

17<sup>th</sup> July 2007

The Executive Officer  
Economic Development and Infrastructure Committee  
Parliament House  
EAST MELBOURNE VIC 3002

Dear Sir,

**PARLIAMENTARY INQUIRY INTO MANDATORY ETHANOL AND BIO-FUELS TARGETS IN VICTORIA**

Thank you for providing the opportunity for the SSA to make input to this inquiry.

The SSA has serious misgivings regarding the use of mandatory measures in an industry that is de-regulated and market driven. It has similar misgivings when it comes to the issue of mandatory use of ethanol and bio-fuels. Notwithstanding this comment, the SSA supports the widespread use of ethanol and bio-fuels in the Australian transportation fuels market and believes that it is in the long term interest of Australia that such fuels should form a significant and enduring part of the overall fuel mix. The difficulty remains as to how to achieve this aim without placing an unacceptable burden on the Australian community and the Australian taxpayer.

The SSA prefers market driven strategies to achieve the types of initiatives being considered. Mandatory measures can have the effect of distorting the market and can introduce an uncompetitive component.

In the case of ethanol and bio-fuels, it is important that sufficient competition is in place in the production and supply side of the industry to bring about competitive pricing. If there is insufficient supply or a monopoly over such supply, the end result will either be a shortage of blended fuel or unjustifiably high retail prices.

The details of any mandatory measures are important too. A mandate for, say, 2% bio-fuels in all fuel sold would place unacceptable strain on the ability of all suppliers in the industry to comply. At these levels, the benefits to individual consumers would be negligible, and labelling issues would need to be addressed. Service station equipment conversion costs would have to be considered.

Another commonly used concept is for the industry as a whole to market sufficient 10% bio-fuel (in the case of ethanol) to meet an overall comprehensive lower target. As the industry in Australia is already moving in this direction in response to the Federal Government's bio-fuels target, such an approach would be more easily managed. There is the added benefit that individual consumers would gain the lower price benefit from the excise exemption and there would be noticeable emission improvement from the customers' vehicles. However, the issues of competitive supply and product accessibility would remain and would need to be satisfactorily dealt with if excessive price rises are to be avoided.

Finally, as the oil supply and retail industry in Australia is a truly national one, State based conditions and product specifications that are inconsistent with other States place burdens on the industry, create extra layers of expense which invariably lead to higher prices.

The SSA is supportive in principle for stronger measures to ensure a large take-up of bio-fuels, but urges caution and recommends consideration be given to trying to foster a national approach. The SSA also supports intensive consultation with the industry before any firm action is taken.

Yours faithfully,

Ron Bowden  
Chief Executive Officer