

## **Victorian Government Response**

To the Economic Development and Infrastructure  
Committee of Parliament's

**Inquiry into Mandatory Ethanol and Biofuels Targets  
in Victoria**

August 2008

## **Section 1.0 - Inquiry background**

The Economic Development and Infrastructure Committee of Parliament's Inquiry into Mandatory Ethanol and Biofuels Targets in Victoria commenced in March 2007. The Committee's report was formally tabled in Parliament on 6 February 2008.

### **1.1 - Terms of Reference of the Inquiry**

The Economic Development and Infrastructure Committee was directed to inquire into, consider and report to Parliament on mandatory ethanol and biofuels targets in Victoria – and, in particular, the Committee is required to:

- report on the merits or otherwise of a mandated target for alternative fuels including biofuels and ethanol;
- report on whether a mandatory target should be 5% by 2010, 10% by 2015 or otherwise;
- report on the measures required by Government to facilitate an alternative fuels industry in Victoria for transport and non-transport applications; and
- report on how to maximise the regional economic development benefits of a mandatory biofuels target including jobs growth and investment potential.

## 1.2 - Key Inquiry Findings

The report provides 22 specific findings, the majority of which relate to the following categories, and are summarised as follows:

### *Regional development*

- Internationally, the key driver of government support for biofuels is regional and agricultural development. The Committee also concludes that small scale, regionally located biofuels plants have the potential to contribute to the expansion of local economies.
- The risk of feedstock price escalation will increase if the capacity of biofuels plants in regional Victoria is not carefully monitored to ensure feedstock demand will not exceed regional supplies during periods of drought or low productivity.

### *Greenhouse gas emissions*

- The Committee found that the use of ethanol and biodiesel blended fuels leads to reductions in greenhouse gas (GHG) emissions. However, the Inquiry also found that, internationally, the cost to government of achieving GHG reductions through biofuels production is at least five times greater than obtaining GHG emissions reductions through existing emissions trading markets.
- The introduction of national fuel quality and vehicle emission standards has improved engine performance and reduced the adverse effects of the transport sector on the environment.

### *Fuel security*

- Based on current technologies, natural gas is the alternative fuel that is most likely to provide substantial gains in domestic fuel security.
- Methanol production has a potential role in the future fuel mix, and developments in methanol fuel production and engine technologies should be monitored by government.

### *Government subsidies*

- Ongoing provision of government-funded programs and subsidies is a key feature of the biofuels industry internationally.

- Future government support for the biofuels industry should focus on ways to support industry development without the need for long-term government grants or subsidies.

*Future potential targets*

- Volumetric biofuels targets or mandates, rather than blends or segmented mandates, provide superior opportunities for market efficiencies to be explored.
- If a mandatory target is to be adopted by the Victorian Government, the target should be expanded to include all fuels that are derived from renewable organic sources. As with any mandatory target careful consideration should be given to all associated costs and benefits.

*Compressed natural gas*

- Compressed natural gas (CNG) has the potential to significantly contribute to Australia's fuel transport mix.
- The use of CNG in heavy and light vehicle fleets provides significant reductions in air pollutant emissions compared to other vehicle and fuel types.

### **1.3 - Key Inquiry Recommendations**

The Committee made 27 recommendations in its report, the key recommendation being that the Victorian Government should not introduce a mandatory target for biofuels at this time. However, the Committee recommends that Government review the merits of a biofuels mandate by 2013.

The Committee has also made a number of recommendations relating to regional development. In particular, the Victorian Government should promote the benefits to regional Victoria of investment in biodiesel plants, particularly where the majority of raw materials are sourced locally and key consumers are local businesses. The Victorian Government should also find mechanisms to encourage local councils to support biofuels related initiatives. The Biofuels Infrastructure Grants (BIG) program should continue to prioritise biodiesel initiatives in regional areas.

The Victorian Government should ensure that biofuels manufactured and/or sold in Victoria are obtained from environmentally sustainable sources. In addition, any expansion of the biofuels industry should be underpinned by rigorous cost-benefit analysis.

The Committee also recommend the Victorian Government request changes at Commonwealth level to standards on consistency of biofuels blends, labelling standards, and amendments to excise rates on particular fuels.

In relation to CNG, the Committee recommends that the Victorian Government conduct an extensive cost-benefit analysis of the merits of an expanded CNG industry, as well as conducting a private transport pilot program with CNG.

## **1.4 - Current Government Initiatives**

The Victorian Government has already introduced a number of initiatives in line with the Committee's recommendations.

As per Recommendation 1 the Victorian Government is presently extending the EPA's successful smoky-vehicle program to incorporate mandatory testing of commercial diesel vehicles found to have infringed within the metropolitan region.

The Victorian Government, through EPA Victoria, has funded a Local Government diesel vehicle emissions reduction program which led to three councils trialling B20 biodiesel in their fleets.

As part of the *Biofuels Road Map*<sup>1</sup>, the Victorian Government has identified the design and implementation of clear quality standards throughout the biofuels industry as being critical to its ongoing

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<sup>1</sup> "Driving Growth: A Road Map and Action Plan for Development of the Victorian Biofuels Industry", [http://www.business.vic.gov.au/BUSVIC/STANDARD//pc=PC\\_61930.html](http://www.business.vic.gov.au/BUSVIC/STANDARD//pc=PC_61930.html)

development. Accordingly, the Victorian Government is committed to lobbying the Commonwealth to revise and update all fuel standards. Another of the key commitments under the *Biofuels Road Map* is a volumetric target of five per cent biofuels consumption by 2010.

During the Victorian Climate Change Summit, the Victorian Government re-iterated its support for the establishment of a national emissions trading scheme (ETS).

Through the BIG program and the *Biofuels Road Map* the Victorian Government is actively supporting regional development opportunities which may result from an expanded biofuels industry.

In responding to the Committee's other recommendations, the Victorian Government has expressed its broad position in the following terms:

- *Support*: indicates that the Victorian Government agrees with the Committee's recommendations. However, the implementation of any recommendation that the Victorian Government supports is necessarily dependent on the availability of resources to support such outcomes.
- *Support in Principle*: indicates that the Victorian Government agrees with the intent of the recommendations, but not necessarily with the method proposed for achieving that outcome. Alternatively, the Victorian Government may believe that further analysis is required, particularly where new funding is proposed.
- *Requires further Victorian Government consideration*: indicates that a further examination of the issues is required by the Victorian Government.
- *Not support*: indicates that the Victorian Government does not agree with the Committee's recommendations.

## **Section 2 - Victorian Government Response to the Committee Inquiry's Recommendations**

### **Recommendation 1:**

Given increasing interest in vehicle air emissions reductions in association with biofuels use, that EPA Victoria also implement procedures to ensure improved compliance of existing vehicles with current air emissions requirements.

### *Support*

The Victorian Government supports this recommendation, and is in the process of extending EPA's successful smoky-vehicle reporting program. The program incorporates mandatory emission testing of commercial diesel vehicles found to have infringed the 10-second smoke rule within the metropolitan region.

Once implemented, this aspect of the EPA's vehicle emissions program will be unique in Australia and will represent a major addition to efforts to maintain Melbourne's air quality.

### **Recommendation 2:**

That the Victorian Government work with other state governments, in particular NSW and Queensland, to advocate to the Commonwealth Government for the continued development of harmonised and consistent biofuels standards.



Support

In the *Biofuels Road Map*, the Victorian Government has identified the design and implementation of clear quality standards as essential for the ongoing development of the biofuels industry. Accordingly, the Victorian Government is committed to lobbying the Commonwealth to continually revise and update all fuel standards.

In addition to this, through the Victorian Government's *Reducing the Regulatory Burden* initiative<sup>2</sup>, the Government has committed to leadership in harmonisation of regulation through collaboration with other Australian governments.

Recommendation 3:

That the Victorian Government request that the Commonwealth Government introduce biodiesel blend standards for both B5 and B20 blends.

Requires further Victorian Government consideration

The Victorian Government is supportive of the need for consistent standards for biofuels, however the particulars of these standards are yet to be determined. In advocating for a particular blend standard, the Government must be mindful of the influence that such a standard will have on the biofuels market. The Victorian Government considers that more work is required to determine which biofuels blends strike the best balance in terms of economic, environmental and social outcomes, and accordingly will not commit to advocating either B5 and/or B20 standards at this time.

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<sup>2</sup> <http://www.dtf.vic.gov.au/CA25713E0002EF43/pages/reducing-the-regulatory-burden>

Recommendation 4:

That the Victorian Government request that the Commonwealth Government create a biodiesel labelling standard.

Requires further Victorian Government consideration

In considering advocating for implementation of a labelling standard for biodiesel, the Victorian Government is mindful of the trade-off between consumer confidence and regulatory burden. Accordingly, the Victorian Government is of the opinion that more extensive analysis of the biodiesel market needs to be undertaken to determine if a labelling standard provides an appropriate cost/benefit rationale to warrant new regulation.

Recommendation 5:

That the Victorian Government advocates that the Commonwealth Government increase resources and personnel allocated to monitoring biodiesel fuels to ensure that all suppliers provide biodiesel to the market that meets the Australian standard.

Not Support

In 2006/07 Commonwealth fuel quality inspectors, or inspectors acting under delegation in the employment of various State and Territory agencies, took 2321 fuel quality samples for testing. This is a new record for fuel samples taken in a year and an increase 117 per cent from fuel samples taken in 2005/06. Test results indicated a high level of compliance with the fuel quality standards, including biodiesel. Where a non-compliance with a standard is detected, further investigation is

undertaken with a view to prosecution if an offence can be reasonably proven.<sup>3</sup>

The Victorian Government does not endorse the Committee's view that increased resources and personnel are required beyond that which the Commonwealth presently brings to the administration arrangements for the *Fuel Quality Standards Act 2000*.

Recommendation 6:

That the Victorian Government initiates a pilot project with a publicly or privately owned public transport provider to use B5.

Support in Principle

The Victorian Government supports Recommendation 6 in principle, noting that there is a need to underpin any decisions regarding use of biofuels in buses and other forms of public transport by the type of analysis described in Recommendation 19.

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<sup>3</sup> Operation of the Fuel Quality Standards Act 2000 – Monitoring and Compliance, Department of the Environment and Water Resources annual report 2006 – 07  
(<http://www.environment.gov.au/about/publications/annual-report/06-07/legislation-fuel-quality.html#monitoring>)

B5 has been trialled for a range of uses and a variety of vehicles across Australia, including trials with buses used in public transport in a number of other Australian states. A number of transport operators also already have experience in using B5. However, the outcomes of these trials and existing operating experience have not been collated. The Victorian Government believes collating the outcomes of existing trials would be more useful than establishing new trials.

Consequently, in response to Recommendation 6 the Victorian Government proposes that a report be prepared in cooperation with other governments to bring together the results of existing B5 trials and operating experience.

Recommendation 7:

That the Victorian Government requires transport providers to use biodiesel blended fuel when contracts become available for renewal or tender.

*Requires further Victorian Government consideration*

To support biodiesel use, the Victorian Government, through EPA Victoria, has provided funding to a Local Government diesel vehicle emissions reduction program. This led to three councils trialling B20 biodiesel in their fleets. These trials are described in the International Council for Local Environment Initiatives report relating to biodiesel in local government, which is also funded by the Victorian Government<sup>4</sup>. The three trials are still in progress, with the final reporting expected to be made publicly available in 2009.

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<sup>4</sup> <http://www.iclei.org/index.php?id=7076>

The Department of Transport is finalising an analysis of the costs and benefits of using biofuels in public buses across Victoria. The Victorian Government has previously committed to completing and releasing this analysis. The final response to Recommendation 7 will be considered further in light of the results of this analysis.

**Recommendation 8:**

That the Victorian Government not establish mandatory targets for biofuels at this time.

*Support*

The Victorian Government supports this recommendation, noting the Committee's conclusion that there does not appear to be a sufficient evidence to warrant the introduction of a biofuels mandate for Victoria.

The Victorian Government's submission to the Committee refers to the need for biofuels policy to respond to specific market failures in a least cost fashion. Accordingly, a mandate should be adopted only if:

- market failure can be demonstrated;
- a mandate is the least cost way of addressing this failure; and
- the environmental, social and financial benefits of a mandate exceed its costs.

**Recommendation 9:**

That the Victorian Government conduct a formal review of the merits of a mandatory biofuels target by 2013.

Requires further Victorian Government consideration

While recognising the potential for the merits of a mandatory target for biofuels to change over time, the Victorian Government considers that commitments relating to the timing of the proposed review require further consideration. Uncertainty over the rate at which the merits of a mandatory target may change implies that the timing of a future review may need to be determined by, or in response to, specific market or technological developments.

In September 2007, Victorian Ministers agreed to objectives to guide the development of future biofuels policy. These objectives, in addition to the *Biofuels Road Map*, position the Victorian Government to be well informed of, and capable of responding to, changes in market conditions and technology which may warrant an additional review into the merits of a mandatory target.

Recommendation 10:

That the Victorian Government continue to support the establishment of a national emissions trading scheme and request that a national greenhouse gas emissions target be established. The trading scheme and target should apply to transport applications.

Support

During the Victorian Climate Change Summit, held on 4 April 2008, the Victorian Government re-iterated its support for the establishment of an ETS. The Victorian Government intends that an ETS will be the cornerstone of Victoria's GHG abatement program.

The Victorian Government notes that clearly established targets for emissions reduction are essential for the effective operation of an ETS.

The Victorian Government support the view expressed in the Garnaut Draft Report which expresses a preference for an ETS incorporating as many sectors as practicable.

Recommendation 11:

That Victorian Government work with industry to develop a comprehensive GHG emissions auditing process, with a particular focus on emissions associated with transport applications.

*Not Support*

A mandatory GHG reporting process will be introduced by the Commonwealth Government in July 2008. This reporting procedure will form the basis of an auditing arrangement under the proposed ETS. These reporting requirements will apply to large transport applications.

Victorian auditing requirements would impose an additional burden on transport operations in Victoria, duplicating the Commonwealth requirements for large operators and imposing an additional burden on smaller commercial transport operators and car drivers. There may however, be merits in providing simple guidance materials to commercial transport operators to aid them in measuring their carbon footprint. A range of materials such as the Green Vehicle Guide<sup>5</sup> and the carbon calculator available on the EPA website<sup>6</sup> are available to aid individuals to assess the GHG emissions of private motor vehicles.

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<sup>5</sup> <http://www.greenvehicleguide.gov.au/>

<sup>6</sup> <http://www.epa.vic.gov.au/GreenhouseCalculator/calculator/default.asp>

Recommendation 12:

That the Victorian Government continue to facilitate the development of a renewable fuels industry, with the key focus being the reduction of greenhouse gas emissions.

Support in Principle

The Victorian Government is committed to development of the renewable fuels industry, as demonstrated by actions outlined in the *Biofuels Road Map*<sup>7</sup>. However, drivers for an expanded renewable fuels industry should not be limited to GHG emissions reduction. Future renewable fuels policy should ensure:

- Victoria's energy security is strengthened;
- there is a contribution to the environmental sustainability of the transport sector; and
- net new sustainable regional development opportunities are promoted.

Accordingly, the Victorian Government supports this recommendation in principle, with these qualifications

Recommendation 13:

That the Victorian Government ensure that biofuels manufactured and/or sold in Victoria are obtained from environmentally sustainable sources.

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<sup>7</sup> "Driving Growth: A Road Map and Action Plan for Development of the Victorian Biofuels Industry", [http://www.business.vic.gov.au/BUSVIC/STANDARD//pc=PC\\_61930.html](http://www.business.vic.gov.au/BUSVIC/STANDARD//pc=PC_61930.html)



*Support in Principle*

The Victorian Government supports the sentiment of this recommendation. However, further investigation is required to determine the best method of ensuring the environmental sustainability of biofuels production and sale.

In the *Biofuels Road Map*<sup>8</sup>, the Victorian Government has stated its commitment towards a sustainable supply of energy that can be grown in Victoria from renewable organic sources. The biofuels industry offers potential environmental benefits such as possible GHG emissions reductions relative to fossil fuels.

As the Committee has identified within this recommendation, the nature and extent of these outcomes can vary widely. As a result, governments around the world are working on the design of various administrative frameworks such that some assurance can be given that these outcomes will be positive. To date, no government has implemented a system which addresses the range of concerns denoted by the term “sustainability”.

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<sup>8</sup> *Driving Growth: A Road Map and Action Plan for Development of the Victorian Biofuels Industry*, [http://www.business.vic.gov.au/BUSVIC/STANDARD//pc=PC\\_61930.html](http://www.business.vic.gov.au/BUSVIC/STANDARD//pc=PC_61930.html)

Recommendation 14:

That Victorian Government promote the benefits to regional Victoria of investment in biodiesel plants, particularly where the majority of raw materials are sourced locally and key consumers are local businesses.

and

Recommendation 15:

That Victorian Government find mechanisms to encourage local councils to support local biofuels-related activity.

Support

The Victorian Government recognises the potential benefits to regional Victoria through the increased production of biofuels, and has already implemented policies to harness this potential.

Through the BIG program the Victorian Government provides support to help establish biofuels production in regional Victoria. For example, a grant of \$400,000 was offered to the Swan Hill Rural City Council for upgrading vital road infrastructure associated for the now deferred Swan Hill Ethanol plant. A number of other community biodiesel projects, which are being developed using locally grown oilseeds, have been identified and, where appropriate, support may be provided through the BIG program.

State Government will work closely with Local Government in the spirit of the State-Local Government Agreement when determining the mechanisms to encourage local support for biofuels related activity.

Recommendation 16:

That Victorian Government place on the agenda for a future regional councils meeting the issue of support for the biodiesel industry. Consideration of support for the biofuels industry should consider uniform regulation across government and councils to provide information about, and streamline processes for, the establishment of biodiesel facilities.

Support

The Victorian Government considers that forums such as Community Cabinet give local communities an opportunity to raise their ideas and concerns directly with Ministers and senior government officials. Placing the biofuels industry as a topic on the agenda will help raise the profile of biofuels and assist in the development of the industry across Victoria.

The Victorian Government supports the notion that harmonised regulation across levels of Government will facilitate more efficient establishment of biodiesel facilities.

Recommendation 17:

That the Biofuels Infrastructure Grants (BIG) program continues to prioritise biodiesel initiatives in regional areas.

Support

The BIG program of \$5 million is a priority allocation to help drive industry critical infrastructure development throughout Victoria. It is funded from the Regional Infrastructure Development Fund (RIDF) which has been established to improve the competitive capacity of regional Victoria and enhance economic development through investment, job creation and the promotion of export opportunities.

The RIDF provides support for capital works that will enhance the development of rural and regional Victoria to:

- support new industry development;
- link transport infrastructure;
- improve tourism facilities; and
- better link regional Victoria to new opportunities in education and information and communication technologies (ICT) infrastructure.

Recommendation 18:

That the BIG program be independently evaluated and extended if the evaluation indicates proved economic benefits to regional areas.

Not Support

The Victorian Government considers that the BIG program has presently allocated too few grants to justify an evaluation of its performance and potential for expansion.

Recommendation 19:

That cost-benefit analyses regarding the expansion of a biofuels industry in Victoria should be conducted through an independent and transparent process that examines:

- production, infrastructure and distribution costs;
- agricultural requirements, including land and water usage;
- feedstock prices;
- government support;
- energy security;
- life-cycle greenhouse gas emissions;
- fleet transformation; and
- life-cycle air pollutants.

*Support*

The Victorian Government considers that any policy action in the biofuels industry should respond to specific market failures in a least cost fashion. Accordingly, policy actions designed to expand the biofuels industry will be analysed to ensure they are targeting any given objective in an efficient way.

Recommendation 20:

That the Victorian Government, in consultation with other governments and the Commonwealth Government, investigate the feasibility of requiring all vehicles sold in Australia to comprise technology to enable use of a range of fuels, including higher blends of biofuels.

Not Support

The Victorian Government considers that the proposed regulation may benefit from an alternative focus. Regulation is most efficient when it is outcome, rather than means focused. To this extent, the vision of the present recommendation, technology change in Australian vehicles, could be improved through a more explicit focus on the desired outcomes of an expanded biofuels industry, for example, GHG emissions reduction or new regional development opportunities.

Additionally, under an ETS it is likely that market forces will encourage the adoption and development of alternative fuel technology in new vehicles. Initiating additional regulation will require significant investment and resource allocation, and given the proposed introduction of an ETS in 2010, may best be deferred.

Recommendation 21:

That Victorian Government encourage major oil companies to construct shared biodiesel blending facilities at the Melbourne terminal.

Support

The major oil companies are required by the Commonwealth Government to achieve a biodiesel production target of 350 million litres by 2010. The Victorian Government is actively encouraging those companies to explore the opportunities for developing biofuels projects in Victoria and to expand biodiesel blending facilities through incentives under the BIG program.

An appropriately sited blending facility will assist in rapidly increasing the uptake of biodiesel and in providing access to the larger Melbourne market for diesel fuel.

Recommendation 22:

That independently, peer-reviewed research be conducted at regular intervals to provide updated data on the life-cycle greenhouse gas emissions and life-cycle air pollutants produced from the use of biofuels in transport applications.

*Not Support*

The Victorian Government is committed to increasing understanding of research, science, international and industrial developments relating to biofuels. In this respect several studies have been initiated by the Government, some of which are cited in the Committee's report.

It should be recognised that much work of this nature around the world is dedicated towards improving the methods for assessing lifecycle GHG and air pollutant emissions of biofuels. By way of example, the effect of fertiliser inputs into biofuel feedstock crops on the resultant lifecycle GHG emissions remains an area of great uncertainty. Thus the means by which emissions assessments are made is constantly evolving, making design of an ongoing program of periodic assessment problematic.

In addition to this, the existing data relating to lifecycle GHG and air pollutant emissions of biofuels provides a starting point for deliberation around the design of any administrative arrangements (refer to Recommendation 13). Additional data will help inform this process, however the highly-specialised, and by extension costly, nature of this work will not necessarily be outweighed by its value.

Consequently, the Victorian Government does not support the recommended research program.

Recommendation 23:

Through representation on the relevant ministerial council the Victorian Government seek to place on the agenda for consideration the development of a nationally coordinated research program to examine feedstock and biodiesel production technologies for application in the Australian biodiesel industry.

*Requires further Victorian Government consideration*

The development of a nationally coordinated research program for feedstock and biodiesel production technologies has the potential to improve harvesting technologies and the fuel yields from various feedstocks. Despite this consideration, other jurisdictions have a significant comparative advantage over Victoria in the production of first generation biodiesel. Consequently, Victorian leadership on the development of a national research program requires further consideration of the most appropriate strategy for engaging other Australian jurisdictions.

Victoria may be more likely to have a leadership role in the development of a nationally coordinated research agenda of future generation biofuels.



Recommendation 24

The Victorian Government request the Commonwealth to review and assess plastics-to-diesel fuel with a view to including this fuel under the definition of “cleaner fuels” in the *Energy Grants (Cleaner Fuels) Scheme Act 2004 (Commonwealth)*.

And

Recommendation 25

The Victorian Government request that Commonwealth to review and assess plastics-to-diesel fuel with a view to introducing a 50 per cent reduction to standard fuel excise rates applies to plastics-to-diesel fuel from 1 July 2011, in line with excise rates to be introduced for other alternative fuels.

*Requires further Victorian Government consideration*

The Victorian Government acknowledges the Committee’s research into the potential benefits of plastics-to-diesel fuel. However, before an assessment of the appropriate legislative and tax treatment of plastic-to-diesel fuel can be made, conclusive research on the upstream GHG emissions of plastics-to-diesel fuel is required.

As per the Committee’s finding that such research is not yet available, the response to this recommendation is deferred until a full assessment of the environmental impacts of plastic-to-diesel fuel can be made.

Recommendation 26:

That the Victorian Government conduct an extensive cost-benefit analysis of the merits of an expanded CNG industry in Victoria, with particular attention to infrastructure requirements and initiatives to increase market demand.

and

Recommendation 27:

That the Victorian Government conduct a public transport pilot program with CNG.

Support in Principle

The Department of Primary Industries and the Department of Transport are investigating the merits of a range of alternative transport fuels, including CNG. This analysis will identify market conditions, the relative costs and environmental impacts of different fuels and constraints on market expansion. This analysis will form the basis of detailed consideration of the potential for a range of alternative fuels in public transport as well as in private transport activity and commercial fleets. A decision on whether or not a specific public transport trial with CNG will provide additional value will be made once the results of this analysis are available.