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Dear Sir/Madam,

Re: Towards a clean energy economy: achieving a biofuel mandate for Queensland (Discussion Paper)

Wilmar BioEthanol appreciates the opportunity to contribute to the discussion of how Queensland can move *Towards a clean energy economy* through the implementation of a biofuel mandate.

The policy environment

Will the changes to excise arrangements proposed by the Federal Government have an effect on the use of biofuels by consumers?

The excise arrangements have now been finalised and provide for a significant advantage for ethanol moving into the future.

The fact that ethanol excise is now a percentage of petrol excise and also that petrol excise is now being indexed means that in cents per litre basis over the longer term ethanol will have an increasing advantage over petrol.

This will mean that ethanol should provide good value for the longer term.

What measures can be taken to offset any possible negative impacts by the proposed changes to excise arrangements by the Federal Government?

Having a mandate and providing a known market would be the best way to help offset any of the negative changes in federal excise and allow for maintenance of the current industry as well as development of new projects.

The ethanol percentage

Is a two per cent ethanol mandate appropriate?

A 2 per cent mandate is not significant enough and not much higher than what already exists in QLD without a mandate. In 2013-14 , the total sales of E10 was approximately 1.2 per cent.

A 2 per cent mandate is too low to bring meaningful growth in the industry. It is however a step in the right direction.

The mandate formerly proposed in QLD was for 5% of all petrol volume. This proposal is for 2% of ULP volume, so not only has the percentage changed but so has the benchmark.

Should the percentage increase, and if so, over what time period should any increases occur?

We believe the starting percentage should be raised to 3 or 4 percent in order to stabilise the existing industry and give the best change to encourage new investment. The policy should then outline a time frame for increasing that to encourage new investment.

What is an appropriate mandated percentage for biodiesel?

No Comment

What timeframe would stakeholders need to prepare for and meet this requirement?

If the starting percentage for ethanol was 3 or 4% this could be met immediately from a supply perspective.

When do you think that a mandate will no longer be necessary?

It is likely that a mandate once started will be required for 20 years especially if it has been successful in stimulating new investment.

This has been the case in other countries with thriving biofuels industries, they have been built on the back of long term relatively stable biofuels policy platforms.

It is absolutely imperative that if the government does choose to intervene in the market to stimulate investment that this investment is not abandoned as a result of policy changes. This would be not only a disaster for the biofuels industry but also would damage the investment reputation for Queensland.

Once the market has grown to a point where there is a mature market with high consumer acceptance and many biofuel producers then this would be a time when the mandate would no longer be required.

Liable parties

Is the class of retailer appropriate? Should the definition be expanded to include those with less retail sites?

We believe that the mandate should start with all retail sites being included in the mandate and then have a sensible regime for managing those sites that it would be impractical to enforce the mandate on.

Reporting requirements

Significant amount of data is already collected on the fuel industry, we therefore do not believe these reporting guidelines would be overly onerous on the industry.

Exemptions

To ensure the exemption framework is effective, what would be a reasonable timeframe for response to a request for exemption?

Our preference would be to have a cap and trade scheme to manage those sites that it wouldn't make sense to enforce them to sell ethanol blends. That way we prevent gaming of the exemption system.

This approach would also provide clarity in market size on a state-wide basis. This will be critical for new investment.

How can Government ensure that an exemption framework is not used as a way for liable parties to negate their responsibilities?

Either have a cap and trade or very strict exemption criteria.

Penalties

Are these penalties appropriate?

I think the penalties are appropriate if they were to actually be enforced rather than just handing out exceptions.

A cap and trade would negate the need for penalties as such.

Expert Panel/Implementation Board

Should Queensland have an expert panel or implementation board? If so, which sectors should be represented?

We struggle to see how the expert panel can actually work effectively in practice. We would prefer a mandate framework that has clear criteria for exemptions, for example, stations with below a certain volume per month, or sites that only have the ability to have 3 grades of fuel (including diesel)

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

Have either a cap and trade or a strict framework that is enforced and not open to gaming and manipulation.

Protecting the environment

Are these sustainability principles appropriate?

There are two issues here, one relating to the use of existing crops or by-products for biofuel production and the other is one about what is the most appropriate use of new land if the mandate encourages less than ideal land use.

Existing ethanol production in the sugar industry is made from molasses, which is a by-product of sugar milling. While the farmer gets some value from a high molasses price it in no way plays any role in agronomy decisions on the farm. All farming decisions are driven by maximising sugar cane yield and sugar content in that cane. Molasses value is a very small part of the value chain for sugar.

In addition to this the sugar industry is already moving toward a sustainability framework with either Bonsucro or BMP and we strongly feel that there should not be any additional regulation of sugar crops because of the mandate.

I think there is however a place for government to think about what they want the new capacity to come from, there is a finite ethanol opportunity for new development. Is there a desire for this to come from fibre or alternate crops for example?

Both the USA and the EU have incentives that are specific to growing investment in so called 2nd generation biofuels.

For example a frame work that allowed up to5 % ethanol to come from traditional crops and above that to come from alternate technologies and feedstocks may drive better long term investment outcomes for the state.

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

As an existing producer we have invested enormous amounts of money over many years to ensure we have a sustainable business. If new entrants are allowed to enter the industry without having similar oversight particularly related to how they manage the ethanol by products then this could pose a substantial threat to the reputation of the overall industry.

Maintaining consumer choice

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

Queensland managed to get to ~3.5% ethanol in the past while maintaining consumer choice. We would think getting back to 3-4% levels should be possible without compromising consumer choice provided the mandate is structured correctly.

Over time the car fleet is evolving and by 2020 the number of vehicles that would not be e10 compliant will be below 5% of the fleet. We believe this may be an appropriate time frame to think about moving to a level above 5% of the market.

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

In order for the industry to be successful in the longer term and move towards a position of sustainability it is crucial to take the consumers with the growing industry.

To this end education will be critical and the role of government and the credibility and leadership government can provide to such education should not be underestimated.

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?

The key issues that need to be communicated to the consumer are:

The benefits of ethanol (sustainable, renewable, lower carbon, high octane, cleaner burning)
Safe to use in most cars and why it isn't recommended for some older vehicles.

Ensuring consumer protection

Short of setting retail and wholesale pricing by the government the best way to ensure the value of the price difference between ethanol and petrol is passed through to consumers is to have an effective mandate that has consequences if not met.

Ethanol is sold to wholesalers and blenders most often on a formula that outlines a discount to the TGP petrol price. These contracts often have cap and floor prices in them.

The market is capable of working our effective mechanisms to ensuring fair pricing. If for some reason prices became too high then this would logically be due to a lack of supply. In this situation the wholesale customers would encourage a new entrant into the market by offering a long terms supply contract at a lower price to the current market.

Securing food supplies

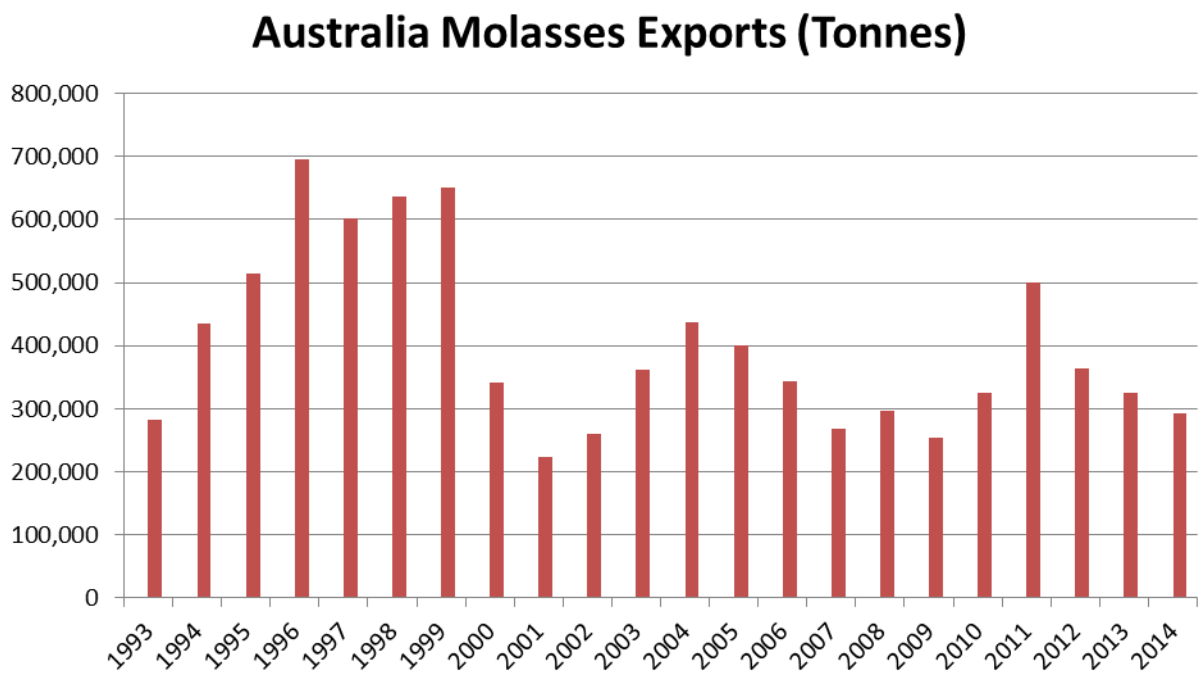
Will an effective 'floor' in grain prices, as a result of a mandate, signal to grain growers an opportunity to increase production and investment on-farm?

What mechanisms, if any, should be put in place to avoid distorting the drought feeding market next time drought conditions persist in Queensland?

We understand there is some concern here with respect to molasses which is a by-product of sugar milling. The data below clearly show that in EVERY year Australia is an exporter of molasses. If there are currently other markets that are prepared to pay a better return to the sugar industry than export then all they need to do is place orders during the sugar crushing season.

The sugar industry has historically been set up to export the majority of the molasses during the crush, this is because molasses storage is limited and new storage would be expensive and therefore would need to have a business case.

As an ethanol producer we have invested heavily in molasses storage so we can lock in commitments up to 12 months in advance and have storage for 7 months of production. There is nothing stopping other potential users also investing in this manner.



Bio-manufacturing – a new approach

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?

What additional actions can the Queensland Government take to increase the likelihood of project opportunities becoming operational projects?

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?

What regional centres could become hubs for bio-refinery investment/development in Queensland?

Clearly Queensland is well positioned to become a substantial bio products producer.

We believe that biofuels play a key role in getting Queensland ready to exploit this potential. Biofuels have large potential markets at home and by helping industry tap into this market the government can help grow the expertise and capability in regional Queensland that would also be necessary to enter into some of the exciting new technologies that are on the horizon.

The countries that are today pushing ahead with the next generation of products are ones that have had thriving biofuels industries for some time now and therefore have considerable expertise and a suitable workforce to call upon.

How could Queensland science support the development of the industry? How should it build on previous research (including the involvement of key end users)

From an industry perspective we believe the key balance here is not spreading money too thinly on "cutting edge" research were we are unlikely to be leaders or are always playing catch up.

The real value here comes with getting the smart people focused on what technology is emerging or becoming commercialised and helping government and industry to understand what work will be required to exploit that technology or crop for Queensland conditions.