due to domestic producers receiving a production grant equivalent to the petrol excise. This rebate will scale back between 2011 and 2015. Since the production grant applies to domestic producers only, its phase down opens the door for cheaper imported ethanol. One proposed grain ethanol plants received a grant from the biofuels start up grants program.

More generally, all businesses are currently eligible to receive credits for off road use of fuels, including ethanol for specified uses. This concession has had very limited uptake and these credits will phase out by 2010. This phase out will however be more than offset by a phase in of full tax credits for all business use off road. This phase in will be completed by 2012, and will apply to all fuels.

Queensland operates a fuel subsidy scheme in which an 8.354 cents per litre subsidy is paid to fuel retailers, as well as to persons who use large quantities of eligible fuel that is not purchased at the subsidised price from retailers.

Following the release of the Australian Government commissioned Biofuels Task Force Report in September 2005, which rejected calls for ethanol content mandating, the Prime Minister and other Ministers, held discussions with oil companies to remove barriers to ethanol consumer uptake. Trials of new ethanol labelling are already underway at some petrol outlets in the ACT.

3. Queensland Ethanol Industry Action Plan

This plan is a potentially serious problem for the cattle lotfeeding industry and the Australian cattle industry as a whole.

Its premise is that “it is not viable to simply rely on competiveness and efficiency for structural adjustment, instead decisive planning and action is required. Government facilitation and active involvement with business will ensure greater potential of long term planning to generate new industries where old industries are declining".

Based on this premise, grants have been paid to some ethanol plants, as well as oil companies, to encourage ethanol production, and the Queensland Government is committed to active promotion of E10 blends. The Action Plan states that "part of the Government's agenda is to have increased distribution of E10 throughout Queensland"

The Queensland Government has also publicly pressed for E10 mandating by the Australian Government.

4. Views of ALFA

The Australian Lot Feeders Association (ALFA) represents over 90% of feedlot capacity in Australia.

In September 1999, the Australian feedlot industry had a capacity of 870,000 head and there were 553,000 head of cattle on feed. Our last survey at the end of September 2005 showed the industry to have a capacity of 1.1 million head with 790,000 head on feed. That is a 27% growth in capacity and a 43% increase in cattle on feed over the last 7 years. This has to put our industry close to the fastest growing in Australian agriculture.

Demand for grain fed beef in the domestic market has been growing steadily over the past 10 years and we are now seeing demand for highly marbled beef such as Wagyu. The September 2005 quarter feedlot survey showed close to 432,000 head on feed in Queensland which was 78% of feedlot capacity in that State.

Initially, when US beef was banned on World markets there was in early 2004, a scramble to buy any beef product that was available. However, it soon became apparent that grain fed beef was the only product that could adequately replace US beef and this was in fact what most consumers wanted. Even when the US return to World markets, there will be continuing demand for Australian grain fed beef and Australia will retain many of the new customers we have gained.

Only lack of supply of feed commodities at World parity prices can stop this important development for the Australian beef industry. In world terms, Australia is not a large grain producer and domestic feeding industries are quickly accounting for a larger and larger proportion of total production. In times of drought, demand can in fact exceed supply in the Eastern States and this results in prices exceeding World parity, which severely tests Australia’s ability compete on World markets. The result is a loss of market share and a fall in feeder cattle prices until they offset the rise in feed prices.

Since the declared policy of the Queensland Government is to foster grain and sugar based ethanol production to "generate new industries where old industries are declining", we request clarification of what industries are officially regarded as in decline.

If the cattle feedlot industry is so regarded, why is it that our industry has grown so strongly over the past few years, while ethanol production in Australia has fallen?

Why is it that competitiveness and efficiency are the prerequisites for success in the Queensland rural sector, as has been proven over generations, but are derided by the Queensland Government as insufficient to drive the development of ethanol production, which in our case will compete with successful export operations for feedstock?

The Action Plan lists the following benefits from government intervention to support ethanol production:

- Environmental issues
- Fuel security
- Jobs
- Regional development
- Export capacity.

ALFA has no objection to grain based ethanol production, if that is the most efficient use of the grain. We do dispute the premise that competitiveness and efficiency are inadequate drivers of Queensland ethanol industry growth, when taken with the current production rebate, particularly since the external (public good) benefits listed above from government intervention are so weak We draw attention to the following:

The Prime Minister's Biofuels Task Force acknowledged that ethanol had some environmental benefits, particularly in the type of motor vehicle emissions. However, the net environmental benefits of ethanol production and usage are the subject of some scientific contention. Dr Robert Niven, an environmental systems expert at the University of New South Wales, contends that increased ethanol dependency would bring serious environmental problems. While US studies vary in their conclusions, a study by the University of Cornell concludes that corn based ethanol production in the USA is a net energy consumer.

The Biofuels Task Force rejected the fuel security argument. Australia is a net energy exporter and Queensland in particular benefits from growing demand for our energy products.

The Task Force, and other studies by ABARE, have clearly shown that ethanol subsidies are very costly per job created in ethanol production, and that such jobs are at a net cost to national income

A recent report by the Centre of International Economics (CIE) drew attention to the serious potential costs that would be incurred by Australian intensive livestock industries from a government induced E10 uptake. Australia would be required to redirect most of its grain exports to industrial usage and activity in grain dependent livestock industries would contract due to distortions in the feedgrains market, particularly during recurrent drought events in eastern Australia. There is a growing body of scientific opinion that Queensland’s climate will become more variable as climate change occurs, possibly increasing the number of below average grain harvests.

Since Brazilian ethanol is much cheaper than Australian, and our ethanol industry is a very minor player globally, it is difficult to envisage how any additional income from ethanol technology could offset the damaging effects of government induced E10 uptake on existing export earning industries.

5. Conclusion

ALFA supports existing fuel price concessions, such as the Queensland fuel subsidy, that do not aim to "pick winners" in the fuel production system. They play a valuable role in reducing business costs.

Recent reductions in oil prices will provide some short term relief to liquid fuel users.

The Queensland Government Ethanol Action Plan is a flawed document, and should be subject to greater public debate, including in the Queensland Parliament.

References

1. *Impact of Ethanol Policies on Feedgrain Users in Australia* Centre for International Economics (CIE) Report, August 2005.

2. *Submission by Livestock Feedgrain User's Group (LFGUG) to Prime Ministerial Taskforce on Biofuels*, June 2006.

3. Weeks, P. *Will Stockfeed Demand Double by 2020?-A Red Meat Perspective* Paper presented at Ag. Australia Grains Conference.August, 2005.

4. *Want to Have Your Say About Petrol Pricing?* Impact of Petrol Pricing Select Committee Paper No.1 September 2005.

5. *Report of the Biofuels Taskforce to the Prime Minister,* August 2005.