



Inquiry into the Taxation of Alternative Fuels Legislation

**Submission to the House of
Representatives Economics
Committee**

Submitted by

Smorgon Fuels

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Summary

- Smorgon Fuels is pleased with what the Government has now proposed – which is to apply a ten year moratorium on the current taxation and grant arrangements for biodiesel (until 30 June 2021).
- Smorgon Fuels believes that the Government is correct in continuing to give equal encouragement and support to both biofuels, ethanol AND biodiesel.
- Smorgon Fuels wants to see the integrity of the measures for biodiesel, as outlined in the legislation, remain unchanged through the passage of the Bills through both Houses.
- Retention of the measures for the biodiesel as outlined in the Bills will importantly deliver benefits not just to the industry in terms of realising investment in and ultimately successful commercialisation of second and third generation technologies but will also importantly deliver benefits to rural and regional Australia where the feedstock is grown and where the fuel is used as the only lower emission alternative to diesel in farming and mining applications in addition to use in diesel cars and trucks.
- There is an urgent need for the legislation to pass both houses before 30 June 2011. This is because the grant payable to both biodiesel and to ethanol under the *Energy Grants (Cleaner Fuels) Scheme (for biodiesel)* and under the *Ethanol Production Grants Program for ethanol* are scheduled to end on 30 June 2011 meaning there is currently nothing in place to offset excise after 30 June 2011. The passage of the legislation is therefore required to put into place the payment of the grant from 1 July 2011.

Smorgon Fuels

Smorgon Fuels is a Victor Smorgon Group business and producer of biodiesel fuel, marketed under the brand name “BioMax™”. Smorgon Fuels owns and operates a 100 million litre biodiesel plant at Laverton North in outer metropolitan Melbourne, Victoria and employs 25 people. Smorgon Fuels produces both B20 fuel (20% biodiesel blended with petroleum diesel) and B100 (100% biodiesel). BioMax fuels are made from three feedstocks, tallow (chicken, sheep and beef), used cooking oil and more recently Dry Land Juncea.

Smorgon Fuels has invested in growing Dry Land Juncea, a drought tolerant oil-seed suitable for low-rainfall areas across six regions, namely Jerilderie in New South Wales, Elmore and Woomelang in Victoria, Loxton and the Eyre Peninsula in South Australia and Kununurra in Western Australia. In each instance, Smorgon Fuels is providing farmers with an important revenue stream (in the order of \$10.5 million last year). Oil extraction from these crops accounts for 40 per cent with the remaining 60 per cent being sold as feed for growing chickens and pigs. For every litre of biodiesel produced (B100) Smorgon Fuels is putting \$1.45 back into the pockets of farmers and a total of \$2.15 per litre back into regional Australia (this accounts for the monies spent on transport and crushing all of which takes place in regional Australia).

Smorgon Fuels is also investing in technology to produce biodiesel from algae, a third generation feedstock. Algae has the potential to deliver the greatest yield of biodiesel than any other feedstock but is technically challenging and commercialisation is still some years away. Investment is still speculative and unless there is a robust first generation biodiesel industry, broader investment is unlikely.

BioMax today is predominantly used as a low carbon fuel by the trucking industry, mining industry, buses and motorists with diesel engines, many of which are in regional Australia. BioMax is sold in a small but growing number of retail petrol stations in Victoria and New South Wales but is predominantly sold directly to users in the trucking and mining industries in New South Wales and South Australia.

Smorgon Fuels' position on the Taxation of Alternative Fuels Legislation and the adequacy of the Bills in achieving the policy objectives

According to the Explanatory Memorandum accompanying the Legislation, the intention of the changes is stated below. Smorgon Fuels has commented on the adequacy of the Bills in achieving each of these policy objectives.

1. To introduce greater consistency in the taxation of fuels used for transport purposes and to ensure that competition between untaxed transport fuels and currently taxed fuels does not harm economic efficiency and create distortions.

In the early Exposure Draft of the legislative package a marked difference in treatment between ethanol and biodiesel was proposed. This would have introduced an unnecessary and unhelpful distortion. The biofuels industry worked hard to explain that the two fuels do not compete with one another and are in fact complementary and therefore warrant the retention of equal support. (Ethanol is a lower emissions fuel replacement for petrol while biodiesel is a low emissions fuel replacement for diesel.) We are pleased this message was heard and the legislation now before the House proposes to retain the practice of providing a grant which fully offsets excise for both ethanol and biodiesel until 30 June 2021.

2. To provide certainty to industry.

The investment of Smorgon Fuels and others in fuel manufacture from second and third generation feedstocks are important developments in the maturation of the Australian biodiesel industry which is still in its early stages of development. The viability of these second generation fuels is dependent upon having the right supportive policy setting in place, with stability and consistency being the key factors which generate investor confidence. The uncertainty of not knowing what would replace the existing measures, which end on 30 June 2011, was having a destabilising affect. The legislation as presented to the House, provided it is passed by both Houses prior to 30 June 2011, will provide certainty and will confirm to the market that the Government considers it important that the provision of a domestic Australian alternative fuel industry is secured.

3. The phase-in of the new fuel tax arrangements while providing support to the alternative fuels industry in recognition of the potential environmental, fuel security and regional development benefits that these industries can generate.

Having a domestic Australian alternative fuel industry ensures security, national independence and reliability of local supply, helps grow the economy and reduces our nation's carbon emissions from fuel (transport and mining and farming equipment) use. The industry delivers important benefits to regional and rural Australia; providing an additional income opportunity for farmers who provide feedstock for our manufacture of biodiesel and of helping regional based industries to

reduce their carbon footprint through the provision of a lower carbon fuel for use in machinery and transport. In these two ways, biodiesel is helping to support the carbon-reduction efforts of regional Australia in particular and the nation as a whole. The Legislation, as presented to the House, will support the achievement of the environmental, security and regional development benefits that a strong domestic biodiesel industry can deliver.

The present situation

At present, the production of biodiesel in Australia is subject to fuel tax at the full rate of 38.143 cents per litre (cpl) as is the case for petrol and diesel and also for ethanol.

Presently, biodiesel producers are also eligible for a 100 per cent offsetting grant of the same amount, 38.143 cpl paid under the *Energy Grants (Cleaner Fuels) Scheme Act 2004* (provided the product meets the relevant fuel quality standard).

This means that the grant payable under the *Energy Grants (Cleaner Fuels) Scheme Act 2004* has been offsetting the fuel tax payable, effectively making biofuels excise neutral to the taxpayer. A similar situation presently exists for producers of ethanol where they too are subject to fuel tax at the full rate of 38.143 cents per litre (cpl) but also receive a 100 per cent offsetting grant of the same amount, 38.143 cpl paid under the *Ethanol Production Grants Program*.

However, the grant payable to both biodiesel and to ethanol under the *Energy Grants (Cleaner Fuels) Scheme (for biodiesel)* and under the *Ethanol Production Grants Program for ethanol* are scheduled to end on 30 June 2011 meaning there is currently nothing in place to offset excise after 30 June 2011. Hence the need for the passage of the *Taxation of Alternative Fuels Legislation Amendment Bill 2011* BEFORE 30 June 2011.

What the legislation changes

The Bill will extend the current arrangements for a period of ten years (until 30 June 2021) with a review of the taxation arrangements to be conducted after this time.

Specifically, the *Energy Grants (Cleaner Fuels) Scheme Act 2004* will be extended to provide an ongoing grant to eligible manufacturers and importers of 38.143 cpl and the excise will remain at the current level of 38.143 cpl.

What is at stake

Certainty for all affected: from manufacturers like us, to the farmers who grow our feedstocks - and all those who use biodiesel in their cars, trucks, farming and mining equipment.

Emissions reductions: Biodiesel is the only alternative fuel to diesel and thus it plays an important role in reducing emissions across a wide range of end-uses, particularly in regional and remote areas.

Strong investment signals: to underpin investment decision making and to realise commercial success with second and third generation feedstocks and technologies which industry is only now in the early stages of development.

In conclusion

Passing the Bills as they currently stand is critical for the Australian biodiesel industry to develop beyond current infancy and to reach full maturation, which it must, if it is to be capable of supplying both first, second and third generation fuels in sufficient quantities to meet Australia's future low carbon fuel needs. That the biodiesel industry is of particular importance to the economies of regional Australia and to the efforts of regional Australia in reducing emissions should not be compromised or put at risk through inadequate policy settings.

We commend these recommendations to the Committee and welcome the opportunity of further dialogue on these issues.