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Policy Manager

Queensland biofuels mandates review
Department of Natural Resources, Mines and Energy
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To Policy Manager:

Re Queensland biofuels mandates review

1. Introduction

1.1 The Motor Trades Association Queensland (MTA Queensland or the Association) responds to the Department of Natural Resources and Mines and Energy's (DNRME) discussion paper *Review of the Queensland biofuels mandates* (the paper) by submitting the following comments for consideration.

1.2 The comments presented in this submission are on behalf of the Service Station and Convenience Store Association (SS&CA) division which are retailers of automotive fuel. The comments are supplementary to those enunciated in your discussion with the SS&CA Chair Tim Kane.

1.3 In previous biofuels mandates submissions the MTA Queensland stated that the biofuels petrol policy was a 'political imperative as opposed to a genuine policy initiative' due to the lack of a Parliamentary majority. We expressed conditional support with considerable reservations for the phase-in of ethanol blended fuel. 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).
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.
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.

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1.4 Having considered the paper's options and outcomes these reservations are maintained and are assisted by the assessment of empirical operational data discussed below.

2 Comments

2.1 When the biofuels mandates commenced, the biobased petrol mandate required that a minimum of 3 per cent of the total volume of regular unleaded petrol sales and ethanol blended petrol sales (such as E10) by liable fuel retailers be sustainable biobased petrol. From 1 July 2018, the biobased petrol mandate increased to 4 per cent (The paper, p.5).

2.2 Prior to the legislated increase of the ethanol mandate from 3 per cent to 4 per cent, the mandate was close to being achieved, with reported ethanol volume sales in the April to June quarter 2018 at 2.7 per cent. On average the 4 per cent ethanol mandate has not yet been achieved (Ibid).

2.3 In considering the volume of E10 used by Queensland motorists, it is instructive to consider New South Wales' (NSW) biofuels marketplace data (Fair Trading NSW) arising from that State's biobased petrol mandate under the *Biofuels Act 2007* and amended 2016. The biofuels petrol target is set at 6 per cent of total fuel sale volumes. The new laws took effect from 1 January 2017. The table below indicates NSW Biofuels results achieved for the January to 31 March 2019 period.

Volume Fuel Retailer	Result for Quarter
BP	2.81%
7-Eleven	2.67%
Caltex	1.95%
Viva Energy Australia	3.30%
Lowes	1.02%
Neumann (Puma)	2.35%
Park	3.16%
United	3.70%
EG Fuelco (Australia)	2.92%
Average	2.6%

No sales for biodiesel were made. An overview of previous quarter results shows a consistency in the average retailer volume percentage (New South Wales Fair Trading).

2.4 Across Australia fuel ethanol accounts for only 2 percent of total petrol sales (Australia Biofuels Annual November 2018 – USDA GAIN).

2.5 The Productivity Commission undertook an inquiry to identify regulations that impose unnecessary burden on farm businesses (Productivity Commission Inquiry Report (PC report): Regulation of Australian Agriculture November, 2016). Recommendation 9.6 stated:

Arrangements to support the biofuel industry — including excise arrangements and ethanol mandates — deliver negligible environmental benefits and impose unnecessary costs on farmers and the community. The Australian, New South Wales and Queensland Governments should remove these arrangements by the end of 2018 (p. 42)

The PC's assessments of the New South Wales biofuel mandate showed that:

- retailers cut the supply of regular unleaded petrol to meet the biofuel sales target
- the mandate reduced consumer choice and increased the price consumers paid for petrol because they substituted to premium fuels
- the mandate affected the competitive dynamic between retailers by reducing the availability of regular unleaded petrol at many retail sites (p. 395)

2.6 The 12 years of empirical data compiled from the NSW's adoption of an ethanol mandate and the shorter-term data on Queensland biofuel consumption would indicate that achieving a wider and deeper operational biofuels mandate may be difficult. The basis for this view is consumer demand aversion and the potentially damage to existing fuel retail businesses over the range of fuel prices that exist in Queensland's retail fuel market. The considerations include the following two determinants:

1. The cross-price elasticity of demand for ethanol blended fuels and the standard octane-based petroleum fuels over the price ranges that exist in Australia's retail fuel market appear to be somewhat more inelastic than most forecasts anticipated. This means that the rate of substitution of E10 blended fuels and the rate of diversion away from petroleum-based fuels is not occurring at rates that are needed to achieve the desired biofuels mandates at the present or foreseeable price differentials.
2. The available data also suggests that the business models that are used in the fuel retail business do not have sufficient financial access capacity to accommodate the costs of installing ethanol fuel storage and dispensing infrastructure prescribed by the mandate regulations without compromising business profitability in the near term and over the longer-term exposing the majority of fuel retail operations to economic hardship.

2.6 It is not only retail businesses threatened by demand aversion, manufactures of E10 too may not produce sufficient offtake to make production viable.

2.7 The predictions of electric and hybrid vehicles to increase exponentially over the next decade, will result in the base demand for biofuels to contract.

3 Conclusion

3.1 The MTA Queensland recognises that the biofuel petrol mandates are government policy. In view of the empirical data showing consumer demand aversion to biofuels petrol any further regulatory obligations such as enforcements on liable fuel retailers and endeavours to increase liable fuel retailers to regional areas where profitability maybe marginal as proposed in the paper is not supported.

3.2 Current reporting obligations each quarter and the costs incurred by liable fuel retailers should be reviewed and minimised.

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 Queensland's automotive industry located in the State. There are some 15,500 automotive value chain businesses employing approximately 88,500 persons generating in excess of \$20 billion annually. It is an industrial association of employers incorporated pursuant to the *Fair Work Act 2009*. The Association represents and promotes issues of relevance to the automotive industries to all levels of Government and within Queensland's economic structure.

4.2 Australia's first automotive hub, the MTA/Q, has been established in specifically designated accommodation at the corporate office. The hub is an eco-system that supports innovation for the automotive industry.

4.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering technical, retail and the aftermarket phases of the motor trades industry through the MTA Institute - a registered training organisation. It is the largest automotive apprentice trainer in Queensland employing in excess of 35 trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTA Institute last financial year provided accredited courses to in excess of 1,600 apprentices and trainees.

Yours sincerely



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