Response to the IPART's Review of a maximum price for wholesale ethanol in automotive fuel blends

November 2016

AUSTRALIAN LOT FEEDERS' ASSOCIATION (ALFA)

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Background

The Australian Lot Feeders' Association (ALFA) is the peak representative body for the cattle feedlot industry. Its charter is to provide advocacy on issues that impact upon the sector, determine the allocation and prioritisation of grain fed beef levies and to deliver industry development activities to improve the standards and practices of the industry over time.

The cattle feedlot industry has a value of production of approximately $2.6 billion and employs some 28,600 people directly and indirectly. Approximately 40% of Australia's total beef supply, 80% of beef sold in domestic supermarkets and a large part of Australia's beef industry growth over the last 15 years has been due to the expanding feedlot sector. The expansion of the industry is due to the demand for Australian grain fed beef both domestically and internationally, its ability to consistently meet marketable specifications regardless of weather, and the efficiencies gained from being able to finish cattle more quickly.

There are approximately 400 accredited feedlots in Australia located in areas that are in close proximity to cattle, grain, water and beef processing facilities. The majority of feedlots are located in Queensland followed by New South Wales, Western Australia and then Victoria and South Australia.

Feed grains represent the single biggest cost in a kilo of beef, pork, dairy and chicken. In a normal season, 80% of Australia's east coast grain production is consumed by these intensive livestock industries with the feedlot sector the largest user with 3.7 million tonnes. During drought periods this percentage increases greatly as exports diminish.

These industries do not receive Government assistance yet directly compete with the Government assisted ethanol sector for grain.

ALFA's position on Government support and protection for grain derived ethanol production

ALFA has been an active participant in the grain based ethanol policy debate.

Importantly, ALFA is not opposed to increased competition by the ethanol industry for grain or ethanol per se.

It is however vehemently opposed to Government support and protection for grain derived ethanol production as it leads to unintended negative consequences which we contend outweigh its claimed positives.

State Government mandates of ethanol content in fuel are opposed by ALFA for the following reasons;

- Leads to increased grain and food prices particularly during low grain production periods given it imposes an inflexible demand for grain which is disconnected to supply;
- Distorts grain markets by providing an artificial competitive advantage to the ethanol industry over other users of grain in the market place;
- Leads to potential job losses in viable intensive livestock industries in return for no or negligible environmental, regional development or fuel security benefit;
- Leads to a misallocation of resources towards ethanol producers who would likely be unviable without such assistance;
- Imposes a significant upfront cost burden on fuel retailers and distributors to comply. This increase in cost can only be recouped by increasing fuel prices;

- Stymies the investment and commercialisation of superior advanced and second generation ethanol production technologies as there is no preferential treatment provided;
- Forces consumers with E10 incompatible engines (ie cars, boats, motorcycles, snowmobiles, ATVs, lawn and garden equipment) to purchase more expensive premium unleaded petrol (as regular unleaded becomes less available);
- Forces car owners with E10 compatible vehicles to pay more for their fuel than regular unleaded petrol given E10's lower energy content (as regular unleaded becomes less available);
- In combination with excise relief, mandates are an inefficient use of tax payers' dollars as first generation biorefinery infrastructure needs to be significantly altered to enable delignification for lignocellulosic technology (second generation ethanol production) to occur. Funding towards assets that will become obsolete and technologically redundant (unless converted through an expensive process) is poor Government policy when the future of ethanol production is with second generation technologies;
- As with all 'infant industry' type assistance, it creates ethanol producer complacency, fosters inefficiency (rather than increased competitiveness), reliance on Government support and further 'rent seeking' behaviour into the future;
- Costs the Federal Government hundreds of millions of dollars in lost excise revenue;
- Mandates are inconsistent with Australia's World Trade Organisation stance in support for deregulation and reduced Government protection.

It is clear that policies to progress the Australian ethanol sector have been ineffective. This is readily demonstrated by the fact that;

- Only 3 ethanol manufacturers currently exist in the country;
- Ethanol comprises only 1 per cent of the total road transport fuel market in Australia[1];
- Despite the requirement under the NSW ethanol mandate for ethanol to comprise 6% of fuel sales, ethanol only accounts for 2.5% of this volume[2]. This is down from 3.5 per cent in 2012-13 which was reported by The Australian Competition and Consumer Commission in its 2012-13 petrol monitoring report.

This poor policy outcome has been achieved despite millions of dollars worth of Government assistance and protection ($108 million was provided to the sector in fuel excise relief alone in 2012/13)[3].

Infant industry assistance is an argument utilised by industries in developing economies for Government assistance and protection to develop their industries and to safeguard them from foreign manufacturers. The failing of this economic doctrine (which has been proven countless times throughout history) is that such industries become complacent and spend more time seeking continued Government support than investing in efficiency measures to become competitive. The Australian ethanol industry is another example that perfectly replicates this trend.

ALFA strongly believes that the NSW Government should remove the ethanol mandate on the basis that the costs outweigh the benefits and that it has failed to deliver a sustainable and competitive ethanol industry in the state.

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[1] BREE (2014), *An assessment of key costs and benefits associated with the Ethanol Production Grants program, a report for the Department of industry*, http://www.bree.gov.au/publications/other-publications

[2] IPART Review of a maximum price for wholesale ethanol in automotive blends Draft report October.

[3] BREE (2014), *An assessment of key costs and benefits associated with the Ethanol Production Grants program, a report for the Department of industry*, http://www.bree.gov.au/publications/other-publications