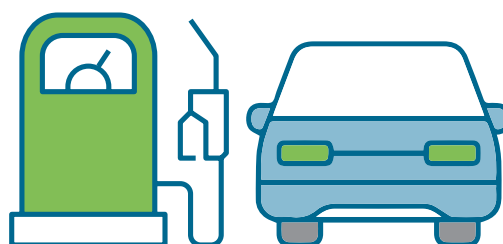


DOWNSTREAM PETROLEUM



BIOFUELS AND ALTERNATIVE FUEL



KEY MESSAGES

- AIP member companies supply most of the blended biofuels and alternative fuels used in Australia.
- AIP strongly supports market-based approaches to the supply of any fuels in Australia.
- Biofuels and alternative fuels will have a place in a diversified Australian fuels market as long as they are:
 - available at a competitive price
 - reliably supplied
 - acceptable to consumers
 - produced sustainably.
- There are a range of Government policies that support production and use of renewable and alternative fuels in Australia, including fuel excise concessions, direct production subsidies, technology facilitation grants, ethanol mandates and market facilitation support.
- In AIP's view, government policies in support of biofuels and alternative fuels must be:
 - transparent, with clear, credible and tested objectives,
 - applied equitably to all industry participants,
 - stable, with clear timeframes for withdrawal of support,
 - based on sound science
 - cognisant of other policy settings and commercial practice.
- AIP believes that fuel mandates can lead to higher costs for consumers, reduce market price transparency for fuel suppliers and consumers, limited price competition and associated marketing innovation, and fail to encourage the development of robust and reliable fuel supplies. Fuel consumers will bear the cost of mandates through increased prices, reduced choice or more vulnerable liquid fuels supplies.

Biofuels and alternative fuels that are used in Australia include:

- biodiesel and biodiesel blends,
- ethanol blends in petrol up to 10 per cent
- high ethanol content fuel (up to 85 per cent)
- liquefied petroleum gas (LPG)
- compressed natural gas (CNG)
- liquefied natural gas (LNG).

AIP members are contributing to efforts to overcome the challenges that biofuels and alternative fuels face in progressing to a fully sustainable market position.

ETHANOL BLEND FUELS

Ethanol is commonly made from biomass such as waste starch and sugar cane and is blended with regular unleaded fuel up to 10 percent for sale into the Australian consumer fuels market and sold as E10. The majority of E10 is sold into New South Wales and Queensland, primarily due to the Government imposed mandates in those jurisdictions. Each state measures its mandate differently:

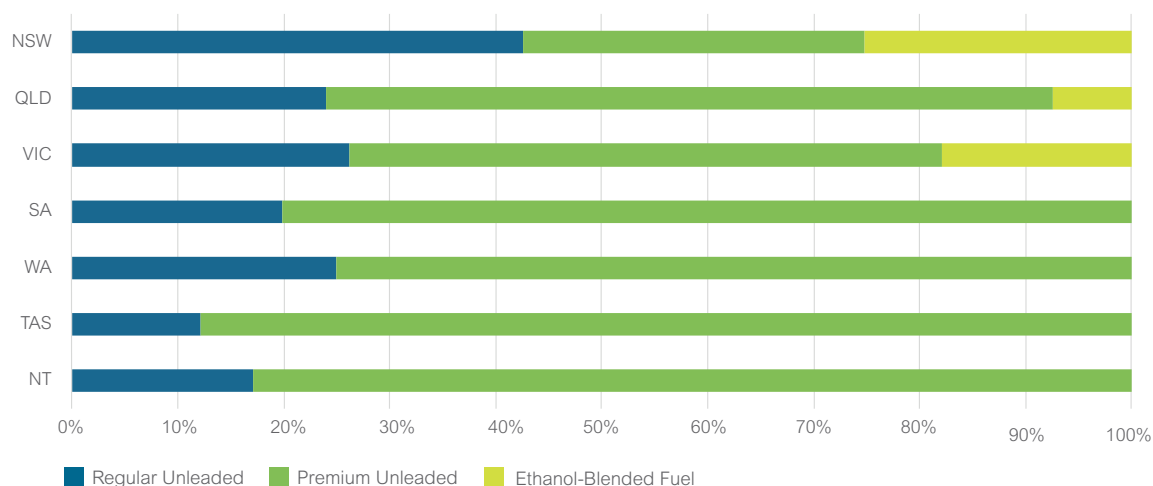
- In NSW, there is a mandate to supply 6 percent ethanol of total petrol (unleaded and premium) sold, or put another way, 60 percent of all petrol sales must be blended with ethanol.

- In Queensland, there is a 4 percent ethanol mandate calculated only on regular unleaded and regular unleaded blend sales and not all petrol sales as in NSW.

The ethanol market share of total petrol sold during 2018-19 was around 2.5 percent in NSW and approximately 1.8 percent in Queensland, well short of the mandated demand imposed by the respective State Governments. There are also sales of E10 in Victoria (which does not have a mandate) of around 0.7 percent of total petrol sold.

AIP member companies have invested significantly in storage, blending and distribution infrastructure and appropriate storage tanks for ethanol blends in service stations. However, the small number of domestic ethanol producers, combined with the excise on imported ethanol, means the ethanol supply chain in Australia remains vulnerable, including through exposure to natural weather events such as droughts and floods on raw material production, as evidenced following the 2012 Queensland floods which led to a substantial shortage of E100 and subsequent drop in E10 sales.

While vehicle compatibility issues will continue to gradually disappear through turnover of the vehicle fleet, the NSW Independent Pricing and Regulatory Tribunal (IPART) noted that the single biggest barrier to greater uptake in ethanol remains consumer aversion.



Source: Australian Petroleum Statistics

The experience with the NSW mandate has seen customers instead prefer a shift to premium unleaded petrol with sales in those fuels in that State almost doubling since 2009 while in the rest of Australia, PULP sales have only increased by around 35 percent over the same period. Sales of E10 in NSW, while higher than other states due to the mandate, have also subsequently fallen having peaked at around 4 percent.

This preference for PULP purchases over E10 highlights the inherent risks of market intervention by government. AIP notes that any proposal for mandating the inclusion of ethanol in premium unleaded petrol (PULP) will only exacerbate distribution issues, reduce competition between proprietary brands, and further remove choice for consumers who do not wish to use or cannot use ethanol blends.

NSW ETHANOL PERCENTAGE OF TOTAL PETROL SALES SOLD BY REGULATED ENTITIES



Source: NSW Fair Trading

Biodiesel blends

There currently exists a range of challenges to the supply of biodiesel in Australia in terms of meeting the required volumes and doing so at a competitive price. While the fuel standards framework (which allows up to a 5 per cent biodiesel blend in diesel and 20 per cent in business applications) is being revised to facilitate market development of biodiesel blends, more consistent advice and endorsement is needed from automobile, truck and heavy vehicle manufacturers on the suitability of biodiesel for use in vehicles. AIP member companies have also invested

heavily in biodiesel infrastructure, as well as actively worked with biodiesel producers to try and address product quality concerns.

LPG, LNG and CNG

These alternative fuels remain a niche section of the market due in large part to a lower than expected uptake of compatible vehicles, changes in excise arrangements, removal of subsidies for vehicle conversion and/or a shift in consumer preference such as towards hybrid vehicles. shift in consumer preference such as towards hybrid vehicles.



ALTERNATIVE FUEL POLICY

AIP supports neutrality and a level playing field for competing transport fuels.

Where financial incentives (excise concessions, production grants and technology and market facilitation grants) are used to facilitate and encourage the use of biofuels and alternative fuels in Australia, these must be transparent and either:

- short-term and aimed at offsetting some of the up-front capital costs associated with bringing the fuel or the fuel use technology to the market, or
- ongoing but solely aimed at recognising significant and demonstrated environmental benefits of the fuels compared to the current environmental performance of mainstream fuels.

In this context, AIP supports the policy of successive governments of fuel excise neutrality for transport fuels based on the relative energy content of the individual fuels.

However, for more than a decade an excise concession of 50% has applied for alternative transport fuels (ethanol, biodiesel, LPG, CNG) compared to mainstream transport fuels. This concession, introduced for regional development purposes, typically costs taxpayers over \$1 billion over 4 years and has not facilitated the increased demand and market supply of these transport fuels. In fact, demand for these fuels has fallen in recent years despite this favourable tax treatment and other government support and subsidisation. AIP therefore supports the removal of this excise concession.

In principle, AIP also does not support mandates requiring the use of any particular fuel as a way of increasing the demand for that fuel. As IPART noted, the major benefits of measures to increase ethanol uptake would accrue to producers of ethanol, while the magnitude of other benefits (such as greenhouse and air quality benefits) are much smaller than the increase in producer surplus.

While AIP members will continue to work to comply with the requirements of both the NSW and Queensland biofuels mandates, AIP believes mandates for biofuels that may help to increase short-term consumer demand must be designed so that they enable a normal and competitive market to develop in the medium to longer term for those fuels.

FUEL MANDATES IMPOSE HIGHER COST FUELS, REDUCE MARKET TRANSPARENCY FOR FUEL SUPPLIERS AND CONSUMERS, LIMIT PRICE COMPETITION AND ASSOCIATED INNOVATION, AND FAIL TO ENCOURAGE THE DEVELOPMENT OF ROBUST AND RELIABLE FUEL SUPPLIES

AIP will continue to work with governments to ensure that the barriers to greater market uptake of biofuels and alternative fuels are fully understood and will promote sound approaches to policy design to overcome market barriers while avoiding unintended consequences. In particular, AIP will work with governments to ensure that policy and regulatory compliance regimes are credible, predictable and equitable for all fuel suppliers and do not impose costs that threaten retailer viability.



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