

Austcane Energy response to QLD Biofuel Mandate Discussion Paper

Austcane Energy Ltd has spent the last five years planning and developing a sugar cane to ethanol distillery in the Burdekin region of North Queensland. The plant is designed to produce 100 million litres of fuel grade ethanol from sugar cane juice and 45,000 MW hrs of co-generation electricity.

The project has a development approval with engineering completed and is ready for construction.

To move forward we must re-engage with investors and financial lenders. The two key requirements they insist upon are:-

1. Absolute commitment by government
2. A secure offtake agreement with the fuel distributor that matches the debt financing period.

As a general statement, a very visible hands-on involvement by the Queensland government will encourage consumer support, investor confidence and cooperation from the oil majors once they see there's no going back. Many countries around the world have successfully developed renewable fuel industries, however none have started without the certainty provided by Government policy.

The discussion paper in June 2015 has been a good start asking a large range of pertinent questions.

From Austcane's perspective, we will comment on the questions most relevant to our needs for production and delivery to a distributor

Discussion Paper Questions and Austcane Energy Responses – June 2015

The policy environment

1. Will the changes to excise arrangements proposed by the Federal Government have an effect on the use of biofuels by consumers?
2. What measures can be taken to offset any possible negative impacts by the proposed changes to excise arrangements by the Federal Government?

The ethanol percentage

3. Is a two per cent ethanol mandate appropriate?
 - A 2 % mandate will support current ethanol plants but will not create the conditions required for new projects to start. However, a starting point of 2% and then firm increases going forward will give the industry enough signal to grow and expand. Press articles since the launch of discussion paper unanimously agree that 2% is achievable and there probably is consensus that 3% would be equally acceptable. It could be a good strategic move to adopt 3% to show that the government is listening, dedicated and responsive.
4. Should the percentage increase, and if so, over what time period should any increases occur?
 - The percentage has to increase to develop the industry. The mission is to grow the ethanol industry as fast as possible to become a significant contributor to the economy of this state and the security of our liquid fuel supplies.

Predicting the future and setting fixed numerical targets based on today's information is always going to be difficult. Not setting target dates and target volumes might look uncommitted. Austcane is undecided on this issue but would like to see a flexible approach where government can accelerate or slow down the mandate increase to match the volume of new ethanol coming to market.

We favour legislation establishing the initial mandate figure and long-term projections, but include the ability for incremental increases to be achieved by regulation that reacts to a formula or a set of criteria that would gauge the reliability of production from new projects as they emerge.

Any new production facility, whether expansion of an existing site or a greenfield project, must undergo a preliminary engineering assessment and a feasibility study prior to fundraising or budget allocation from an existing enterprise. Similarly a lot of new projects apply for a range of government grants and must meet an extensive list of strict

criteria vetted by a credible accounting firm before they can qualify for inclusion in a selection process.

The government could register these intended production increases from projects and the anticipated date of production to match new mandate requirements for distributors. This is chicken and egg territory. Projects would need the new mandate requirements as part of their approach to fuel distributors and financiers but some fine tuning of the procedure could occur as time goes on to give confidence to all parties.

5. What is an appropriate mandated percentage for biodiesel?
6. What timeframe would stakeholders need to prepare for and meet this requirement?
 - A new project will take about 3 years to get into production after initial feasibility and planning has been done. In order to finance a new project a fuel offtake agreement will be required from one of the major fuel companies. So effectively the mandated percentage of ethanol needs to be known at least 3 years in advance to provide the catalyst for a new project to get past the project finance hurdle by having an offtake agreement in place.
7. When do you think that a mandate will no longer be necessary?
 - While the global fuel companies control the fuel supply chain a mandate of some form will always be required

Liabile parties

8. Is the class of retailer appropriate? Should the definition be expanded to include those with less retail sites?
 - The definition of a major retailer should be less than 10 service stations.
9. Is there an alternative method of defining the retailer? For example, should all sites that sell three or more petrol blends be included under the definition? Or should all sites that trade over a certain volume of fuel be included?

Reporting requirements

10. Is this level of detail appropriate for liable entities?
11. Is there any other data or information that should be requested in the quarterly reports?
12. Can this information and data be used in other ways to support industry?

Exemptions

13. To ensure the exemption framework is effective, what would be a reasonable timeframe for response to a request for exemption?
14. How can Government ensure that an exemption framework is not used as a way for liable parties to negate their responsibilities?

Penalties

15. Are these penalties appropriate?
 - The penalty units should be applied to volumes of ethanol not sold. If a major fuel company abuses the mandate it should pay a penalty on each litre of ethanol not sold. If the penalty is not attached to volumes then the fuel company is going to weigh up the cost of the penalty against a profit per litre of fuel that the penalty would have applied to. And when the equation works out that even by paying a penalty they are in front the penalty system will not be effective.
16. Do they incentivise liable parties to meet their obligation?
 - Yes
17. If the mandate increases should the penalties change?
 - If the penalty system is applied to volume of ethanol then it won't need to change when the mandate increases and larger volumes of ethanol are required larger breaches are possible.

Expert Panel/Implementation Board

18. Should Queensland have an expert panel or implementation board? If so, which sectors should be represented?
 - Yes. This is an essential part of ensuring that the program is able to instantly react to changing circumstances. It must be seen as a direct arm of the Minister to reinforce the "hands-on" concept that this is the will of government and it will happen. It must be "advisory" so that the minister has the capacity to ignore suggestions that are blatantly biased in favour of a particular vested interest. Two glaring examples -- feedlotters opposed to grain use competition which helps stabilize grain producers income -- AND existing ethanol producers opposed to any establishment assistance or explicit excise relief for new projects.

19. How can the panel discharge their responsibilities appropriately and facilitate the required mandate being met?

Protecting the environment

20. Are these sustainability principles appropriate?

21. Should more stringent environmental measures be applied to the biofuel sector?

22. What other environmental risks must be considered in relation to an expanded biofuels industry?

23. How should they be enforced?

Maintaining consumer choice

24. What are the issues that need to be addressed if consumer choice is maintained?

- Higher blends of Ethanol need to be implemented to enable the volumes of ethanol produced in Queensland to increase. E10 has a limitation of probably about 8% of fuel sales being ethanol (80% for fuel sales being E10) with exemptions that will exist. Blends like E15, E20 and E85 need to be explored and the framework put in place to move to these blends in the future. Moving to higher blends will give more consumer choice

25. Will choice of fuel increase costs to retailers or consumers?

26. Would a targeted education campaign on the actual benefits and disadvantages of biofuels/E10 contribute to informed consumer choice?

- Yes

27. What are the key messages that must be included in any education campaign for biofuels? Who is the primary audience and what is the most appropriate mechanism to target them?

- Key messages
 - Ethanol blended fuels do not damage cars that are designed for them which is most cars nowadays and in fact that a lot of cars are designed to run on E85 in the world today. So you can even run on higher ethanol content blended fuels than the currently offered E10
 - Using domestically produced fuel is good for QLD – we are replacing imported fuel with “home-grown” fuel and creating growth and jobs as well

Ensuring consumer protection

28. What options could we employ to protect consumers?
29. How can we ensure that fuel companies pass the benefits of ethanol through to consumers?
30. What is an appropriate method for estimating a 'reasonable' ethanol price?
31. What is an appropriate balance between costs to consumers and the creation of regional jobs?

Securing food supplies

32. Will an effective 'floor' in grain prices, as a result of a mandate, signal to grain growers an opportunity to increase production and investment on-farm?
33. What mechanisms, if any, should be put in place to avoid distorting the drought feeding market next time drought conditions persist in Queensland?

Bio-manufacturing – a new approach

34. What is the role of the Government in attracting a new bio-manufacturing industry in Queensland? Are there specific policy mechanisms or actions that will attract investment and development?
35. What additional actions can the Queensland Government take to increase the likelihood of project opportunities becoming operational projects?
36. Development of the biofuel industry, specifically ethanol, has struggled from a lack of long-term certainty and a problematic history. How do stakeholders including the Government provide the long-term certainty necessary for the development of, and investment in, bio-manufacturing?
37. What regional centres could become hubs for bio-refinery investment/development in Queensland?
38. How could Queensland science support the development of the industry? How should it build on previous research (including the involvement of key end users)?