

SENATE COMMITTEE ON REGIONAL AFFAIRS AND TRANSPORT REPORT
AUSTRALIA'S FUTURE OIL SUPPLY AND ALTERNATIVE TRANSPORT FUELS
GOVERNMENT RESPONSE

Introduction

The Australian Government has been responding to the issues raised by the report of the Senate Committee on Rural and Regional Affairs and Transport inquiry into Australia's future oil supply and alternative transport fuels. This response is encompassed in a broad-based comprehensive policy framework to equip Australia in meeting its future transport energy needs in an effective and environmentally sustainable manner.

The framework includes Government policies and initiatives currently being implemented as well as various Government reviews which will lead to further policy development. Government policies, initiatives and reviews relevant to the issues raised by Committee's recommendations include the:

- development of the Energy White Paper;
- National Energy Security Assessment;
- Strategic Framework for Alternative Transport Fuels;
- Australian Government's Climate Change Plan: *Securing a clean energy future*;
- Australian Renewable Energy Agency;
- Australian Biofuels Research Institute
- Second Generation Biofuels Research and Development Program;
- consideration of vehicle fuel efficiency measures by the Council of Australian Governments;
- New Car Plan for a Greener Future;
- review of Australia's Future Tax System; and
- National Urban Policy.

Specific responses to the recommendations are provided below.

Recommendation 1 - The Committee recommends that Geoscience Australia, ABARE and Treasury reassess both the official estimates of future oil supply and the 'early peak' arguments and report to the Government on the probabilities and risks involved, comparing early mitigation scenarios with business as usual.

In 2011, the Department of Resources, Energy and Tourism (DRET) released updates to the National Energy Security Assessment (NESA) and the Liquid Fuel Vulnerability Assessment (LFVA), which were first conducted in 2008/09. The 2011 NESA uses trend analysis across the short, medium and long-terms to allow a more fluid assessment of the future energy security environment, based on available data. The 2011 LFVA assessed Australia's level of vulnerability to disruptions to the supply of liquid transport fuel, both in the short and longer term. Both the 2011 NESA and 2011 LFVA can be of use for the Australian Government in determining the probabilities and risks involved with future oil supplies.

In 2010, ABARES and Geoscience Australia released the Australian Energy Resource Assessment. This national assessment of Australia's energy resources examines Australia's identified and potential energy resources including crude oil and condensate. It reviewed and assessed the factors likely to influence the production, consumption and trade of Australia's energy resources.

Two key messages that emerged from the assessment of oil were that:

- There is scope for growth in Australia's oil reserves in existing fields, and for new discoveries in both proven basins, and in under explored frontier basins which are prospective for petroleum.
- In the absence of major new discoveries and the development of alternatives, Australia's net imports of liquid fuels are projected to increase, to reach three quarters of consumption by 2029-30.

The 2011 *World Energy Outlook*, produced by the International Energy Agency, forecasts that global oil production will increase between 2010 and 2035 on a business as usual scenario.

Recommendation 2 - The Government take into account the concerns expressed in the World Energy Outlook 2006, namely: current trends in energy consumption are neither secure nor sustainable; energy policy needs to be consistent with environmental goals, particularly the need to do more to reduce fossil fuel carbon dioxide emissions.

The International Energy Agency's latest annual World Energy Outlook (WEO) was released on 9 November 2011. The WEO 2011 was a key input into the 2011 National Energy Security Assessment NESA, prepared by the Department of Resources, Energy and Tourism. The 2011 NESA was used to help inform the draft Australian Government's Energy White Paper (EWP). The draft EWP and the 2011 NESA were released on 13 December 2011 by the Minister for Resources and Energy. Together these documents assist in delivering a clear and robust whole-of-government policy framework to provide certainty for investors as well as reliability and security for the Australian community. The development of the Energy White Paper is also cognisant of the need for Australia to continue the transition to a low emissions and environmentally sustainable economy, which was outlined in the Government's Clean Energy Future package.

Recommendation 3 - The Committee recommends that the Government publish the results of its review of progress made towards meeting the biofuels target of 350 ML per year, including which companies are meeting the target.

The Government notes that the biofuels target of 350 ML per year was a commitment made by the previous Government and is not current Government policy. Consistent with the Energy White Paper principles that favour market-led approaches, industry and the market will drive the take up of alternative transport fuels in Australia, and the Commonwealth does not support the adoption of mandates or targets.

Recommendation 4 - The Committee recommends that the Government examine the adequacy of funding for lignocellulose ethanol research and demonstration facilities in Australia, and increase funding, where appropriate.

The Government is of the view that the development of second generation biofuels, including lignocellulose, has the potential to supplement Australia's fuel supply and reduce greenhouse gas emissions in the transport sector. In recognition of the need to develop second generation biofuels, the Government has developed the Second Generation Biofuels Research and Development Program (Gen 2). Gen 2 is a competitive grants program that supports the research, development and demonstration of new sustainable biofuel technologies.

The Government has also established the \$20 million Australian Biofuels Research Institute. This measure reflects the Australian Government's support for the potential of next-generation biofuels to increase Australia's energy security, diversify sources of liquid fuel supply and transition Australia to a low carbon economy. The work of the Institute will focus on supporting

the development of biofuels from non-food and non-traditional feedstocks including algae, oil seeds and wood waste.

A national research, development and extension (RD&E) plan for biofuels and bioenergy is being developed under the Primary Industries Ministerial Council's National Primary Industries RD&E Framework. The plan aims to implement a collaborative national approach to ensure research and resources achieve the best outcomes for primary industries and these sectors, and will explore research priorities, capacity and emerging opportunities.

Recommendation 5 - The Committee recommends that the Government commission a research group within the Department of the Treasury to identify options for addressing the financial risks faced by prospective investments in alternative fuels projects that are currently preventing such projects from proceeding. This group should determine how these risks might be best addressed in order to create a favourable investment climate for the timely development of alternative fuel industries, consistent with the principles of sustainability and security of supply.

The 2011 *Strategic Framework for Alternative Transport Fuels* (the Framework) was developed in conjunction with industry and other stakeholders in the context of maintaining Australia's transport fuel security while moving towards a lower carbon economy by 2030. It establishes a long term strategic framework for a market-led adoption of alternative transport fuels in Australia. The Framework includes 20 actions for industry, Government and other stakeholders in the short, medium and long term that are focused on removing impediments to the market-led adoption of alternative transport fuels.

In recognition that access to capital is a challenge facing many renewable energy companies, in May 2011 the Government launched the \$100 million Renewable Energy Venture Capital (REVC) fund to support renewable energy companies in commercialising their technologies. The Australian Centre for Renewable Energy (ACRE) has appointed Southern Cross Venture Partners as fund manager to deliver this commitment. Investment decisions by Southern Cross will be on a commercial basis.

In July 2011, the Government announced the establishment of the Australian Renewable Energy Agency (ARENA), as a part of its Clean Energy Future plan. Legislation establishing ARENA as an independent statutory authority was made into law on 4 December 2011 and ARENA will commence operations on 1 July 2012.

ARENA will consolidate administration of \$3.2 billion in Government support for renewable energy technology innovation currently administered by ACRE, the Australian Solar Institute and DRET.

Around \$1.7 billion of ARENA's funding is currently uncommitted and will be available for ARENA to meet its objectives of improving the competitiveness of renewable energy technologies and increasing the supply of renewable energy.

Recommendation 6 - The Committee recommends that the Government, in consultation with the car industry, investigate and report on trends in the fuel efficiency of the light vehicle fleet and progress towards the 2010 target for the fuel efficiency of new passenger cars. If progress under the present voluntary code seems unlikely to meet the target, other measures should be considered, including incentives to favour more fuel efficient cars; or a mandatory code.

The Government has decided to introduce new mandatory CO₂ emissions standards for all new light vehicles, including cars, from 2015. The emissions levels to apply under the standards, as

well as the regulatory framework to implement the standards, will be developed in consultation with industry and other key stakeholders.

The Government's *A New Car Plan for a Greener Future* is preparing the Australian automotive industry for a low-carbon future by assisting the industry to produce vehicles and components with lower fuel consumption and greenhouse gas emissions. The package of measures included the Green Car Innovation Fund which closed to new applications on 27 January 2011. The Fund provided assistance to enhance research and development, and the commercialisation of Australian technologies that significantly reduce fuel consumption and/or greenhouse gas emissions of passenger motor vehicles.

Recommendation 7 - The Committee recommends that Australian governments investigate the advantages and disadvantages of congestion charges, noting that the idea may be more politically acceptable if revenue is hypothecated to public transport improvements (as has been done in London, for example).

The Bureau of Infrastructure, Transport and Regional Economics has forecast that the annual 'avoidable' cost of congestion for the Australian capitals could increase to over \$20 billion by 2020. Given the consequences of congestion for productivity and liveability, the Australian Government is working on a range of measures to address these challenges, including through collaboration with the States and Territories.

Congestion charging, if considered, would be the responsibility of State and Territory governments and is only one of a series of measures that can help reduce congestion.

- The Australian Government has made substantial investments, including through a doubling of road spending and a ten-fold increase in rail spending.
- The Australian Government's recently released National Urban Policy outlines a series of strategies which would reduce the demand for travel. These include through the reduction of peak work flows, telecommuting, and via better planning that co-locates jobs, people and facilities.
- The Government is also funding the use of technology to reduce congestion, with the inclusion in the National Urban Policy of the National Smart Managed Motorways Trial, a \$61.4m initiative to improve congestion, lower urban emissions, and expand the capacity of existing outer city road infrastructure networks.

The National Urban Policy also recognises road pricing (which is distinct from congestion charging, but may include congestion charging elements) as a potential means of reducing travel demand, and the Henry Review of Australia's taxation system also considered congestion charging and road pricing more generally. Implementation of congestion charges is ultimately a matter for State governments.

Recommendation 8 - The Committee recommends that Commonwealth support for Travel Smart projects be maintained beyond the currently planned termination date.

The Australian Government's view is that travel behaviour change measures, such as the Travel Smart projects, are most effectively developed and applied at a local/regional level by State, Territory and local Governments. As such, the Government did not extend funding for Smart Travel projects beyond 2008-09. However, the Government recognises there may be benefit in sharing information on these travel projects and will continue to explore opportunities with State and Territory Governments.

Recommendation 9 - The Committee recommends that corridor strategy planning take into account the goal of reducing oil dependence as noted in recommendation 2. Existing AusLink corridor strategies should be reviewed accordingly.

In 2008, Infrastructure Australia (IA) was established to advise Australian governments on infrastructure issues, including strategic planning issues, following the end of the AusLink Programme. IA completed a national infrastructure audit in December 2008. The audit identified infrastructure gaps, impediments and bottlenecks in the transport, communications, water and energy sectors.

IA's prioritisation methodology provided a best-practice approach for infrastructure prioritisation and was drawn from international and national best-practice and research. IA used cost-benefit analysis as the primary driver for prioritising projects. IA was asked in making its recommendations to have regard to the effects of climate change and Government policy on this issue. Accordingly, the costs and benefits considered in the analysis were not just economic but also social and environmental. IA indicated in its prioritisation methodology that any proposals submitted should include a monetisation of the impact of factors such as local air pollution and carbon emissions.

IA's development of a long term integrated approach to infrastructure planning and investment includes the release of the National Ports Strategy, a discussion paper on the National Freight Network Strategy and the development of a Public Transport Strategy.

In January 2011, IA released the National Ports Strategy. This strategy will improve the way Australia's ports are planned and managed, and reform port governance and planning. The Council of Australian Governments have endorsed the need for a national ports strategy and requested for an implementation plan to be approved by early 2012.

Work is also underway on the first ever national freight strategy aimed at developing a truly national freight transport network. A discussion paper on the National Freight Network Strategy was released in February 2011.

The COAG Reform Council has just finalised its two year review of the consistency of capital city strategic planning systems with nationally agreed criteria. COAG will consider the outcomes of this review at its next meeting.

As part of the 2011-12 Budget the Australian Government announced a reform package which will be implemented to strengthen IA. The extra funding will allow IA to expand its work to include providing independent policy advice on national infrastructure reforms such as the National Port and Freight Strategies, while working with governments and the private sector to develop a deeper 'pipeline' of priority infrastructure projects in the Australian market.

Recommendation 10 - The Committee recommends that the Government review the statutory formula in relation to fringe benefits taxation of employer-provided cars to address perverse incentives for more car use.

In the 2011-2012 Budget the Government announced a measure to remove the incentive for people to drive more than they need to in order to obtain a larger tax concession, by reforming the statutory formula method for valuing car fringe benefits.

This implements a recommendation of the *Australia's Future Tax System Review*.