

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Mandatory Ethanol and Biofuels Targets in Victoria

Melbourne — 31 July 2007

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Mr J. Honan, Managing Director, and

Mr M. Evans, Consultant, Manildra Group.

The CHAIR — Welcome to the public hearings of the Economic Development and Infrastructure Committee's Inquiry into Mandatory Ethanol and Biofuels Targets in Victoria. All evidence taken at this hearing is protected by parliamentary privilege and any comments you make outside the hearings will not be subject to the same privilege. Could I ask each of the witnesses to please state their name, their business address and whether they are representing an organisation; if so, their position within that organisation?

Mr HONAN — I am John Honan, and I am the Managing Director of the Manildra Group. Our address is 29 Tavistock Street, Auburn, New South Wales.

Mr EVANS — I am Martyn John Evans; I am a consultant to the Manildra Group. I can be contacted through the same address.

The CHAIR — Thank you very much. You have time to give a presentation, after which we will ask questions. Ideally less than 50 per cent of the allocated time should be spent on your presentation so that we have the chance to then ask questions.

Mr HONAN — Thank you for the opportunity to present. We have prepared a brief presentation outlining what we see as the benefits of mandating ethanol and also what we see would be an implementation plan of that, I guess. I would like to hand over to Martyn to go through some of the details.

Mr EVANS — Thank you, Chair, and members of the committee. We have presented to you a folder that contains our more detailed submission, along with a limited number of attachments. We do not want to burden you with too many of those, but I think it is appropriate to put some of the specific facts before you. I do not want to canvass the details of those, and we can go into any questions that you have, but I think it would be useful for us to go through the generality of that just to canvass it.

Obviously when governments contemplate issues of mandating, that is a serious thing. I think the basis on which governments can look at that, and have done in the past and which New South Wales has done very recently, is particularly on issues of public health — for example, government-mandated lead-free petrol on the basis of its public health implications — and they can do so on the basis of the public good of the environment. These occur where the benefits to the individual are limited or perhaps minimal — in some cases not at all, but in this case there are some benefits to the individual, for example, in the areas of price with ethanol in petrol — but of course the public health benefits to an individual of ethanol in their fuel tank are minimal.

Where it looks at the benefits to society as a whole, then the public health benefits and the environmental benefits from greenhouse gases are quite substantial. But they can only be obtained where a government mandates those benefits for every citizen to include, say, E10 in their petrol tank and acquires the benefits for society as a whole. As I said, each individual requires a minimal benefit but as a society as a whole we require a substantial benefit and that is what justifies a mandate. It is what has always justified government intervention in a public health or in an environmental context, and in our view that is what justifies it in the case of, for example, E10 in petrol.

That is what we document in much of this submission. Ethanol improves the urban health outcomes because it is an oxygenate. As it stands, petrol does not include an oxygenate in the mixture. There is nothing there to add oxygen to the petrol to promote burning, and that is what ethanol does. It contains oxygen, and so it promotes the full burning of the fuel, and in particular it removes those very fine — invisible — particulates which is what, for example, the United States of America has done to ensure that its Clean Air Act is implemented in those cities in the USA where they have very high levels of pollution. Including an oxygenate ensures that heavy burning of the fuel occurs, and those fine particulates are removed.

We are increasingly seeing that problem in Australian cities like Sydney and Melbourne, and maybe in Brisbane. Eventually my own city of Adelaide will succumb. But even where you do not see the pollution, that pollution is there — those fine particulates are there — and we cite a number of studies that show the health burden from those. Whether it is deaths from respiratory disease or whether it is from the increased burden of asthma, for example, those costs are substantial. Deaths in Australia have already reached the level of the road toll, probably even exceeded it, but they are not as visible as the road toll and that is where the impact is.

An oxygenate like bioethanol, of course, has the impact of being able to address those kinds of issues. Apart from the human cost, the cost is massive; billions of dollars in increased health costs, but largely invisible to society because it is spread throughout society, incurred by one person at a time and does not have a very visible high

public cost, but a real public cost nonetheless. Countries like the United States of America and those in Europe have already seen that.

Greenhouse gas is another real issue for society as we well know. Transport is a very substantial contributor to greenhouse gas burden in Australia and ethanol, through studies like the Argonne National Laboratory in the USA and like the APACE study here which we cite, all show a real — not huge — impact of greenhouse gas reduction because ethanol is a biofuel. It is grown, it is replaced every year and the impact on greenhouse gas reductions is real. When you have motor cars by the million driving every day, kilometre after kilometre, then the impact is real.

It also has a significant impact on jobs and GDP because we are constantly importing fuel, and we have included a graph in your packs in the attachment, which shows the very significant increase that we have had in imported fuels, a dramatic billion-dollar burden that imported fuels now are, and the way in which even at a 10 per cent level ethanol can begin to address that as a domestic fuel. These are the kinds of things that our submission canvases, and obviously I will not, in a verbal presentation, go through those one by one. But there are studies, which show what this can do in a regional context.

In our domestic economy there is a Queensland study which is cited there by a famous world-based consultancy, not just a domestic self-serving issue here but the LECG consultancy which is based in the US has done a lot of work in showing what this can do not only in the United States but on a state-by-state basis because this after all is promoting the economies of individual states where it occurs. There is now ample precedent for this not only in the United States but also in Europe. The UK has just imposed a local mandate. New South Wales has moved in that direction already. Other states are contemplating that.

It is not just a mandate based on some farming lobby, based on some economic imperative, based on some rural subsidy issue; this is one based on reasonable grounds, on public health and environmental issues which governments have traditionally done but also one which can promote rural economies, which can promote the GDP, which can promote jobs in the state. All of those traditional issues are there notwithstanding the other benefits which you gain from it. The side benefits, which we usually look to for industrial development and promotion are there as well.

I think we also need to look though at currently why if this is so good, it is not being better used. I think that is a reasonable question at the end the day and one I will address in concluding my remarks. You have to look at the distribution system — who controls the distribution system? Obviously in the majority it is the major oil corporations. Why would they pick up someone else's product and sell that in substitution for their own? That, I think, is the final question one needs to address. Motorists cannot buy ethanol-blended fuel if someone does not sell it to them. You have to buy petrol through the existing distribution system — —

Mr DAVIS — What is the answer to that question?

Mr EVANS — I think at the end the day you have to have a mandated system in the beginning. Motorists would buy it if there was simply a free distribution system — if you could go to the end of the street and pick up ethanol through any street-corner outlet, like in every street-corner store, but you cannot. You have to buy through a properly regulated and monitored system of petrol distribution that is on the whole owned by those who distribute the existing petrol system. They have a vested interest in ensuring that continues to supply their product.

If they sell an ethanol-blended product, then they are partially distributing someone else's product, and I think there is a view they do not wish to do that. On the whole they have not taken steps, despite the Prime Minister's target of 350 million litres which our colleague referred to; very little of that has been sold. There is a graph in your pack, which illustrates the progress to date in meeting the Prime Minister's modest target. It has not even begun to be met.

Unless some pressure is brought to bear beyond mere exhortation, it is very unlikely that will be met. There is no basic reason why they would meet it. I think that is the fundamental answer to that point. After all, why would they sell ethanol when they can sell petrol?

Mr THORNLEY — Presumably there is a flip side to that, which for vertically integrated oil companies, makes sense. For the independent or downstream guys who actually do not have an upstream source, presumably the opposite is true — which is they would be less reliant on the upstream source.

Mr EVANS — Sure, and indeed that is practical evidence in the street and Manildra is part of that process. Mr Honan could further go into those details if you wish but of course they have to ultimately buy the petrol they sell with the other nine-tenths of the ethanol, and they have to acquire that from the people who sell the basic product. So they acquire that at a fairly high price because they do not want to sell it at a competitive rate under those circumstances. That itself has problems.

Mr THORNLEY — The blending gets done by the provider of the primary fuel, presumably? Because of the terminal structure, is that right?

Mr EVANS — It would be better for Mr Honan to answer.

Mr HONAN — We are getting ethanol into the market in a variety of ways at the moment. The first, which is the most complicated, which Martyn just described then, is we buy petrol; we blend it with ethanol ourselves and then sell that into the independent market.

Mr DAVIS — So you do the blending?

Mr HONAN — We do blending for — —

Mr DAVIS — But the oil companies could do the blending?

Mr HONAN — The oil companies do some blending as well. We blend some petrol and ethanol and sell it to the independents, and we also sell straight ethanol to independent chains like United that blend it themselves. We are also now selling some limited quantities to the majors, who I guess blend it themselves and put it through their distribution system. That is the part which is expanding under the New South Wales mandated program.

Mr DAVIS — To follow this exact point, is there something sinister in what is going on there or is it just that their interests — —

Mr EVANS — It is just commercial reality. I do not think it is sinister in that respect. It is what you would expect under commercial reality.

Mr DAVIS — There is no use of market power or anything?

Mr EVANS — Not beyond the normal commercial reality of choosing to maximise their own product and minimise someone else's. I would not put it any more sinister than just the obvious commercial reality.

The CHAIR — In September 2006 it was announced that Manildra was entering into a contract with BHP for a 12-month period. Was that contract — —

Mr HONAN — BP, yes.

The CHAIR — BP, sorry. Was that contract renewed?

Mr HONAN — We are currently renegotiating with them now for a larger contract, which according to them will fulfil their obligations under the 2 per cent mandate in New South Wales. But it is no secret that these petrol companies would not be talking to us about contracts if there was not a mandate in New South Wales. I mean, ever since the announcement that Mr Iemma made prior to the election that it was going to be election policy, they started returning our phone calls a little bit more often, and we are now able to negotiate with them for the requirements they have under that mandate.

Mr TEE — In terms of Shell, which has E10, I think there has been some evidence that the pick-up of that in terms of the consumer, where it has been made available, has not been as high as they would have hoped. Do you have a view on that? I suppose what I am saying is: is it something that the consumer wants? That is really what I am asking.

Mr HONAN — Yes, we think it is something the consumer wants. The independents have needed the product because it is the only way that some of the independents have survived, because it has been cheaper and obviously people pulling into an independent petrol station are looking for a cheaper product. We run some petrol

stations ourselves, a limited number of petrol stations, but we actively promote ethanol. There is no secret there is ethanol in there when you drive in. I mean there is ethanol all over the price board and — —

Mr DAVIS — Badged.

Mr HONAN — Yes, it is badged ethanol and enhanced ethanol, and you drive in. Where we have done that we have had a very positive response. Shell is currently discounting the E10 blend by 2.5 cents under its ULP price. It is not for me to tell them what to do on the commercial side of it, but I guess if they passed on more of the saving, they would sell more, and if they put the discounted E10 price on the price board, they would sell more too. I mean, what you see on the price board as you drive past is the full-rated ULP price, and I have not seen one yet that has, 'And our E10 is 2.5 cents cheaper, being this price'. I think if they actively promoted it — and they are going to have to demonstrate to the New South Wales Government that they are — and if they took a few other steps, I think they would sell a lot more.

Mr EVANS — If you look at the United States market they actively promote it. We have included a couple of adverts from the US in the pack, and you will see they actively promote it. They promote it actively on television, they promote it actively in adverts, they express their support for it, they express their pride in promoting the product over there — not here.

Mr TEE — If I can just keep going, we are getting some further submissions from the Lot Feeders Association, but in a previous submission in relation to a mandate it said that such intervention in the market is very simply the creation of advantages for one agricultural industry at the greater expense of the other. I suspect what is meant there, of course, is that the price of the product purchased in order to feed the stock will increase if we mandate an ethanol product. I would not mind a response to that. We have not met with them but we will.

Mr HONAN — Australia is such a big exporter of grain that I cannot see that being a major problem. The other thing is if you look at most traditional ethanol processes, you produce a by-product which is dried distillers grain, which still has all the protein from the grain remaining in that by-product. You do not destroy the protein; you strip out the carbohydrate and distil that into ethanol, so you have still got the protein. That product is sold widely through the feedlot industry. It is one of the main ingredients of the feedlot industry in the US, where the ethanol industry is enormous. In the US you have integrated feedlot and ethanol operations, so I do not see that is a huge problem. The price of grain is going up around the world, and that is not really affected too much by what happens with ethanol in Australia. It is perhaps affected by what is happening in ethanol around the world because carbohydrate prices generally are going up and a lot of the US corn crop is going into ethanol.

Mr EVANS — But the Manildra factory, for example, at Nowra is using what is effectively a waste stream to manufacture ethanol.

The CHAIR — I would be really interested in you explaining that because there is some contention about that — exterior contention. Obviously you know what goes on in your own businesses. Could you outline to us what basically is the retort to the refrain that you are taking away important feedstock?

Mr HONAN — I guess a large part of what we use for ethanol production is waste wheat starch out of our starch and gluten process where that starch and gluten have been manufactured for other purposes — for food and industrial use. Then we have a waste stream out of that which is then distilled into ethanol. We do actually buy some other grain and put it directly into ethanol. I think with Australia this year, for example, looking at producing 24 million tonnes of wheat and only 7 million tonnes sold domestically, I do not think it is what is driving the price of grain — the small portion we are putting into ethanol. I think it is more the world market is what drives the price of grain in Australia.

The CHAIR — Could you brief me on what percentage is waste product and what percentage is what you would call raw product?

Mr HONAN — Yes, I guess direct grain. It is probably something like fifty-fifty in our case. I think that if the world price of grain goes down, the price in Australia goes down. If the world price goes up, the Australian price goes up. We do have some localised issues when there is drought, but I think it is really determined by the world price. I cannot see how a bit of ethanol going into grain is going to have that much of an effect when Australia produces so much.

The CHAIR — What has been the effect of drought on the supply of ethanol and the cost of it?

Mr HONAN — It has certainly affected our costs. Our costs for all the products we make went up as a result of the drought, but it has rained throughout country New South Wales and Victoria and it looks like next year is going to be returned to a somewhat normal year, I guess.

Mr EVANS — I think one should also keep in mind that the technology around ethanol is rapidly changing. America uses corn, we use a lot of grain, so there are already differences in the way the technology is used. We use a substantial amount of waste stream as distinct from raw product anyway, but also there are now biotechnology products being used and, on the drawing boards, to make use of straight grasses and — —

Mr HONAN — Wheat straw.

Mr EVANS — Wheat straw and things like that, which will again rapidly change the nature of the equation, so I do not think any of this will stay static very long. Of course, the more demand there is for ethanol, the more rapidly it will change.

The CHAIR — We keep expanding on different points that you have raised, which is quite different to the other witnesses. I will just check that committee members are happy to keep going down this path or if they want to be quite specific on different directions. We will keep going down this path.

Mr DAVIS — I want to follow up on this issue of the position of the oil companies in the market. Has the ACCC looked at that issue with respect to opportunities for ethanol, that you are aware of?

Mr EVANS — Not that I am personally aware of, but John might be.

Mr HONAN — Quite some time ago — quite a few years ago — when we were having a lot more difficulty with the ethanol market, we saw the ACCC about a number of issues related to it, but there was no desire to really follow it up from its side, I guess.

Mr THORNLEY — I understand it has got a more enthusiastic interest in the industry generally at the moment.

Mr HONAN — One issue we have is that we have never been able to buy petrol off them, despite the huge amount of petrol we buy.

Mr DAVIS — You cannot buy it?

Mr HONAN — If it is a 10 per cent blend, we have got to buy 9 litres for every 1 litre of ethanol we sell. We would buy a lot less petrol now, but at one point in time we were buying over 200 million litres a year, and we were unable to buy it off any of the petrol companies because they would not supply. They would not put it that way, that they would not supply; they always had an availability problem or the price would go up. There was always something.

Mr DAVIS — Do you think that behaviour or that action was in any way questionable? The analogous case would be the Queensland Wire case. Is that the sort of situation you were looking at there, do you think?

Mr HONAN — No. Personally I do not think there was any real breach of the act or anything like that. You cannot force a company to sell something to someone.

Mr DAVIS — But they are equally not able to erect unnatural or unreasonable barriers to groups that want to buy something as an input.

Mr HONAN — Okay, yes. Maybe there was, then; I do not know. I am not an expert.

Mr DAVIS — I am only asking the questions; I am not an expert in this industry either, obviously. By their nature, MPs are generalists, and we are inquiring into something quite specific. That is why we are asking you, as the most knowledgeable person in the area.

Mr HONAN — Yes, but in terms of the technicality of the law, whether that would be — —

Mr DAVIS — But you had difficulty purchasing fuel to mix with ethanol to sell downstream?

Mr HONAN — Yes, we did.

Mr EVANS — But ultimately it has to be sold through the major distribution channels.

Mr DAVIS — Other than your small number of outputs?

Mr EVANS — Yes, that is right, because there is a public good benefit here. It is not necessarily about generating a business for Manildra to sell petrol from its own outlets.

Mr DAVIS — No, but Manildra has the right to operate in the market and provide alternatives.

Mr EVANS — Sure. But I think the general case is what is more significant. Sure, Manildra could set up a petrol company and sell petrol like United or whatever with an E10 blend.

The CHAIR — But that is not the point that was being made.

Mr DAVIS — Yours is a related point, I think.

Mr EVANS — Yes. But I think that to some degree the issue is more about whether there is a public good case, as in unleaded fuel. The petrol companies were not moving to take lead out of fuel until the New South Wales Government said, 'We will make you take lead out of fuel'. That was the only reason lead came out of fuel — because the New South Wales government acted unilaterally to force people to take lead out of fuel.

Mr DAVIS — I am talking about something different. The public good is served in two ways: sometimes by regulation, in the way you have outlined, but sometimes by markets actually providing alternatives.

Mr EVANS — Sure. But given that unleaded fuel was more expensive, I am not sure that there would have been a great market for unleaded fuel. I do not think we would ever have made the transition if an independent company like Manildra had said, 'We will sell unleaded fuel into the marketplace at 3 cents a litre more'. I am not sure we would ever have made the transition, because I do not think the market for that would have been all that strong.

Mr DAVIS — I think Mr Thornley knows what I mean.

Mr THORNLEY — I think you are making the point that there is a secondary issue here.

Mr EVANS — I agree with that.

Mr THORNLEY — We can regulate and mandate things, but one of the things we want to actually regulate for is competition.

Mr EVANS — Yes, I understand that point.

Mr THORNLEY — There is a question about whether there is anticompetitive behaviour, which is what we are trying to get an understanding of.

Mr EVANS — I accept that.

Mr THORNLEY — And we are detecting a reluctance to pursue that at your end.

Mr EVANS — No, I understand that point, but it would be an awfully difficult case to make, I suspect, and a very long process to make it.

Mr THORNLEY — Can I follow on a related point about the economics of this business. As I understood it from evidence earlier today, your even bigger challenge of course is the downstream off-take, to get it back out again. As I understand it, the energy retailers are looking to price the fuel off the oil price, and it seems to me that your business is in a sense a spread business between what is happening in the feedstock markets and what is happening in the oil market. If there is a big spread there it would be an attractive business, and if that spread

closes or even overshadows it is a pretty awful business. Are you guys are taking the price risk at both ends of the chain here? Is that how it works?

Mr HONAN — Yes. It may not seem commercially sensible, but yes, we are basically, although our model is a little bit different to the models in the states where they buy grain and make ethanol and DDG — dried distillers grain — and then that is it. We make a variety of other value-added products from wheat. There is gluten, which is used in the baking industry, starch for the paper industry and glucose for confectionery. Then we have this waste stream at the end and we put some grain into that as well. It is slightly different from that. But, generally, that is one of the challenges in the ethanol industry. In the US, for example, they do sit between two supposedly unrelated markets — grains and oil.

Mr EVANS — And they are much more dependent on that risk.

Mr CRISP — I am concerned about that low uptake, which is suggesting that there is only about 50 megalitres a year.

Mr EVANS — We have not been able to get the latest figures, of course. The Federal Government has discontinued publishing the most recent figures. Those are the most recent figures we have.

Mr CRISP — Which means now that with the commonwealth choosing to do that, we are not going to know how they are approaching their target. Are they repositioning themselves? What are they up to? Do you know?

Mr EVANS — I think there is some degree of disappointment about the uptake. The oil companies, as we have discussed, have not been that enthusiastic about it. They are becoming more enthusiastic in New South Wales but nowhere else. The most recent figures for the fiscal year 2006 show no sales in South Australia, no sales in Western Australia, no sales in Tasmania, no sales in the Northern Territory and modest in Victoria. Victoria is below its quota. Victoria takes a quarter of the country's petrol, but way less in terms of blended ethanol.

Mr DAVIS — What percentage?

Mr EVANS — I cannot give you an exact figure. It is 1300 kilolitres, as against 55 megalitres in the country, so it is a pretty small percentage. It is way less than your share — if you know what I mean — of the total. Queensland is the biggest. Queensland takes almost 85 per cent of the national total. New South Wales takes most of the rest, and Victoria, a small amount left. I suspect that the commonwealth is very concerned about the level of uptake and has just discontinued publication.

The CHAIR — Could you see the states providing that public information?

Mr EVANS — They certainly could, and I think, for example, New South Wales will. Now that it has a mandate, because of the public law, it almost certainly will have to provide public information based on that.

The CHAIR — Just for my own benefit — and I am sorry I do not know the answer to what to you is a fairly obvious question — where it is that documentation available, and does the state have the right to access it without legislation stipulating mandates?

Mr EVANS — At the commonwealth level it used to be available from the Department of Industry because of the grants it was making available. At the state level, it maybe available through a licensing requirement with service stations or something like that, breaking it down with the fuels they sell or something along those lines.

The CHAIR — For ease and simplicity, though, from what I am picking up, it is best that that be done at a commonwealth level, from your perspective?

Mr EVANS — Yes, that would be the norm. But New South Wales, because of its ethanol legislation, will certainly, I would think, make that publicly available.

Mr TEE — One of the other objections to a mandated ethanol level is the cost that the industry is going to have to bear in terms of reconfiguring their distribution networks, essentially from the bowser through to the

distribution. Do you have a view on that or a response to that issue that has been raised? Essentially they say it is prohibitively expensive for the Shells and the BPs to convert their facilities into facilities that use ethanol.

Mr HONAN — I do not think it would be prohibitively expensive. Obviously there is a cost there, but we blended a lot of fuel through a blending station that we put together very cheaply compared to some of the things that the petrol companies talk about, what it costs for them to put blending stations in. No doubt there is a cost, but obviously the public could benefit, as we mentioned earlier, I guess.

Mr EVANS — I stand to be corrected, but I understood there was a federal program that assisted in that.

Mr HONAN — Yes, there is, actually.

Mr EVANS — I believe there is a commonwealth grant component.

Mr HONAN — And I think Queensland has a separate one as well.

Mr EVANS — So they are not entirely alone and bereft.

Mr CRISP — We have focused on grain as feedstock, sugar as a feedstock, because you guys are in both businesses. When I began, I thought that sugar to ethanol would be a cheaper process than starch to sugar to ethanol, yet you seem to be focusing on that. Is that because sugar is not relevant to the southern markets, or is there a change out there in sugar's availability?

Mr HONAN — Manildra, as a company, has never produced ethanol out of sugar. I think CSR does. As you know, they make it out of sugar molasses. But it really depends on the relative prices of grain and sugar at the time, and which one is better will depend on the agricultural cycles. Sugar has gone up in value in recent times. It has come off a bit, but it is that sort of change, the economics of that.

Mr EVANS — We refer in the paper to the Brazilian market, where of course they make enormous use of sugar. They have planted significant acreage to sugar dedicated to the use of ethanol, so there is a significant market there.

Mr HONAN — Their sugar industry is flexible. If the price of oil goes up, they put more sugar into ethanol; if the sugar price is better, they start diverting more production into sugar. One of the problems the Queensland industry struggles with is they are competing in a world market against a competitor that has that flexibility, and they do not. When the sugar prices are very down, they can get very interested in investing and doing something about it, and when it goes back up, they stick to making sugar.

Mr THORNLEY — I am interested in learning a little more about the E85 market that you have obviously been trying to get going.

Mr HONAN — Yes.

Mr THORNLEY — There is a whole set of issues about mandating blends. There is a similar set of issues about just a whole different fuel. Can you just tell us a bit about what success or failure has happened there, what is driving it, and what you would like to see happen that might change that?

Mr HONAN — We started looking at E85 really just as a promotional tool to promote ethanol in the public mind, showing that if you put 85 per cent in a car and it still runs, then there is obviously nothing wrong with it. I ran mine on 100 per cent for a little while, and it was fine.

There are some incentives in the US, for example, to buy E85 vehicles — tax incentives and the like. I guess you are never going to get that many cars running on E85 to move large volumes of ethanol; it was more a promotional tool. But it is possible to do it, though. There are 5 million E85 vehicles on the road in the US, for example.

Mr EVANS — And Brazil.

Mr HONAN — Brazil runs on 100 per cent. Both US and Brazil have flexible fuel vehicles. In Brazil, for example, they run on up to 100 per cent ethanol, or they can run on regular petrol. So that is something which is worth promoting.

Mr THORNLEY — And if the auto manufacturers were interested in providing flexible fuel vehicles in this country, would that change? Is that the barrier? Or are we still looking at the distribution?

Mr EVANS — We were able to convert vehicles.

Mr HONAN — Yes, we have converted some vehicles ourselves as trials. GM is apparently looking at introducing a Saab vehicle next year sometime, but it really needs to be in the mainstream of vehicles for it to take off.

Mr THORNLEY — It is a sort of chicken and egg problem of distribution?

The CHAIR — The last question is: if each of you had three recommendations that you would put from this committee to government, what would they be?

Mr EVANS — You have to have a gradual phase-in period for a mandate. I do not think it can be overnight; it has to be a gradual phase-in period, both for the consumer and for the marketplace to adapt. I do not think that it will occur without a mandate because the market is such that people will not move on this. There is a public good benefit but because of the limited individual benefit, it will not move. And I think a degree of public education about the public good value of this is needed. That would be my simple advice

Mr HONAN — Yes, I think the same. A phase-in mandate is the way to go. Our experience has shown that there is no market in the world where the petrol companies have voluntarily taken up substantial amounts of biofuels. It has been forced upon them in markets where governments have seen those public good benefits and acted upon them — in Brazil and the US and now increasingly in Europe as well. It will not happen without some sort of mandated regime. And I agree it needs to be accompanied by an education campaign so that motorists realise that cars run on it every day all around the world and it does not do any harm.

The CHAIR — Many thanks. Within about a fortnight you will have a copy of the transcript forwarded to you for correction in case there are any typographical errors but you cannot change the substance of it. Best wishes, thank you again and good afternoon.

Mr HONAN — Thank you

Mr EVANS — Thank you.

Witnesses withdrew.