7 October 2015

The Research Director
Utilities, Science and Innovation Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Sir

RE: Liquid Fuel Supply (Ethanol ad Other Biofuels Mandate) Amendment Bill Submission by Mackay Sugar Limited

This letter supplements Mackay Sugar's earlier submission to the Discussion Paper, dated 29 June 2015. As a potential ethanol and bio-commodity manufacturer in Queensland, Mackay Sugar Limited is pleased that the Amendment Bill has now been introduced to Parliament, and would like to summarise important issues raised in our previous submission that we believe are essential for an effective biofuel mandate in Queensland.

Mackay Sugar is one of Queensland's largest publicly unlisted companies, owned by over 1,000 canegrower shareholders, and producing around 20% of Australia's raw sugar from approximately 6.5 million tonne cane annually. Mackay Sugar has interests in Sugar Australia Ltd, Australia's largest sugar refiner, and employs over 900 people directly at four north Queensland mills.

Mackay Sugar has a diversification strategy to ensure we remain internationally competitive, and in 2013 commissioned a 38MW renewable cogeneration plant. This project supplies about 30% of Mackay's electricity demand and has been specifically designed to supply the future energy requirements of a biofuels or bio-refinery facility using molasses or sugar as feedstock. This is consistent with the recently released 30 Year Sugar Industry Strategy for the Central Region Sugar Group, under which it is envisioned 50% of the industry's revenue will come from non-sugar products by 2045.

Mackay Sugar believes the following recommendations, which were raised in our June Discussion Paper, have not been adequately addressed in the draft Amendment Bill, and we do believe these should be further considered to ensure an effective biofuels mandate:

1. Initial ethanol target should be at least 4%

Queensland's current ethanol manufacturing capacity is more than double the initial proposed blend target of 2%. Our opinion is that an initial 2% target may offer some support for the two existing main Queensland producers, but will provide no incentive for any further investment. This contradicts the reasons given for introducing a mandate.

2. There needs to be a pre-defined and firm ramping of the target over time

It is recommended that the target be ramped linearly to between 6% and 10% over a set time-frame (e.g. 5 years). This replicates the structure of the very successful Commonwealth 20% Renewable Energy Target (RET) and gives investors the market confidence that is so essential for a major project.

3. No changes to pre-determined targets or ramping rates

While Mackay Sugar supports reviews of the operations of the biofuel mandate legislation by the Queensland Productivity Commission to improve administration efficiencies, we assert that there will be a major reluctance for potential Queensland biofuel producers to invest if there is a possibility that developing markets can be undermined by annual legislated changes to the target. This has been clearly demonstrated by the recent reduction in the 20% RET target, with almost a total collapse of project investment due to legislative uncertainty.

Market volume certainty is required for not only ethanol producers, but also for wholesalers and retailers to adequately plan for investment in their distribution infrastructure.

4. Scheme needs to cater for higher blend mandates (eg E85)

Learning from the successful Brazilian ethanol industry, the use of E85 or other higher blends close to regional ethanol producers can significantly reduce the transport distribution distance (and hence costs), compared to more widely distributed lower E10 blends. The legislation has not mentioned any blends other than E10, and how these may be administered.

5. Non-compliance penalties to be dependent on biofuel supply

Mackay Sugar acknowledges that fuel wholesalers, retailers and consumers must be protected from excessive biofuel prices under a mandate, if supply lags, or does not satisfy, firm targets. In years where Queensland biofuel supply falls short of the mandated target, it is proposed that penalty units should not be enforced on liable parties for quantities exceeding supply in that year. This is the preferred method to protect consumers, as opposed to changing targets at random.

Mackay Sugar welcomes the commitment to public education on the benefits of biofuel use, as this will be crucial to blend mandates being successful.

We understand that a mandated target must be set at levels to ensure that new cost-competitive ethanol producers progressively enter the market, with no upward pressure on fuel prices due to supply constraints or inefficient manufacturing. However, excessively low and/or changing mandated targets provide far too much sovereign risk for new biofuel investors when compounded with other investment risks such as:

- Low world oil prices and variable exchange rates;
- Cost and availability of biofuel feedstocks (weather dependence);
- Capital construction costs;
- Production efficiencies and costs;
- Commonwealth changes to excise on biofuels;
- Introduction of electric vehicles.

Mackay Sugar strongly supports the introduction of a mandate for biofuel blends in Queensland, but considers that the issues raised in this submission are critical to the sustainable development of an ethanol industry.

Please contact John Hodgson, Business Development Manager on (07) 4953 8382 should you wish to discuss Mackay Sugar's submission in more detail.

Regards

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Jason Lowry
Chief Executive Officer