CANEGROWERS

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3 July 2015

Project Manager
Queensland biofuels mandate
Department of Energy and Water Supply
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Dear Project Manager

RE: QUEENSLANDS BIOFUELS MANDATE

Sugarcane is an ideal high yielding biomass crop and the process of producing ethanol from sugarcane and its by-products is well established in Queensland and many sugar industries throughout the world.

The Queensland sugar industry has invested considerable funds and resources into investigating the viability of producing both first and second generation ethanol. The sugar industry currently has feedstock available from by-products of raw sugar production which could be diverted as a feedstock to increase ethanol production. Industry studies have shown that local ethanol production from 'C' molasses can be competitive with unleaded petrol.

There is little doubt that the sugar industry is well placed to produce ethanol within the current industry feedstock availability and there is still the potential for expansion of area to produce additional feedstock.

However, even with these apparent advantages, there has been no expansion of ethanol production due to the business case its production simply not stacking up economically. When and if the business case becomes viable, the sugarcane industry will be in a position to respond.

It is important to note that no other significant global sugar industry has established a viable ethanol industry without government intervention. CANEGROWERS therefore welcomes the intention by the Queensland Government to introduce a mandate for biofuels.

It is disappointing that this important intention is lacking in visionary execution. The policy around any mandate, must encourage and stimulate the economically viable development of an ethanol industry in Queensland. Both the feedstock supply and ethanol production investors need to be sure that the Queensland Government is seriously committed to a biofuels mandate for the future of Queensland. This could be demonstrated by:

- Unequivocal support from all political parties for a firm ethanol mandate to eliminate sovereign risk for investors (the recent Renewable Energy Target review demonstrates the negative impact of future potential policy changes).
- Establishing policy parameters at a level to signal the intent for real change and stimulate investment.
- There must be a commitment over a time period which makes investment worthwhile.

The suggested policies and the parameters used in the government discussion paper does not "unequivocally demonstrate support and intension to grow the biofuels industry" and in fact casts doubt on the government's real will to implement a meaningful mandate. These are discussed below.

Ethanol %

Increases in and the timing of the mandated percentage should allow for Queensland business to develop and capitalise on the advantage of a biofuels industry. In keeping with this principle, the suggested 2% is already below the current production capacity of the industry which is approximately 4%. It would make sense then that this should be the minimum starting point for any new mandate.

There also needs to be a clear ramping up in line with the lead time for production. For instance 5% to 6% will allow existing feedstock from by products like molasses and fibre, which are the low hanging fruit in the current sugar industry, to be utilised. It would be expected that the timing of the increase will be within a 2-4 year period, to coincide with the development of this first level of investment. There are current proposed projects that could fulfil this need.

This will give investors some certainty and signal a serious intent by the government and not what appears to be a tentative wait and see approach.

Sunset clause and a bipartisan approach

It is felt that a 10 year horizon will, at best, encourage the optimisation of and marginal investment in expanding existing facilities. Investors require a level of certainty and a 10year commitment would be a minim benchmark to deliver this.

As mentioned, there needs to be unequivocal support from all political parties for a firm ethanol mandate; this in itself will provide a level of confidence in continuity of a mandate.

The sunset clause must signal that biofuels are here to stay for all the good reasons put forward by the Queensland Government.

Liable parties, exemptions and penalties

If major retailers, as liable parties, are determined by their ability to afford the investment required to supply E10, then a combination of the number of service stations and volume sold should be considered; say 10 service stations *or* more than 50,000 litres.

Feedstock producers share the risk, through the value chain, of the wholesalers and retailers decisions on pricing and supply of E10. The wholesalers and retailers have little or no incentive to promote the use of ethanol except in complying with the mandate, and thus will use any legal loopholes available to opt out. The definition of a liable party and the exemptions must limit this opportunity.

Feedstock producers will not receive a higher price in times of reduced supply (lower production say due to drought) because the demand through the exemptions is also reduced. Thus the feedstock producer will face the full effect of this.

With a weak exemption policy and/or enforcement the penalties are irrelevant except in the most extreme circumstance.

Protecting the environment

One of the benefits of the mandate put forward in the discussion paper is reduced emissions and it is agreed the whole life cycle analysis needs to be clearly determined and compared to fossil fuels. It is our understanding that the life-cycle analyses indicate greenhouse gas abatement of over 80% when compared to unleaded petrol.

CANEGROWERS' concern would be that feedstock production is isolated for environmental regulations and that this may impose additional regulations on existing production areas. Further to this, current and proposed legislation like the *Vegetation Management Act* may well prevent the development of greenfield sites. The environmental legislation should encourage biofuels opportunities and not put up unnecessary barriers.

Consumer choice and protection

The low level of the policy parameters in the discussion paper and consumer choice may well be interpreted by the consumer that there is not strong belief by government in the stated benefits.

Consumer choice must go hand in hand with sustained consumer education and this is a government role. Feedstock producers are too far removed from consumers to have a significant influence.

The wholesalers or retailers have little to gain from an educated consumer and increasing substitution of ULP with E10. Issues such as labelling, providing a consistent product and supply, ensuring a fair position on the forecourt and pricing are all issues which affect the consumer's ability to choose. The feedstock producers face the risk of consumer choice but this can be influenced by the wholesalers and retailers who do not face a risk.

It is only demand from the consumers, or a mandate forcing the change, that will ultimately increase the use of E10. There needs to be a consumer education program aimed at making sure the reasons for introducing E10 are well understood and a pre-defined point at which E10 becomes mandatory in Queensland.

Research

Research into the production of optimum sugarcane feedstock for ethanol has not been mentioned as a fundamental prerequisite for a world class biofuels industry. The lead time to breed new sugarcane varieties is between 10 and 20 years. There has been some research into high fibre cane but this has stopped due to industry priorities which do not include biofuels as there has not been a meaningful mandate to encourage further research and varietal selection.

To clearly demonstrate the government's intent on its long term policy for a biofuels mandate, it is suggested that direct investment in a breeding program for suitable biofuels sugarcane varieties be considered. This will give the industry confidence that the mandate is here to stay and kick start the industry's rethink of their research priorities.

Excise and pricing

Collaboration and coordination with the Federal Government will be essential to ensure the excise differential between imported and local ethanol is significant and used to establish a price for consumers which makes ethanol an attractive option. If the wholesale price of ethanol is not reflective of this differential, then the wrong signal is sent to the consumer and the benefits of the excise differential are captured by the wholesaler. The feedstock producer again faces this risk.

Thank you for the opportunity to provide feedback.

Yours faithfully

Dan Galligan
Chief Executive