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To Whom It May Concern,

The Queensland Dairyfarmers' Organisation (QDO) provides the following response to the Queensland Government's discussion paper "Towards a clean energy economy: achieving a biofuel mandate for Queensland".

The QDO is the peak industry organisation representing the interests of dairy farmers in Queensland. The QDO is also a member of Australian Dairy Farmers (ADF) and fully supports the submission provided by the Alliance Against Ethanol Mandates.

The QDO wishes to stress the following points with the Queensland Government;

- The QDO **DOES NOT** support a mandate on ethanol,
- Ethanol production using grain and molasses removes starch and sugars which is exactly what intensive livestock industries require these feedstuffs for. As such an ethanol mandate will result in greater competition and higher prices for those commodities.

  Those commodities are key major stock feed inputs to the livestock sector, particularly the intensive livestock sector including dairy, feedlots, piggeries, chicken egg and meat production.

  These mandate lead price increases in grain and molasses will directly impact and increase the costs of production for those livestock industries.

  Particularly for dairy farmers there is no ability to pass on the cost increase to the market or consumer due to the power of the supermarkets in the domestic market place.

  For other industries which produce export income for Queensland mandate lead cost increases to their operations will lower their competitiveness in the international market place.
- The proposed mandate will provide financial support to two Queensland ethanol companies and one in NSW at the expense of thousands of intensive livestock businesses, the majority of which are family owned businesses.

- The proposed mandate will create a negative externality for thousands of internationally competitive intensive livestock businesses to prop up a few ethanol production businesses, which have been shown over time not to be commercially viable without Government support. In effect a mandate involves the Government dictating to efficient commercially viable industries to cross subsidise an inefficient uneconomic industry.
- It has not been established that Australia has a competitive advantage in the production of ethanol or if it would be more economically efficient to import ethanol and redirect limited Government resources to achieving higher return outcomes.
- An ethanol mandate would support existing inefficient and uncompetitive ethanol production systems currently in operation and only viable with Government support and prevent or slow investment flows to new second generation ethanol and biodiesel production technology which has been represented to have significant advantages over old first generation ethanol production, including being commercially viable without the need for Government support and avoiding conflicts of food versus fuel issues.
- Ongoing support and subsidisation of primary ethanol production in Australia will further elongate the support of inefficient uncommercial ethanol production systems at the expense of more efficient commercial second generation technology and biodiesel production systems.
- The ethanol industry in Australia has been reported to have received close to $1 billion in Government assistance since 1980. A number of investigations undertaken by and for Government have concluded that the support policies adopted by Government for ethanol production have not been successful.
- The utilisation of a mandate to support the ethanol production sector is in direct conflict with Government policy of not interfering in the market place and the inaction of both State and Federal Government to not address market failure created by the oligopolistic market power of the major domestic supermarket chains which have directly affected farmers, in particular dairy farmers.
- The Queensland Government has failed to follow well established good governance principles, in that the Queensland Government should have undertaken a consultation and discussion paper process and a regulatory impact statement and benefit cost analysis prior to determining a policy position to introduce an ethanol mandate. The lack of due diligence is further highlighted in that there already exists a significant body of work previously undertaken which seems to have been ignored to date in the current consultation process.
- The Queensland Government did not undertake any consultation with impacted industries, such as the intensive livestock sector, prior to announcing the plan to introduce a mandate in Parliament in May this year, even though there was ample opportunity to do so. Equally the ALP did not raise the policy plan with intensive livestock industries when in opposition.
- The public forum consultation process implemented by the Queensland Government did not provide enough opportunity for people negatively affected by the proposed ethanol mandate to participate in the process.

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- The Queensland Government makes significant reference to the report prepared by Deloitte Access Economics titled, "Economic Impact of a future tropical biorefinery industry in Queensland", in its discussion paper and in public promotion of the Queensland's Government's plan to introduce an ethanol mandate. In that paper it states that, "Animal feeds represent a significant portion (70%) of the production costs of livestock, with impact on the output of meat, eggs and milk.

  However this statement conflicts with information presented in the Queensland Government's Discussion Paper where it states that, "Impact on food prices of a two percent mandate will be negligible, as feedstock (molasses and sorghum) are just one component of the farm-gate price and a much smaller component of the final retail food prices."

  Even though the Deloitte Access Economics is titled, "Economic Impact of a future tropical biorefinery industry in Queensland", it does not address the economic impacts of a mandated ethanol industry on feedstock (grain and molasses) used for ethanol versus being used for food production, including increasing the demand and price of feedstock for the livestock industries or the misallocation of resources a mandate will cause leading to a suboptimal economic outcome.

  The study carried out by the Centre for International Economics, titled "Impact of ethanol policies on feedgrain users in Australia", in 2005 presents that;

    - Intensive livestock industries are directly reliant on wholegrain or compound grain products and extensive livestock industries are reliant on feed grains for supplementary feeding through droughts, and both intensive and extensive industries are intrinsically linked,
    - Access to affordable grain underpins the capacity of the livestock industries to remain competitive and to remain as a reliable supplier to both domestic and international markets,
    - An ethanol mandate would increase the demand and price for grain and thus increase the cost of feedgrain for the livestock sector.

  At the consultation forum held in Brisbane on the 25th June it was acknowledged by one very high profile supporter of the Queensland Government's ethanol mandate that grain prices for feed grain users such as dairies will go up by at least 15 to 20pc.

- The Queensland Government has portrayed that an ethanol mandate would create regional development and employment. However from previous studies undertaken, including by Federal Government agencies such as ABARE and the Bureau of Resources and Energy Economics, concluded that jobs created by the Government support for the development of a domestic ethanol industry would cost more than the net worth of the jobs and that the negative impacts on other regional industries such as the intensive livestock industries would outweigh such Government supported employment creation, with job losses.

  Even with close to $1 billion in Government support for the domestic ethanol industry since the early 80's only a few ethanol production plants have been developed. As such it is very questionable that additional Government support will result in further ethanol plant development.

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- The Queensland Government has portrayed that the further subsidised development of the ethanol industry in Queensland would create a by-product which can be used for livestock feed and some have portrayed it could be an equivalent to using grain. This portrayal is false as starch in the grain has mostly been removed to make the ethanol and while what is left in the by product is as a percentage higher in fat and protein it cannot replace the starch that is needed from grain to provide energy in livestock diets. In addition to this the ethanol by-product meal produced in Queensland is very high in moisture which makes it difficult and costly to handle and reduces its usable life to well less than a week. This makes it of little use to the average dairy farmer struggling under the weight of higher grain prices. In many other regions of the world that produce ethanol, this product is fully dried which makes it a much more transportable, storable and useable product.
- During the consultation process the Minister presented that the Queensland Government would consider temporally suspending the mandate if a natural disaster or severe drought occurred thereby alleviating the pressure on grain and molasses supply. This statement again presents a great deal of naivety, as if a mandate is introduced grain and molasses supplies will be contracted to ethanol production plants and as such temporality suspending a mandate would have no or limited impact. The Queensland Government to address the problem would need to look at mechanisms that increase the supply of grain and molasses in times of disaster including the importation, to have any real affected of alleviating supply pressure and availability to livestock producers.
- During the public consultation forums the Minister made several references to the development of the ethanol production industry in the USA. However no mention was made that currently in the USA legislation has recently been introduced into Congress to repeal their ethanol mandate, with one of the reasons cited being the devastating impacts on the livestock industries and the need to give consumers choice.
- The Australian Government commissioned research into “The economic effects of an ethanol mandate”, with the research paper being tabled in 2008. This research concluded that no prima facie economic case for a mandate has been established to date nor has a comprehensive cost-benefit analysis for an ethanol mandate been undertaken and that support for a mandate could not be justified economically or environmentally.

The QDO recommends to the Queensland Government that the production of second generation un-mandated ethanol and biodiesel that does not create a conflict between food and fuel production should be pursed, particularly when second generation can provide a lower cost fuel and could compete with existing fuel options without the need for Government support.