MTA QUEENSLAND

12th October 2015

Research Director
Utilities, Science and Innovation Committee
Parliament House
George Street
Brisbane Qld 4000

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Dear Research Director

Re: the Liquid Fuel Supply (Ethanol and Other Biofuels Mandate) Amendment Bill 2015

1. Introduction

1.1 The Motor Trades Association – Queensland (MTA Queensland or the Association) responds to the Queensland Parliamentary Utilities, Science and Innovation Committee's invitation for submissions to the *Liquid Fuel Supply (Ethanol and Other Biofuels Mandate) Amendment Bill 2015* (the Bill). The MTA Queensland's comments are on behalf of its constituent division - namely the Service Station and Convenience Store Association - and are confined to issues which relate to the interests of the Queensland automotive value chain.

1.2 The Explanatory Notes state that the objectives of the Bill are to amend the *Liquid Fuels Supply Act 1984* (the Act) to:

- provide assurance to existing ethanol and biodiesel producers and stimulate investment in a biofuels industry in Queensland
- contribute to regional growth and jobs creation
- reduce greenhouse gas emissions from motor vehicles; and
- take advantage of the emerging second generation technologies for biofuels from a range of feedstock.

1.3 'To achieve this, the Government is introducing a biobased petrol Mandate and a biobased diesel Mandate to grow the biofuels industry and support the further development of a high-tech bio-manufacturing industry' *(Explanatory Notes*).

2 Context

2.1 As indicated our previous submission in response to the Queensland Government's *Toward a clean energy: achieving a biofuel Mandate for Queensland*, June 2015 Discussion Paper, the proposed Mandate is a political imperative as opposed to a genuine policy to grow the biofuels industry in Queensland initiative. An ethanol Mandate was not a contestable policy plank for which the major political parties sought an imprimatur from the electorate at the recent general election. It has attracted bipartisan party political support at this time due to the unique composition of the Queensland Parliament.

2.2 In our July 2015 submission, the Association stated the policy of the 'phase-in of ethanol blended fuel commencing with a two per cent target which equates to approximately 59ML per annum, based on 2013-14 figures (the Mandate)' was generally supported with some reservations as it has the potential to deliver for the State's economy over the longer term inter alia: a stimulus to new manufacturing opportunities and incorporated and private entities, growth for regional communities and a price dividend for retail fuel consumers. The reservations included:

1. Increased public environmental risks that may result if the bulk tanks, pipework and dispensers are not ethanol blended fuel compatible for those service stations categorised as major fuel retailers (defined as owners or operators with establishments in excess of 10 service stations, or selling more than 250,000 litres of a combined volume of petrol fuel per quarter).
2. The costs of upgrading tanks, pipework and dispensers to be ethanol blended fuel compatible or the installation of new tanks etc. to comply with the legislation applicable to service stations defined as major fuel retailers, or selling more than 250,000 litres of a combined volume of petrol fuel per quarter.
3. The compliance and reporting costs each quarter which is further red tape for all fuel retailers (non major and major).
4. Progressing the proposed regulatory regime without a full comprehensive cost-benefit evaluation of costs, implications and intended and unintended consequences of a state-wide ethanol Mandate.

2.3 The Association maintains these reservations and after perusing the Bill is now most apprehensive about the policy and its implementation of the Mandate due to the costs imposed; the regulatory impacts on service station petrol retailers; and proceeding without a full cost-benefit evaluation. The view is that the policy settings are subjective lacking a comprehensive cost-benefit evaluation of costs and regulatory implications of a state-wide Mandate.

2.4 The MTA Queensland submits that the Bill should be deferred until the proposed Queensland Productivity Commission has considered 'the economic, social and environmental benefits of the Mandated targets and how they support domestic production of biofuels, and support growth in Queensland's bio-manufacturing industry, as opposed to growing an importation market from interstate or abroad for biobased fuels and other biobased products.'

2.5 Additionally, the proposed Productivity Commission should take into account other considerations and recent studies. The considerations include:

2.5.1 The policy initiative needs to be considered in the context of developments in the global and domestic markets. There have been dramatic changes in the automotive sector which has undergone irrevocable restructuring and a paradigm technology shift.

2.5.2 The global demand for biofuels is depressed because of the collapse in the world parity price for crude oil and the consequential decline of petrol prices at the pump. Global inventories of crude oil are running at historical near term and medium term highs and this situation is forecast to continue due to structural increases in supply with shale oil and LNG impacting liquid fossil fuel demand and the substitution of petrol vehicles with hybrid electric, plug in electric (PIE), and hydrogen cell vehicles on the demand side.

2.5.3 The economics of the global energy market will limit the scope of the policy initiative of the Bill - irrespective of the political imperatives. Simply put, ethanol based fuels now have a substantial absolute price disadvantage compared with petroleum based fuels and it would require a massive subsidy to overcome this.

2.5.4 An ethanol Mandate would impose substantial additional costs on Queensland's economy at a time when some economic distress is being experienced.

2.5.5 It appears reasonably to assume that the rate of technological development in automotive vehicles will make this initiative redundant. Global automotive manufacturers are predicting a significant uptake in demand of hybrid, PIE and hydrogen cell vehicles by 2020. It is doubtful that any first world economy will persist with ethanol based automotive fuels in the future as they are uncompetitive and a greater environmental gain can be achieved by the new engine technologies.

2.5.6 An ethanol policy will impose a significant cost on the service station sector and will impose a competitive disadvantage and will consign the State to operate suboptimal transport technologies and ultimately will increase the cost of transport economics in Queensland.

The studies include:

2.5.7 The New South Wales Government's review of the existing laws which includes the 6 per cent Mandated ethanol sold by fuel retailers. Recent statistics for that State indicate that ethanol makes up just over 3 per cent of the New South Wales petrol market. (M Coultan, The Australian, July 15, 2015 and A Marshall, The Land, 15th December 2014.)

2.5.8 The 2014 Bureau of Resources and Energy assessment of the costs and benefits of the Ethanol Production Grants Program (EPGP). Included in its findings was that the EPGP distorts resource use in the economy by retaining resources in an uneconomic industry and the financial cost to the taxpayer is significant.

2.6 On a policy basis this initiative is likely to be short-lived because the imposition of an ethanol Mandate will make hybrid, PIE and hydrogen cell technologies more competitive and more attractive to the consumer. Any investment stimulated by this policy is likely to be misallocation of the state's scarce resources.

3 Issues -

3.1 It is the Association's preferred position that the Bill be deferred until the proposed Queensland Productivity Commission has considered the economic, social and environmental benefits of the Mandated targets. The following comments on issues pertaining to the Bill are submitted for consideration.

The Mandate

3.1.1 Consideration should be given to other options such as provided below for achieving the Mandate of the 2 per cent target for biobased petrol and 0.5 per cent for biobased diesel.

3.1.2. The total production capacity of Queensland's two ethanol producers is in the vicinity of 140 ML per year. This is estimated to be capable in the longer term of meeting a Mandate of between 2.8 per cent and 4.7 percent depending on the State's fuel sales.

3.1.3 In the instance of biobased petrol, for the 12 months ending 31st March 2015 there were 323 sites selling E10 in Queensland, retailing a monthly average of 30.6 ML. This implies a current substitution rate of 1.3 per cent of retail unleaded petrol (Australian Convenience & Petroleum Marketers Association (AC&PMA)).

3.1.4 Advice to hand indicates that in 2012 there were 465 sites with biobased petrol capability. This suggests there is the potential for some 142 sites to be adapted/brought on line to sell E10.

3.1.5 Analysis indicates that at the current rate of take-up of E10 by all 465 sites the potential exists for E10 sales to increase to 43.8 ML - providing an enlarged substitution rate of 1.8 per cent (Ibid). The view is that remaining 0.2 per cent substitution required to deliver the 2 per cent Mandate could be achieved by holistic educational program (Ibid).

3.1.6 The downside to this option and indeed to the policy position contained in the Bill is that the estimated unit capital cost per unit to introduce ethanol to the potential 142 sites where appropriate configuration is in place (i.e. tankage pipework and dispensers) that are not ethanol blended fuel compatible is between $25,000 and $30,000 per site involving some $3.5 to $4.3 million outlay by retailers (Ibid). Inevitably such costs will be passed onto consumers and may reduce the competitiveness of E10.

Additional reconfiguration of pipelines may incur an additional $40,000 to $80,000 according to recent estimates.

The replacement cost of a large tank is about $200,000 to $300,000 (not including costs of any disruption to the business operation during removal and installation)

(Recent estimates and Parliamentary Committees, State Development, Infrastructure, Industry Committee p.8)

3.1.7 The preferred policy position would be for the Government in the first instance to implement an educational program on the advantages of biofuels petrol and diesel for the consumer, industry and the environment in the lead up to and completion of the proposed Production Commission's consideration of 'the economic, social and environmental benefits of the Mandated targets'.

Liable Parties

3.1.8 The Bill requires fuel retailers with 10 or more service stations or which sell more than a threshold volume of petrol in a calendar quarter to sell the *'minimum amount'* of sustainable biofuel and:

- submit quarterly returns to the chief executive to demonstrate compliance with the Mandates, and
- retain records of all fuel sales supporting the returns for a minimum of two years.

3.1.9 Fuel retailers who own or operate less than 10 service stations may be liable to meet the Mandate for biobased petrol if they sell more than 250 000 litres of a combined volume of petrol fuel in a calendar quarter at any one of the service stations that the fuel retailer owns or operates. If a fuel retailer is not selling a blended fuel, the 250 000 litres would relate to the combined volume of regular unleaded petrol and premium unleaded petrol (Explanatory Notes).

3.1.10 The view is that the Bill's intention with the low volume threshold of 250,000 litres - 'a combined volume of petrol fuel in a calendar quarter at any one of the service stations the fuel retailer owns or operates' is to entrap as many as petrol retailers into the biofuels Mandate target net as possible. The low volume threshold suggests no understanding of the business models or the spatiality of the 1,380 service station sites in a State as decentralised as Queensland. The anecdotal information is that unless it is a rural based business, a business turning over a quantum of 250,000 litres in a calendar quarter is unviable.

3.1.11 Whilst the Association is of the view that the Bill should await the findings of the proposed Productivity Commission's consideration of the economic, social and environmental benefits of Mandated targets, the Parliament should amend the Bill to increase the threshold from a calendar quarter to fuel retailers selling more than 4 million litres of liquid fuels annually (AC&PMA) with provisions for exemptions:

- The capital cost imposed on the fuel retailers is reasonably likely to exceed $30,000 with provision for consideration of exemptions below this level on a case-by-case basis where financial hardship can be demonstrated by the fuel retailer;
- The fuel retailer cannot receive supplies of E10 at a wholesale cost that is reasonably competitive with the retail unleaded price (Ibid).

Compliance

3.1.12 The Bill lacks acknowledgment of the up-front costs for liable parties or refers to any form of compensation/subsidisation for compliance. The Bill imposes the direct legislative implementation of the Mandate on petrol retailers. The AC&PMA has estimated that these can be as high as $51m for eighty per cent of the sites to $324 m for all 1,380 service station sites.

3.1.13 Generally, in the retail fuel sector there is dismay that it should carry an unfair compliance burden based on a decision of Government without a cost benefit evaluation of the policy. The Bill is without recognition of the cost of the policy to small end retailers. It will be difficult for retailers to borrow the funds from their bankers when the Government 'has no idea' of the success or failure of its policies.

3.1.14 The registration process and the associated 'red-tape' such as the quarterly and annual reportage requirement are an additional administrative burden and an unexpected outlay at a time when all indicators suggest that business conditions are 'tough'. The publication of data obtained from the reporting requirements for the Mandate should be commercial confidence.

Exemptions

3.1.15 It is noted that individual fuel sellers should be able to apply to the Minister for an exemption from meeting the biobased petrol or biobased diesel Mandate and the Minister will have the powers to suspend the operation of the Mandates for up to one year (Explanatory Notes). This is unsatisfactory. Any exemption should be assessed and determined by an experienced, credible and industry committee and the Minister advised accordingly. Exemptions should not be a bureaucratic or political decision.

Consultation

3.1.16 The consultation process was narrow focused on the Mandate and environmental issues. There was no consideration of significance on educational programs or the financial consequences and EPA implications for retailers who may be a ‘liable party’ without the necessary compliant bulk tanks, dispensers and pipes to retail E10.

4 The MTA Queensland background

4.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of the automotive industry located in Queensland. The 2015 Automotive Environmental Scan data indicates that there are some 13,800 automotive value chain businesses operating within the State employing in excess of 92,000 persons.

4.2 It is an industrial association of employers incorporated pursuant to the *Industrial Relations Act* of Queensland. The Association represents and promotes issues of relevance to the automotive industries to all levels of government and within Queensland’s economic structure.

4.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry through the MTAIT. It is the largest automotive apprentice trainer in Queensland employing 35 trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTAIT last financial year accredited courses to in excess of 1,600 apprentices and trainees.

5 Conclusion

5.1 We would be please to provide further comment on any matters in our submission that may require further clarification or amplification.

Thank you for your consideration.

Yours sincerely

[redacted]

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