

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

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

Melbourne — 31 July 2007

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Mr D. Cumming, Manager, Corporate Affairs and Public Relations, Royal Automobile Club of Victoria.

**The CHAIR** — I welcome Mr David Cummings, Manager, Corporate Affairs and Public Relations at the Royal Automobile Club of Victoria (RACV). Is Michael Case coming, too?

**Mr CUMMING** — I thought he was going to join me, but I have not seen him this morning, so if he turns up, it will be a bonus.

**The CHAIR** — All right. Welcome to the public hearings of the Economic Development and Infrastructure Committee Inquiry into Mandatory Ethanol and Biofuel Targets in Victoria. All evidence taken at this hearing is protected by parliamentary privilege. Any comments made outside the hearings may not be afforded such privilege. I would ask you, Mr Cummings, to state your full name and address, and if you are attending in the capacity of an organisation, please give us your official title within that organisation.

**Mr CUMMING** — My name is David Cummings and I am manager of government and corporate relations with the RACV. The RACV is a member organisation comprising roughly 2 million members, and I am here representing that organisation.

**The CHAIR** — Thank you. Now it is over to you for whatever comments you wish to make.

**Mr CUMMING** — Chair, thank you very much for the opportunity to come and speak to you today. I do not think it will be any surprise to the committee that the RACV does not support the mandating of ethanol in fuel. You will be fully aware from the submission in September 2006 that the RACV's position on ethanol, which is the same position as all auto clubs in Australia, is that the current 10 per cent limit on ethanol content in petrol is maintained, no mandating of ethanol content in petrol, clear labelling at the pump and no increase in motoring costs.

Obviously the last terms of reference were far more technical, and the reason why I did want Michael here today was in case you had any questions about the operability of motor vehicle engines with ethanol, but as your terms of reference are slightly different this time around we would like to point out to you the very strong reasons why we do not believe a mandatory target of either 5 or 10 per cent ethanol in Victorian fuel is warranted.

Ethanol cannot be used in any pre-1986 motor vehicle. That is roughly 13 500 motor vehicles in Victoria, about 13.5 per cent of the current fleet. Ethanol cannot be used in ultralight aircraft, two-stroke engines or motorcycles with fibreglass tanks. On the Federal Chamber of Automotive Industries website you will note that of the 39 makes of cars listed there, 20 are recommended not to use ethanol, and of the 10 makes of motorcycles, 5 are unable to use ethanol. A very, very large percentage of motor vehicles in Victoria cannot use ethanol.

The other thing that we would be very concerned about if we were to go down this mandatory path, is that there is some very disturbing evidence coming out of Queensland and New South Wales that where ethanol 95 is being sold, 92 RON is being removed from sale. Motorists who cannot use ethanol or do not want to use ethanol are forced onto premium unleaded, therefore increasing their costs. I am sure it would not be the intention of this committee to increase the costs of Victorian motorists by bringing in the requirement that many service stations would have to provide ethanol.

Fundamentally we see some very disturbing trends in the other states as to what is occurring. The service stations do not have sufficient tanks to add another fuel type, and they are just actually removing one from sale. The oil companies will be getting richer and richer because we are bringing ethanol in.

Also in relation to ethanol, clearly the future of ethanol is rather murky. We know it is subsidised, and those subsidies will start to be removed from 2011. From 2011 the companies will have the ability to import ethanol from countries where the price of ethanol is far cheaper than what we currently have here. The infrastructure for ethanol is definitely very well put in place in New South Wales, Queensland and now Western Australia. If anybody thinks that this is going to be some huge economic boost to Victoria, they will find that that will be very difficult to achieve. They will find that at the current time the excess wheat crop in Australia just happens to be in Western Australia. Clearly if BP, which is very active in the ethanol area, chose to sell ethanol in Victoria, it would be brought in from Western Australia. It would not build new infrastructure here or assist the farmers in this area.

A lot of people think this is the panacea for the sugarcane industry. We do not believe that is the case. We have been very concerned about the way ethanol has been introduced into this country. It was done in a rather sloppy manner and in such a way that the public had lost faith in ethanol because of the huge splash spending and the very

large blends that were being sold in New South Wales and Queensland. There is not a champion in Victoria for ethanol, and there is not a great desire by Victorians to buy ethanol.

Recent research by ANOP on behalf of the auto clubs shows that whilst more and more motorists are becoming happy to buy ethanol, the bulk of those people are more likely to be males, older motorists and those from Queensland and South Australia. Victoria at this stage is not heavily on the radar. United sells ethanol-blended fuel in Victoria, and Freedom Fuels, which I think has just purchased 25 service stations, will be selling ethanol, mainly in the Latrobe Valley, in the very near future. We have only ever had two comments from members about it who are very happy to use ethanol. It is not something that is top of mind, particularly in Victoria.

I am sure you have seen the overseas trends as well in relation to ethanol. There is a UN report, which was released only in the last few weeks, basically flagging the fact that the price of all food has increased dramatically in many areas, particularly America. There have been riots in Mexico because tortillas have got very expensive due to ethanol being used. Food is being used for fuel.

Obviously it is not the RACV's job to have a position in relation to that, but I think it is disturbing that all of a sudden a lot of the world's crops are being pushed over towards fuel and not food. That is increasing the cost of a lot of product, particularly in America, and that is obviously a very disturbing trend. But there is a huge amount of evidence from overseas that there is a lot wrong with moving rapidly down this path.

The other thing that concerns us a little is that when this debate started in Canberra some time ago the first people in Canberra to try and stop it were the feedlot producers. A lot of the raw material that feedlots used to use to feed their cattle has ended up going towards fuel. Late last year I visited the biodiesel factory on the central coast of New South Wales. That refinery is now closed. What they were doing was re-refining all the used cooking oil from Sydney. It was a brilliant idea and a fantastic concept, but of course they have now run out of feedstock. They said to me that what they are going to do now is to import palm oil. I do not know if you saw last Sunday's *Age*, which carried a headline 'Bio-fuel push threatens nomad tribe', but there is some concern in Indonesia that people are losing their land for fuel, so the RACV is not a great supporter of the mandating of ethanol at all. We do not believe Victorians are overly accepting of ethanol at this stage because there is no-one really out there pushing it and selling it in a manner that would be acceptable to Victorian motorists.

I think things have changed. From the very poor start that we had in relation to the shonky blends in New South Wales, I think things are improving. There is no doubt that there is room for ethanol in Victoria, but we would urge the committee to let the market decide how it will occur and when it will occur. I am led to believe that BP are very keen to bring in ethanol right across Australia, and I think that over time you will find that will occur. But there is a huge unknown from 2011, and you should be aware that the auto clubs of Australia will be pushing extremely hard over the next few years for a total review of the fuel taxation system in Australia. There is something very badly wrong with the fuel taxation in this country. There is something very badly wrong when private motorists pay 38.1 cents per litre excise, yet B-triples and B-doubles only pay 20 cents per litre excise. There is a lot wrong. From 2011, we are going to be bringing in new taxes on fuels based on energy content. In that case, why isn't 92 RON petrol getting cheaper?

There are a lot of things that we believe we should be doing as auto clubs, and we will be pushing very strongly for a total review of all the taxes. There is no guarantee that ethanol will be economic in the future. Yesterday OPEC came out very strongly, because they are trying to water down the impact of high crude prices. Tapis hit US\$82 per barrel this week, and OPEC has come out and said, 'We think a fair price for oil is between US\$60 and US\$65 per barrel'. If they could achieve that — and they can achieve that through manipulating the supply and demand balance — you will find that petrol will drop down to \$1 per litre in Australia, and I cannot guarantee therefore that ethanol, longer term, will be economic in this country. I suggest that we just let the market decide if it is viable down here, because we do not believe our members warmly embrace ethanol at the present time.

**The CHAIR** — Given what you have said — and I do not know whether you were here for our earlier evidence?

**Mr CUMMING** — No.

**The CHAIR** — What do you think is the most effective means of reducing the environmental impact of the Australian vehicle fleet?

**Mr CUMMING** — We are bringing in new fuel specifications in relation to diesel and unleaded. From reading the Prime Minister's Taskforce report on ethanol, the environmental effect of ethanol is very minimal. I am sure that evidence has been put to you before. I do not have an answer as to what is the best way to go, but I do know that ethanol is purely an additive; it is not an alternative.

If we want to get away from the fact that we are wedded to oil, I think we have to start looking at what we have the greatest commodity of in this country, and that is gas — CNG, LNG — and also the conversion of coal to diesel. It is quite intriguing that everybody seems to be panicking about what is emitted from motor vehicles. Yes, they have a carbon problem, but I always say to people that 15 years ago we used to have 20 smog alert days a year in Victoria. We are lucky to have three nowadays. The air quality in Melbourne has increased dramatically — partly to do with cars, but mainly I think to do with industry. We do not have a major preference as to what would be the fuel of the future, but there is no doubt that we would love to see true alternative fuels out there.

**The CHAIR** — Could you expand a bit on, say, CNG?

**Mr CUMMING** — Compressed natural gas?

**The CHAIR** — Yes. That is what I presumed you were talking about.

**Mr CUMMING** — Yes, compressed natural gas is something that is already used by some buses in Canberra and New South Wales. It is a fuel that needs to be put into very large vehicles. You put the tanks under the bogies of B-doubles and B-triples. Why we never had CNG filling stations up the Hume Highway 20 years ago — I am absolutely amazed. This has been discussed for a very long time. We just have so much gas in this country that is being exported to Japan and elsewhere. It really could be used in Australia. I do not know why there is no desire to use more CNG. I know the tanks involved have to be fairly large, but trucks have the capacity to carry those tanks. There is no doubt that using those gas supplies would make a huge difference to the air quality of Australia.

**Mr THORNLEY** — Have you got a view, David, about the viability of CNG as a fuel for normal motor vehicles? Range seems to be an issue.

**Mr CUMMING** — It is not viable for small motor vehicles because of the size of the tanks, but without a doubt it would be preferable if all buses were on it. I do not know if you have been to Sydney recently, but the diesel buses really do make the air quality in Sydney quite awful, particularly on the hot days when they have the inversion layers in Sydney. I lived there for several years, and the buses can really make you sick. We have got all this gas, and it is just being exported.

**The CHAIR** — If I can cut in, David, we had evidence earlier today that said the size of LPG fuel tanks is similar for CNG fuel tanks. That does not seem to be a problem in passenger vehicles.

**Mr CUMMING** — I was not aware of that.

**The CHAIR** — That is the evidence we received this morning.

**Mr CRISP** — Chair, the difference being that with compressed natural gas there is not so much energy in that same tank as there is in the liquid gas.

**The CHAIR** — We had that evidence as well, but in terms of size of tanks.

**Mr CUMMING** — I have only ever seen one CNG-powered bus, and I am sure it had a big tank in it. I am just relying on that. That is why I would have liked Michael here, because he is the engineer. I am not.

**Mr THORNLEY** — I think the thing there is range. From the evidence early today I was hearing reports of range between 100 and 240. That is a pretty wide difference for a passenger vehicle with an LPG-sized tank. I would have thought, potentially for taxis or others, rapid bus — —

**Mr CUMMING** — You would have to admit that Henry Bolte did a brilliant job in getting that extra gas out of Bass Strait into taxis. We in Victoria use 54 per cent of all Australia's LPG because we had the gas in Bass Strait and we created a market. With the commuter vans, taxis, we have really created the market down here. It has mainly been embraced, initially, by pensioners — that is where it started. Of course with the recent subsidies by the

Federal Government there have been a lot more conversions. It is one of those things. The conversion industry was dead in Victoria, so it has taken a while for it to come back. Then again, not everybody wants to use LPG.

**The CHAIR** — Do you see a role for the RACV in promoting alternative fuels?

**Mr CUMMING** — Most definitely. We have spoken to the Federal Government on these various issues, and we have pushed very strongly for the conversion of coal to diesel and the greater use of gas in this country. Without a doubt, they are our solutions to part of the oil problem. Of course, if it were to drop back to \$US60 per barrel, unfortunately everyone would just breathe a sigh of relief and get on with life.

**The CHAIR** — Do you see any role for the RACV in promoting it to its members? You were talking about the government. What about with members?

**Mr CUMMING** — Yes, most definitely, through *Royal Auto*, and we have promoted LPG in the past. But once again we are here to represent all fuels.

**The CHAIR** — Yes.

**Mr CRISP** — I am anxious to explore with you your views on peak oil and that \$60 a barrel where OPEC is. Surely the RACV would have a wider view than just reading what OPEC would like to happen, because one of the drivers of biofuels is that the oil is going to run out.

**Mr CUMMING** — I have had several meetings with the peak oil people, as you can imagine. I actually do not subscribe to their theory just yet. One day they will be right. At the present moment they are not right. You are probably aware of the book called the *BP Statistical Review of World Energy*. It comes out every year. I went to the recent launch of that book in Australia. It just clearly shows that we have more discovered oil in the ground today than we did 10 years ago. Peak oil will be right one day; I just do not believe they are right just yet. Sure, we have to prepare for that future, but if you watch what OPEC has been doing, they have been using Venezuela purely as their — —

If they can pump out of Venezuela, the price of oil stays down; if they cannot pump out of Venezuela, we do not have enough oil, so the price goes up. They have controlled and manipulated the market beautifully over the last two years, but even they recognise that, if they keep it too high, alternatives become viable and then they start to lose their market. You just watch OPEC. They will manipulate this product until they find a market where not too many alternatives are overly viable.

**The CHAIR** — What is your view on how the market should behave — independent or with government involvement in subsidies in the production of biofuels?

**Mr CUMMING** — The subsidies are excessive. The amount of money the Federal Government has been putting into subsidising ethanol translates to a cost of \$417 000 for each direct biofuel job created.

**The CHAIR** — Please repeat that.

**Mr CUMMING** — ABN data — all the money that has been used to subsidise ethanol translates to a cost of \$417 000 for each direct biofuel job created. If this stuff is not viable, it is not viable. We just do not see the point in subsidising the product if it is not viable, and 2011 really is the crunch time. I do not honestly know what the true costs of ethanol are per litre, but after having visited that biodiesel refinery last year I knew exactly what their costs were per litre for biodiesel, and it was not viable without a subsidy.

**Mr THORNLEY** — You mentioned earlier that you did not see it as a viable opportunity for the sugarcane industry either. Could you elaborate on that a little, because from my rudimentary understanding of the economics, sugarcane ethanol is a fair bit cheaper than a lot of the other feedstock alternatives.

**Mr CUMMING** — You have got to have a market for this product. The sugarcane people have been down to Melbourne and discussed things with us over the years. We just do not see it as the panacea for their problem. There are too many engines that cannot use it. I cannot give you an exact figure, but there are just far too many engines in this country that cannot use ethanol. So therefore you have only got a very tiny market to start with, and whether or not they would ever have the ability to sell all this ethanol if they actually made it is very hard

for us to say. I am led to believe that sugarcane prices have gone up anyway, and maybe at the present moment sugarcane should be used for sugar. So it is the viability of it.

All of these people — you have got the National Party in New South Wales and Queensland running around — one in New South Wales — saying, 'This is going to be fantastic for those growing corn and wheat and all that sort of thing', and that up there in Queensland things will be great for the sugarcane industry. I just think they are grasping at straws. Whether or not the market is big enough in Australia to have all this ethanol, I do not know. Perhaps if they can get it cheap enough to export it and try to compete against Brazil, then maybe there is some viable opportunity for them, but we just do not get a feeling from our members, from our research that a lot of people are embracing ethanol.

**The CHAIR** — You have made that abundantly clear, thank you. Again, I refer to earlier evidence we have had on CNG: is there anything extra you would want to add in relation to CNG to what you have said in the past, because just from the evidence we have from you, and in earlier evidence today, that seems to answer a number of the concerns of the RACV?

**Mr CUMMING** — I actually once had a very strong involvement with the north-west shelf when I worked in the oil industry, so I am fully aware as to what sort of resources we have off the coast of WA., plus the gas we have in South Australia and also we have just found more gas down at Port Campbell in Victoria.

If the resource is there, there is no doubt it should be used if we possibly can. We, at the RACV, have no preference. If ethanol is on the market, we are not anti-ethanol, it is up to our members to decide if they want it. The only thing we implore is if they are going to bring it in willy-nilly, that we do not increase the cost of oil for those of us who cannot use it because you will automatically be pushed on to a 95 RON (Research Octane Number).

**Mr THORNLEY** — A lot of the arguments against the ethanols, I understand, are all about the ethanol blends — the E5 and E10 blends — and the impact on vehicles. What about thinking at a wider level; what about the ethanol vehicles? As I understand it, General Motors actually makes the engines for the Brazilian market here, so it sounds like we have the ethanol engine capacity actually here in Victoria.

I realise it is hard enough with the vertical market failure of: until you have got enough off take, you cannot get a supplier; and until you have got supply, you cannot get off take; that is before you bring in vehicle manufacturers as a third party and all of that. But if we just suspend disbelief on that for a second, could you imagine a world where the vehicle manufacturers may choose to bring in an ethanol vehicle, and if they did for whatever reason, would you see any potentiality for an ethanol fuel rather than a gasoline-ethanol blend?

**Mr CUMMING** — The answer to that clearly is: yes. We had the E85 Volvo out here recently. You do not realise how long it takes to turn over the car fleet.

**Mr THORNLEY** — Especially in this country.

**Mr CUMMING** — It takes a long time. Very few people in their lifetime buy a brand new car, they normally just buy second-hand ones. It would take a long time to turn it over, therefore can anybody afford to carry an E85 blend in one or two service stations? It will take a very, very long time.

We have got a huge desire to get every car in Australia fitted with electronic stability control, but we know that it is going to take many, many years even before some of the new ones get on to the second-hand car market so that we can have the average person buying a safer motor vehicle. These things do take a long time.

**Mr THORNLEY** — You must have a number in your head. What percentage of the fleet turns over every year?

**Mr CUMMING** — From memory there are roughly 400 000 to 500 000 roadworthy certificates issued a year. That is just from memory, but it is a very large amount.

**Mr THORNLEY** — Against a total fleet of 15 million or something?

**Mr CUMMING** — In Victoria I am not sure; in Australia it would be about 20 million motor vehicles. Actually there are 3 million cars in Victoria — or there were last year anyway.

**The CHAIR** — In terms of inquiries by RACV members to your hot line or email system, how many inquire about biofuels, CNG, LPG, the whole gamut — non petrol?

**Mr CUMMING** — Very few; all our members, or any person has the ability to go to our web site, type up an email, it comes through, and then they get distributed. All the fuel ones come to me. I get hundreds and hundreds, but every one of them has been about the price of petrol, or LPG; it depends upon where the market is. The members write to us, they think I can solve their problem, we try very hard, but it is very difficult; they just feel like they are being ripped off with the price of petrol.

ANOP — this is data we have not released yet, it goes to show that at the top of minds, 82 per cent of motorists who were surveyed are pretty concerned about the price of petrol.

**Mr CRISP** — Can I develop that?

**The CHAIR** — Yes.

**Mr CRISP** — To build from that peak oil discussion we had a little earlier, is Australia a significant enough player in the world market that in order to be a credible force to contain OPEC's aspirations by being concerned about alternatives, is the Australian market big enough to be a player enough, or do we leave it to the rest of the world to develop up the biofuel threat to OPEC to contain the price of oil?

**Mr CUMMING** — No, we are nowhere near big enough. If anything, I think we should be extremely worried about Australia and its position in the world. I think we should be extremely worried about the security of supply in this nation, and I think we should be very concerned about losing another refinery in this country as well. Do not think for one minute that Australia has seven days supply of oil or petrol as we are supposed to. We manipulate those things in Australia, because we count what is on the water coming here as part of the seven-day security problem.

The way the supermarket chains have been discounting and the way they have been putting people out of business, eventually someone like a Mobil may decide to pull out of this country. The country is just too small for the large number of oil companies that are operating here, and it has worried me for a long time about the long-term viability and security supply in this nation. We will become more heavily dependent upon imports, and with the instability out in the Middle East there is no doubt that the future could be very concerning.

**Mr THORNLEY** — It again drives us to gas.

**The CHAIR** — It does.

**Mr CUMMING** — We have got the gas.

**Mr THORNLEY** — We are on that train!

**The CHAIR** — If ever a witness was crystal clear in his or her final comment, Mr Cumming, that was very insightful. Thank you very much for your evidence and candid comment at the end. Hansard will be providing you with a transcript of your evidence. You have got about a fortnight to look at that, mark any typographical errors and get it back to us. We look forward to continuing dialogue.

**Witness withdrew.**