

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Mandatory Ethanol and Biofuels Targets

Melbourne—20 August 2007

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Mr S. Ramsay, President, Victorian Farmers Federation; and
Mr G. Ford, Executive Manager, Policy, Victorian Farmers Federation.

The CHAIR—Welcome to the public hearings of the Economic Development and Infrastructure Committee's Inquiring into Mandatory Ethanol and Biofuels Targets in Victoria. All evidence taken at this hearing is protected by parliamentary privilege. Comments you make outside the hearings are not afforded such privilege. Could witnesses please state their name, business address, if you are representing an organisation and your position within the organisation. Your evidence will be public and put on the web after transcripts have been approved. Copies of transcripts will be provided to you within about a fortnight and you are free to make any typographical corrections required, but not change the substance of your presentation.

Mr RAMSAY—Simon Ramsay. I am the President of the Victorian Farmers Federation [VFF] and we reside at 24 Collins Street, Melbourne.

Mr FORD—Graeme Ford, Executive Manager, Policy for the Victorian Farmers Federation, and the same address, 24 Collins Street.

The CHAIR—If you would not mind spending half or less of the time allocated to the presentation, and then we can ask questions. We are finding questions are really the most helpful. I will speak on behalf of everybody, we have all read your submission.

Mr RAMSAY—Thank you, Madam Chair, for the opportunity to present at this review committee. As you have said, we have provided quite an extensive submission and you will be glad to hear I do not intend to go into it. But what we would like to do is touch on the terms of reference and our response to those terms of references in a few lines, then obviously the opportunity for questions perhaps in parts of our submission, which either myself or Graeme can respond to if that is all right.

In relation to the merits of mandated target for alternative fuels, the Victorian Farmers Federation does not support mandating alternative fuels, in this case biofuels. We believe the use of biofuels should be achieved by encouraging and not regulating demand. One tonne of grain produces 380 litres of ethanol. A mandated 10 per cent ethanol blend would consume around 25 per cent or five million tonnes of Australian grain production. That would have a significant impact on the livestock industry and others that depend on grain for production.

The concern for the VFF is the potential impacts of a mandate on the Australian domestic livestock sector valued at \$12 billion per year and accounting for one-third of Australia's farm GDP. A study by the Centre for International Economics concludes that mandatory blending of ethanol at 10 per cent for petrol and 15 per cent for diesel would permanently increase the average price of grain in Australia by over 25 per cent. This would be well over current export parity prices and prices paid by Australia's competitors. While this would be very positive for grain producers, its impact on Australian livestock industry would be drastic.

Instead of biofuel mandates, the VFF prefers a market that places emphasis on the biofuels sector being independently competitive in the long-term. Such incentives include: biofuels to be free from government fuel taxes and excise now and in the future; the provision of start-up grants to assist the infant domestic biofuel production industry; greater incentives for consumers to have access to flex-fuel cars; the Federal Government to ensure widespread availability of suitable biofuels; encouraging the increased public awareness initiatives from governments, fuel retailers and car manufacturers to stimulate consumer demand for biofuels; greater support for small-scale biodiesel production and consumption through streamlining biodiesel licensing and regulatory environment, particularly on farm production and use—we have identified \$3,000 licence fee per batch, which we believe is quite onerous; further analysis to assess the long-term challenges and opportunities regarding biofuel production in Australia; additional and ongoing research into the development of agricultural systems for the biofuel feed stock production; biofuel processing technology and infrastructure required for sustainable biofuels here in Australia.

One of the four issues we have identified through the terms of reference was a mandatory target of 5 per cent by 2010, 10 per cent by 2015. As stated, the VFF does not support any form of mandating of fuel use. Further the VFF is supportive of a program that increases the choice of consumers in being able to access ethanol blended fuels. By that, we ask to ensure that service stations provide at least one bowser of biofuel blended fuel, remove the effective tariff or excise on imported ethanol to make blends cost competitive, and lead to demand. Currently producers of domestic ethanol are rebated the fuel excise and we understand that. I would

perhaps like to say a bit more about that later. An education campaign to counter the negative perceptions of ethanol fuels, and allow ethanol blends above 10 per cent.

Issue 3: measures required by government to facilitate an alternative fuel sector. The VFF strongly supports government efforts to encourage demand for biofuels. As previously stated, this is ensuring supply points are widely available to consumers; excise arrangements provide incentives to use biofuel blends; removal of the excise on imported and domestic ethanol; simplify the regulatory regime around biodiesel production and facilitated community and cooperative structures that would enable farmers to be able to produce biodiesel to engage in production. I refer again to the \$3,000 licence fee per batch.

The fourth and final issue, maximise regional development potential of a mandatory target. There is potential that the benefits flowing to regional communities through biofuel production would be surpassed by the impacts on the livestock sector. That is the issue I first raised with you in relation to a mandate and the impacts it would have to the livestock sector. Grain based ethanol production is first generation and there is widespread research being placed into cellulose biofuels. Regional development efforts to support the start-up of grain based ethanol plants must be made with a long-term view in the potential for transition to second generation of production. Research into the use of distillers grain, wet and dry, under Australian livestock production systems is needed. In a very short but I hope concise presentation, that is the bulk of our submission. Is it all right if Graeme wants to add value to it?

Mr FORD—No, that has pretty much covered the relevant points of ours.

The CHAIR—I have a number of questions. I want to go to your submission for a start, the bottom of page 2 where you talked about if E10 was mandated, it is estimated Australia would require two billion litres of ethanol, and then you did the sums in terms of the crop production, export, domestic use and ethanol and basically was saying it did not add up without huge increases in prices for grain. I have a couple of parts to my question. The first is, could you run through that break-down in any more detail, if you wish, otherwise you can leave it how it stands. The second component of my question is, what is wrong with farmers getting extra income for grain if, as a result of market forces, more grain is required for ethanol?

Mr RAMSAY—I am happy to tackle the second question. Perhaps I can refer to Graeme for the first.

Mr FORD—I was preferring the second one myself. The first one, these numbers are purely based on what the average production has been in Australia for grain or grain that can be used for ethanol production. We export about 12 million tonnes of that out of that total harvest.

The CHAIR—Yes.

Mr FORD—All those figures are in there. The amount of ethanol, as you see above that, one tonne of grain essentially produces 380 litres of ethanol. If you crunch the numbers out, it comes up to a substantial amount of grain that would need to be diverted from other uses into ethanol production. We have no objection to grain growers getting increased prices, assistance based on a market but I will let Simon go on to that. I am not sure, is that sufficient detail? I am not quite sure what detail you are looking for.

The CHAIR—You have run through 20.9 tonnes.

Mr FORD—Yes.

The CHAIR—Export, round figures, 12, leaving 8.9. You estimate five million for a mandate.

Mr FORD—Yes.

The CHAIR—Which would leave 3.9.

Mr FORD—The stuff that is not exported that is currently used in the domestic market either—

The CHAIR—What are we using in domestic markets, because that figure is not here, what we are currently using.

Mr FORD—That would be in stock feed mainly.

The CHAIR—The domestic market plus stock feed at this point does or does not add up to 3.9?

Mr FORD—I am not sure. We do not have a value for the amount of grain used in stock feed at the moment. The domestic market primarily would be for feed grains for livestock productions, for dairy. Even broad-scale agriculture livestock industries, certainly through the droughts as we have seen the last few years, a substantial amount of grain is fed to sheep and cattle on broad-scale farming.

The CHAIR—That figure is basically whatever we have left. You do not quantify a figure in your submission.

Mr FORD—There are small amounts of flour production and some other uses as well; canola oil, obviously.

Mr RAMSAY—Some would be held in stocks on farms.

The CHAIR—The second part, the upside for grain producers is if we did go down the part of a more stringent approach with ethanol they would have, on your argument, an increase in their income.

Mr RAMSAY—That is true. I think the point—a lot of this will be price driven, obviously. The consumer at the end of the day will have the choice and that is what our submission is about, choice of whether they will support a biofuel industry or not. We have tried to find ways of finding that attractive to the consumer and finding some balance between the needs and added value of our grain producers as against the needs of our livestock industry. There is a balance. In our organisation we have membership that is made up of both. Now, what we have tried to do is provide a case whereby we believe it should be market driven on market demand, rather than policy driven, which provides the demand to enable that choice as well as providing that balance.

The CHAIR—Thank you.

Mr RAMSAY—But certainly we do support any opportunity to add value to the grain commodity, the grain producers. We are not suggesting biofuels is not an important part of that, we are saying we need to strike a balance between all the industries in relation to supporting a biofuel industry.

Mr THORNLEY—If I can follow up on the ethanol question. I am wondering whether you have or you know of anyone who has done any economic modelling on this stuff, because I have heard a number of people make a range of claims about what would happen if you assume the market stays static and you change one variable, like you change the demand for grain. Usually when you model the economics of these things out, there are a few more iterations that you go through that might lead to some other forms of land substitution? What might the price impacts in other areas be? You do the full model and you work out what—

Mr RAMSAY—Crop substitution.

The CHAIR—That is right, stock grain and blue gums and stuff like that.

Mr THORNLEY—Yes. It is not as simple as, this is where we are now; if we change this everything will blow-up. Do you have any modelling or do you know of anyone who has done any that looks at the full lifecycle economics of it?

Mr FORD—I do not think we look at the full lifecycle, whether there would be a potential for substitution of land use. Pretty much you would have to be changing from one agriculture enterprise to another. I think there is much more arable land out there that is currently not used that could be converted

from non-use to grain production. In fact, there is a suggestion now that climate change is going to shrink the amount of available land.

The CHAIR—Yes, that is true.

Mr THORNLEY—If you look at the wool and grain substitution certainly in the (indistinct) over the last couple of decades it has been quite substantial. These things do happen over time in response to crises.

Mr FORD—But I think we are talking about the scale of change that would be required as well. 10 per cent is 25 per cent of grain harvest. Grain growers are already prepping to some degree—I think a range of factors, certainly the poor seasons we have had in Australia in the last 10 years on average, and also the demand for grain in overseas countries for ethanol production has put—if you look at the world market for grain. There has been already a bit of a flow-on effect to the Australian grain sector. It is about economic efficiencies, isn't it. General economic theory would suggest that if the government intervenes in the marketplace you do not get economic efficiency. That would be our concern, that you would have artificial inflation of grain prices because of a government decision to mandate a particular use of fuel or a particular use of grain.

Mr THORNLEY—I think we are already dealing with a complex interplay of government impacts in a whole range of these markets.

Mr FORD—The problem is, of course with these poor seasons we have been having, grain production has been substantially down. In situations such as last summer when, since the livestock industry has only survived on record high grain prices, if there was another player in the market that was regulated to take a certain amount of the grain out of the market, I suspect we would have found there would have been no grain left for the livestock industries.

The CHAIR—Last season?

Mr FORD—Yes, 2006. Essentially there was no harvest, or very minimal harvest of grain around the countryside; enormous demand because of the very poor and very severe drought, I suppose, very (indistinct) irrigation allocations. Another player in the marketplace that has to produce because it is a regulation would have some significant impacts. Imports are always a possibility, but then we have quarantine problems. It is not a simple matter of well, there is not quite enough grain in Australia, we will bring a shipload in and start shipping it around. There are problems.

The CHAIR—You made some comment, from memory, in your submission regarding tariffs, didn't you?

Mr FORD—Yes.

Mr THORNLEY—The reduction of the tariff on the import of ethanol.

The CHAIR—Yes. Are you suggesting that we do not need to have the barriers to the imports that we have currently in order to protect our agricultural industry?

Mr RAMSAY—We are suggesting there is, in my understanding, an agreed phase-out of excise on imported biofuels, and also my understanding is the full rebate to domestic producers will be phased out as well to 50 per cent to 2015. Our view is that it is not—I also chair the National Farmers Federation Biofuel Taskforce and we commissioned a [CSIRO] report through [RIDC], you have probably had an opportunity to read it, which validates certainly trying to find some equity and consistency in availability of fuel at a price that would be supported by the consumer.

The CHAIR—Yes.

Mr RAMSAY—We believe the removal of the excise—we will call it excise rather than tariff—and also the phase-out of full rebate to domestic production will provide some equity in the marketplace. At the

end of the day the consumers will have a choice. They have to have the access. The access and the education is terribly important. I think we have emphasised that quite a lot through this submission. Consumers, thanks to previous work done by individuals, have provided some mystique and concern about the use of biofuels in transport, whether it be vehicles, cars, trucks, whatever. It is quite a hurdle we have to overcome in relation to getting consumers comfortable with the use of biofuels.

Mr DAVIS—Mr Ramsay, you mention water in your submission and notwithstanding the points you make about the greater efficiency of water use in terms of ethanol production these days, it is still a water-intensive process on the agricultural side and on the industrial side. The State Government has a proposal to take water from the north of the divide and bring it towards Melbourne for Melbourne's domestic use. Do you think that has the capacity over the longer term to impact on the capacity of northern Victoria to produce biofuels?

Mr RAMSAY—There seems to be over time a considerable reduction in use of water in the transfer from food to fuel. As indicated in our submission, what impact that will have—I think you might be suggesting comparative industries in relation to water use and water access.

Mr DAVIS—I am suggesting the total pool of water that is available. Does that have the capacity in any way to diminish the production of ethanol or biodiesel in northern Victoria?

Mr RAMSAY—Depending where the plants are located, and they do tend to be traditionally in the grain growing areas, I am not sure what the impact would be against the use of water for this food fuel transfer, again sufficiently (indistinct) like dairy has a water right in so many megalitres. We have not done that study. Again it is a competitive world out there for water, whatever industry is prepared to pay for it, it will. That is a concern that we are reducing or taking away the availability of water from traditional industries to a food fuel transfer by I do not know how much.

Mr DAVIS—Let me understand this: water is coming to Melbourne and you are talking—

The CHAIR—Sorry, he has the opportunity to talk about it in relation to biofuels. Mr Ramsay made the point that it was traditionally in grain areas which I understand are not north of the divide, the kind of grains we are talking about for biofuels. But if you do not quite understand that, I am sure Mr Ramsay can put you straight where they are located.

Mr DAVIS—No, I well understand that. But my point is that water is being taken—

The CHAIR—I know what you are trying to get at.

Mr DAVIS—Indeed. I am pleased that you know.

The CHAIR—I am sure he does too.

Mr DAVIS—You may even agree with me.

The CHAIR—No, I do not think you will find we agree. Mr Ramsay, is there anything else you want to add?

Mr FORD—I think this: the grain production itself is not generally an irrigated agricultural district.

Mr DAVIS—I understand that.

Mr FORD—The production facility would require commercial use of water.

Mr DAVIS—Absolutely.

The CHAIR—Yes.

Mr FORD—Obviously there would be competition in that water, if they were located on that system. I know the system we are talking about and I believe that the Swan Hill proposal would be in that system and would be in that area.

Mr DAVIS—It would take water that may be used for other agricultural processes.

The CHAIR—No. He did not say that.

Mr DAVIS—No. I am asking him to define it a little more closely.

Mr FORD—If you are suggesting that the 75 gigs to come to Melbourne would mean that you could not do biofuels, I suspect that is not accurate.

Mr DAVIS—No.

Mr FORD—If you are suggesting that it—

Mr DAVIS—Compete.

Mr FORD—may have an impact—

Mr RAMSAY—Certainly it will compete for water.

Mr FORD—Yes.

Ms THOMSON—That was a nice try, David. My issue is around, I did not understand that licensing reference that you gave before. If you could explain that more fully so I can understand the cost regime. Then I would like to move on a little bit and talk about, given that you consider grain not to necessarily be a viable option in the agricultural sense of meeting the needs of other farmers and also the issue of it being drier and whether or not you will sustain crops in the future, which will drive up prices, do you see any other areas of biofuels that might be something that might be a goer for Victorians to try, whether at a farming level or in other ways?

Mr RAMSAY—I might give Graeme a minute to think about the \$3,000 licence fee because he is familiar with some of the technical and financial aspects.

Ms THOMSON—Yes.

Mr RAMSAY—But we are not suggesting that there is an opportunity for grain farmers to add value by using grain for ethanol. When we talk biofuel, we are talking ethanol and biodiesel. There are farmers now having local plants on farm producing biodiesel and using it in their structures. The domestic industry for biodiesel is off and running. What we are suggesting and saying is that in relation to ethanol production, the use of grain—and grain is only a first generation, it will be superseded in a few years and there will be other products used. In fact there are already experiments going on. I think with the use of GM technology it will certainly help alleviate some of the issues about supply and demand for fuel. Again part of our GM submission was the sunseting of the moratorium on GM and the access of farmers to be able to use GM products that will help alleviate some of the issues surrounding supply of product, particularly grain, to fuel conversion. We see there is already processes using tannins, fats and things for diesel.

Ms THOMSON—Yes.

Mr RAMSAY—We expect to see that industry expand. We see cellulose as being maybe second-generation, which will replace some of the traditional products. There are wonderful opportunities there. You have mentioned blue gums and you mentioned some of—you have not Menindee it, but we will mention some of the grasses that might well be available in that second generation, and that is the R and D work that is going on at the moment.

Ms THOMSON—There is some being done on algae that we are aware of as well, on varying strains of algae for biodiesel.

Mr RAMSAY—Yes. There are woodchips and all sorts of bits and pieces. But we would like to refer to the US and Brazil, where the real growth industry is. Certainly the price of corn has impacted on the price of grain here in Australia and we have seen (indistinct) industry, and also in Brazil. But what we have seen is government policy supporting the traditional cap, which is the European method of subsidy support for farmers, and the US Farm Bill moving towards land purely being utilised for product for the biofuel industry. Now, we raise the issue again. It is not the track we want to head down here in Australia where we are being subsidised to produce product for the biofuel industry where really the two majors are the US and Brazil. You would question whether you could have a viable domestic industry in either of those countries without significant support from the taxpayers of both.

Ms THOMSON—They have been supporting the corn industry for years, have they not, one way or another.

The CHAIR—Has that clarified that?

Ms THOMSON—Yes.

The CHAIR—The \$3,000 licensing—

Ms THOMSON—Yes.

The CHAIR—are you happy with?

Mr FORD—The \$3,000 for biodiesel. This is a licensing fee applied by the Federal Government to produce biodiesel. We have many—not many, but there are some farmers out there producing their own batches. If they use it for someone else or it is a community one, they are required to pay a \$3,000 licensing fee. We think if it is a community effort in one of these cooperative structures—

Mr DAVIS—There should be an exception.

Mr FORD—They should not, yes, exactly. Obviously there needs to be standards.

Ms THOMSON—Accepting that there needs to be standards and there might be administrative costs with all those sorts of things, how many would you know of in Victoria that might be producing biofuels in a collaborative way, as a cooperative?

Mr FORD—The Bendigo Bank, I believe, has set up some schemes already. I am aware of some growers up in the Wimmera who do it.

The CHAIR—Yes. We are speaking with the Bendigo Bank now.

Mr FORD—Yes.

Mr CRISP—I was going to talk some more about the biodiesel industry, which is one that is worth some further discussion. Canola is the feed stock of choice for Victoria. I would like some more information on the feed stocks for biodiesel that can be grown in Victoria. Is GM canolas—at present for canola to be harvested, it has to be cut, dried and then harvested. I read somewhere about some canola trials that are seeing direct single-pass harvesting of canola. Any of that are you familiar with?

Mr FORD—No.

Mr CRISP—That is okay. We take that as a no. But mostly, it is the biodiesel area that has the potential for your farmers, many of which are doing it themselves. Are your members talking much about the home biodiesel plants that they were busily building some years ago but I have not heard much of since.

Mr RAMSAY—Peter, we have not—or I have not—heard of a robust local domestic biodiesel industry. There are a few—I will not use the word 'backyard', but there are a few farm domestic plants operating, as I understand it. They basically use their own production plant to refine to a diesel grade and then put it in their tractors. It is almost a production to retail use or farm use direct. I agree, there is wonderful opportunity for the biodiesel market, particularly for agriculture, and the use of whether it be palm oil, canola oil or other products they are talking about at the moment. But again, as far as demand goes and as far as production goes, to me it still gets down to this issue of price. The biofuel industry will only be successful when it is price competitive. That is, the price of fossil oil leads to point where it is viable to produce biofuels. Now, if we interfere in the marketplace in some way in relation to normal market forces, governing consumer demand, whether it be by providing that choice of biofuels or fossil fuels as we know it, then that distortion will impact on a range of industries and that is why our submission is based on the pro-choice rather than pro-mandate.

Mr CRISP—Could I indulge in a supplementary area—

The CHAIR—Yes, of course you can.

Mr CRISP—which is probably not all that relevant. What happens to Australian farmers' competitiveness in the world? It has a lot to do with what the Americans are paying and doing with their farmers. With the biofuels industry in the US, there is farm land that is being paid to be vacant. Now, does this have any effect on some of those macroeconomic plays between the EU and the Americans, which dominate much of our farmers' viability as to what they are doing with subsidies? If the Americans are bringing this land back into production, cutting those subsidies not to grow, but then are subsidising—16c a litre I think is the farm subsidy, the subsidy then flows through. Is this going to free up American capital within their farm budget, which will see them come hunting for some of our markets that they have then within the US Farm Bill enough dollars to come out and start undercutting us in some of our markets? A big question, but it worries me because the Americans stamp around in our markets in a way that I find extremely uncomfortable.

Mr RAMSAY—Peter, coming from a horticultural industry, knows full well the impacts of that, particularly for the imported product here competing with a domestic product. As I said again, the Europeans and the US are to provide strength to their biofuel industry are, as you said, recommissioning land that is paid to be vacant. They seem to be moving from a farmer subsidy under the Farm Bill to start producing product for the biofuel industry. That will be inequitable for our competitors both internally and externally. That is why I raised the concern that we do not want to get to a situation—I do not believe we need to get to a situation where we are paying our farmers to grow food for fuel because it will have a severe impact on other industries here where we grow food for food. We have a lot of third world countries that need food. We do not want to expose and risk the opportunity to provide food on the basis of supporting a biofuel industry financially. Let market forces work. Do you want to add anything?

Mr FORD—I am not sure what the long-term impacts were, Peter, but it seems to me at the moment America freeing up land for producing ethanol is having the reverse effect at the moment. It is consuming much of its own production internally now for the ethanol production, that is why we are seeing upward pressure on world grain prices. Now, whether there is a hiccup somewhere further down the track and all of a sudden this land has been released and this production that has been released is suddenly dumped onto the world market, it would be a great concern. But at the moment it seems to be working the other way. It seems to be they cannot grow enough grain, or corn in particular, to produce the amount of ethanol they wish to produce.

The CHAIR—If there is any other item that you think after you have made this presentation you would like to forward in a supplementary fashion, you are welcome to do that because we are constrained by time for each of our witnesses. Thank you very much and good afternoon.

Witness withdrew.

Hearing suspended.

