7 February 2024

The Manager
Fuel Policy Section
Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
CANBERRA ACT 2601

Via email: fuel.policy@dcceew.gov.au

Dear Sir/Madam,

Enabling supply of renewable diesel in Australia (November 2023)

Reference is made to your invitation to provide comment on the above consultation paper entitled: Enabling supply of renewable diesel in Australia – A consultation paper on establishing a paraffinic diesel fuel standard for Australia. Your accommodation of a slight extension to provide our Association with sufficient time to canvass member feedback on one of the key implications of this paper is appreciated.

Below please find ACAPMA's submission to this consultation.

Given the scope of interest of ACAPMA's members (i.e. fuel transport, fuel wholesale and fuel retail) our response to the consultation paper has been confined to issues associated with the transport, storage and retailing of renewable diesel in Australia.

1. About ACAPMA

The Australasian Convenience and Petroleum Marketers Association (ACAPMA) is the national peak body representing the interests of the petroleum distribution/wholesaling and the petrol-convenience retail industry. These two industry sectors generated annual revenues of around $101B in 2022 and employed an estimated 61,000 Australians, working in around 4500 businesses.

ACAPMA is first and foremost an employer organisation that is formally recognised under Australian law as the *industrial advocate* for fuel marketing and fuel distribution businesses. First established in 1976, the Association started operations as the Australian Petroleum Agents and Distributors Association (APADA) and subsequently changed its name to ACAPMA in 2007. The name change was accompanied by a change in the Association's Constitution to incorporate national representation of fuel retailers.

Today, the Association directly represents 95% of fuel distributors/wholesalers in the country and directly and indirectly (via franchisees and distributor-owned retailers) around 5400 of the 7100 service stations (i.e. 76%) operating in Australia.

The scope of ACAPMA's membership extends from the 'refinery gate' through to the forecourt of Australia's national network of service stations and petrol convenience outlets – including fuel importation, fuel wholesalers, fuel distributors, fuel retailers, petroleum equipment suppliers, and petroleum service providers.

ACAPMA's member businesses range from Australian-owned subsidiaries of international companies to large Australian-owned businesses, to independently owned mid-cap Australian companies, and small *single retail site* family-owned businesses.

Given the diversity of our membership base, ACAPMA strives to assemble an aggregate *whole-of-industry* perspective on key public policy and market regulation - with a view to providing policymakers and regulators with meaningful industry insights that are directly relevant to issues under consideration.

Given the wide variance in the market propositions (and market presence) of individual market participants, ACAPMA's aggregate *whole-of-industry* perspective should not be taken as necessarily being wholly representative of the position of any individual fuel retailer.

It is therefore possible that one or more of ACAPMA's members may have an individual enterprise position that varies markedly from the one presented in this paper.

2. **Guiding principles used in this submission.**

While Australia's fuel distribution & wholesale businesses and Australia's fuel retail businesses are not directly *invested* in the manufacture of transport fuels (neither conventional nor future fuels), the industry recognises that it has an active role in supporting an orderly transition to low carbon mobility, under the umbrella of Australia's 'Net Zero by 2050' aspirations.

Achievement of this orderly transition will require all stakeholders to work cooperatively on a comprehensive transition plan that supports achievement of Australia's *Net Zero* objective without creating undue economic and social harm. At a practical level, this means ensuring that Australia's net zero transition is advanced from sound engineering and economic principles to avoid undue economic, environmental, and social harm.

ACAPMA's response to the NSW Government's Discussion Paper on expansion of the NSW Renewable Fuel Scheme was informed by the elements of the Association's Public Policy Framework (2023):

2.1 Low carbon policy and regulation must focus on performance (not specific technologies)

ACAPMA notes that there are numerous examples (both national and international) of governments imposing mandates of alternative fuels as a means of achieving environmental goals, only to repeal these measures on the grounds of the creation of significant adverse economic and social consequences. National and International experience with the introduction of mandates of first-generation biofuels in Europe, North America, and Australia at the turn of the century is a case in point.

ACAPMA believes that all Australian Governments should avoid setting low carbon mobility policy that amounts to picking technology "winners". Such an approach not only risks unintended consequences but may also result in shutting out non "favoured" fuels and technology that – as a result of the realisation of unseen breakthroughs – are capable of delivering environmental improvements earlier and at a lower over cost.

ACAPMA therefore opposes mandates that prohibit specific mobility technologies and/or limit the constructive competitive tension that exists between competing low carbon mobility technologies (i.e. electric, hydrogen, and synthetic fuels).

2.2 Government policies targeting low carbon mobility must support an economically viable and socially just transition to Net Zero 2050.

Articulation of a policy target without due consideration of how that target can be achieved in practice is not only disingenuous, but it will also likely result in unnecessary destruction of asset value and Australian businesses – with associated adverse impacts on employment.

It therefore follows that Australia's Net Zero Policy (including the implied low carbon mobility targets) is supported by a transition plan that is economically and technologically achievable. Wholesale reliance upon contested technological breakthroughs and future milestones for economic scale is not supported as a means of achieving Australia's Net Zero ambitions.

The transition to low carbon mobility must also take account of the likely different rates of consumer adoption of low carbon vehicles given the different socio-demographic profiles of Australian households, particularly given that the costs of adoption of low carbon mobility are significantly higher than conventional mobility.

2.3 Advanced (or early) investment in low carbon mobility infrastructure should be supported by public funding until such time as market demand supports wholesale private sector investment.

New investment in low carbon mobility infrastructure that is developed in advance of demand is typically uneconomic. It therefore follows that achievement of the public good

associated with early provision of this infrastructure should be underpinned by proportionate investment in same by all Australian Governments.

Forced private sector investment ahead of demand for low carbon mobility will undoubtedly result in Australian fuel businesses being required to offset uneconomic investment costs by increasing the cost of conventional fuels for Australian businesses and households – an outcome that is considered economically unjust and socially inequitable.

2.4 Progress on low carbon mobility to support Net Zero 2050 should not come at the expense of Australia's national fuel security goals.

Australia's conventional fuel industry is critical to the national security of the country and will likely remain so until the majority of Australia's on-road and off-road vehicles transition to low carbon technologies and fuels.

Given the growing significance of geopolitical issues, government policy must balance required investment in low carbon mobility with the equally important requirement to continue investment in conventional fuel security. Such a balance requires due consideration of the scarcity of funding for new investment (in either conventional or future fuel infrastructure) and the likely reduced timeframes for realisation of a commercial return from new investment in conventional fuel import, storage, transport, and retail infrastructure.

2.5 Development of the low carbon mobility market should ensure competition neutrality.

Mobility costs are a significant cost input to the Australian economy. Traditionally, successive Australian governments have sought to ensure that these costs remain reasonable and affordable by ensuring that there is a strong competitive tension in the Australian fuel wholesale and fuel retail markets. These efforts extend to the provision of special powers of oversight of the fuel retail industry by the ACCC, as determined by successive Federal Treasurer's over the past two decades.

It therefore follows that, as all Australian Governments seek to promote growth of the low carbon mobility market, the design of government policies and funding programmes avoid inadvertently ceding a concentration of market power to specific enterprises and/or organisations. This is particularly pertinent with respect to the awarding of government grants (i.e. taxpayer funds) for new low carbon mobility infrastructure.

3. Statement of overall Association position.

ACAPMA's high-level position in respect of the proposal to establish a paraffinic diesel fuel standard for Australia can be summarised by the following four points:

1. ACAPMA supports all reasonable efforts by all Australian Governments to increase the supply of low carbon liquid fuels in Australia – including renewable, synthetic, and advanced biogenic fuels. Development of early supply of low carbon renewable diesel for the Australian diesel market presents a tangible opportunity to deliver emissions reduction from the 'hard to abate' road transport and heavy machinery industrial sectors (e.g. Mining, Agriculture, industry, and rail transport) – particularly given the forecast near zero availability of BEV and FCEV drivetrains for these applications (both on-road and off-road) in the near term.

2. The Association's support for low carbon liquid fuels – including renewable diesel - is premised on the firm understanding that these fuels deliver a significant reduction in GHG emissions (as compared with equivalent conventional fuel operation) AND that these fuels can readily utilise existing national fuel transport, fuel storage and fuel retailing infrastructure. <u>That is, they do not necessitate expensive adaptation or augmentation of national fuel supply infrastructure</u>.

3. Any new standard for renewable diesel in Australia – including that for paraffinic diesel – should stipulate minimum physical and chemical properties that ensure consistency with existing national diesel supply chain infrastructure. This is particularly important in terms of observing the flashpoint threshold between the transport and storage of diesel as a 'combustible liquid' (i.e. flash point above 60 degrees Celsius) and a legislated standard that results in a diesel or diesel blend being deemed a 'flammable liquid' (i.e. flash point below 60 degrees Celsius) under the Australian Dangerous Goods Code.

4. Recognising the current significant cost disadvantage of renewable diesel (150% of average diesel price) and synthetic diesel (250% of average diesel price), strategies seeking to accelerate the early market entry of these fuels should ideally be advanced using *Market Push* policy mechanisms - where *fuel producers* are incentivised to invest in the at-scale development of these fuels at a price that is competitive to mineral diesel. Given the infant state of the market with respect to renewable transport fuels, *Market Pull* mechanisms that impose a liability on *downstream fuel market participants* (i.e. wholesalers, retailers and end-consumers) are considered to be economically and socially unjust.

4. Specific comments (and responses to Consultation Paper questions).

Many of the questions posed in the Consultation Paper go to the production and/or sourcing of native paraffinic diesel and production of diesel blends. Given that the scope of ACAPMA's activity does not incorporate fuel production, the Association is not in a position to provide meaningful comment in respect of many of the questions posed in the discussion paper – and will instead defer to our sister organization the Australian Institute of Petroleum (AIP) and Australian refining enterprises.

Further, a number of pertinent questions posed in the discussion paper appear to require formal comment from diesel equipment manufacturers and suppliers (e.g. increasing the FAME content to 7%) in respect of any impacts on engine operability and durability. ACAPMA's position in respect to our industry's obligations under the Australian Competition and Consumer Act (2010) to ensure that we only wholesale and retail a fit-for-purpose fuel to Australia's diesel consumers.

4.1 Strong preference for creation of new stand-alone Australian Fuel Quality Standard for paraffinic diesel – separate from the existing diesel fuel quality standard - and separate labelling of same to consumers.

For the reasons cited in Section 4.2 below, ACAPMA is opposed to the inclusion of paraffinic diesel parameters within the existing diesel standard.

Our understanding is that such an approach would not unduly exclude the market entry of mineral diesel/paraffinic diesel blends, as many of these blends would satisfy the specifications of the diesel standard in terms of both density and flashpoint properties.

Given the obvious simplicity that arises from the incorporation of paraffinic diesel under a single standard, there could well be an argument to incorporate paraffinic diesel under a future variation in the fuel quality standards after a suitable period of market experience with paraffinic diesel fuels.

The separation of mineral diesel from paraffinic diesel would also allow the fuel to be clearly labelled and transported as a *flammable fuel* under the Dangerous Goods Code. This means that the fuel could be supplied to the market via new dedicated fuel supply chain infrastructure, as opposed to requiring wholesale changes to the extensive existing infrastructure that is dedicated to the supply of the less volatile *combustible fuel* (i.e. mineral diesel).

4.2 Strong opposition to any proposal that involves lowering the flashpoint of the diesel standard below 60 degrees Celsius, given the prohibitive cost associated with adaptation of existing diesel fuel supply infrastructure (both industry and customer-facing infrastructure)

Any wholesale change to the existing diesel fuel quality standard that involves a lowering of the flashpoint below 60 degrees Celsius is staunchly opposed by ACAPMA. Such a change will result in the reclassification of diesel from a combustible fuel to a flammable fuel under the Australian Dangerous Goods Code, requiring an extensive replacement/configuration of existing diesel supply chain infrastructure, including:

- Dedicated diesel storage infrastructure at fuel supplier depots
- Dedicated diesel transport tankers (i.e. road tanker barrels)
- Dedicated above ground diesel fuel storage infrastructure at customer premises (i.e. mining, agriculture, industry, and road transport enterprises)

- Dedicated diesel dispensing equipment, specifically included unmanned outdoor payment terminals across the national highway network (and in small regional and rural centres)

Put simply, the cost involved in such a massive reconfiguration of national diesel storage infrastructure would likely be prohibitive and ACAPMA is stunned that such a proposal would be presented in a Consultation Paper of this nature.

In an effort to provide a reasonable estimate of the likely transition cost associated with this reconfiguration (which relates to the lowering of the flashpoint for all diesel sold in Australian for the purposes of the Australian Dangerous Goods Code and therefore impacts all diesel supply infrastructure regardless of whether it contains renewable diesel), ACAPMA surveyed it's Fuel Distribution Members to estimate the likely *infrastructure intensity* per million litres of diesel wholesaled in Australia.

That is, when considered on an average basis, what is the ration of diesel supply infrastructure (i.e. dedicated depot storage tanks, dedicated diesel road tanker barrels, and customer receiving tanks) per million litres of diesel sold into the Australian Wholesale market.

The survey of members was conducted in the last two weeks of January and was necessarily curtailed by the need to provide a timely response to this consultation – not withstanding the provision of a one-week extension being given to the Association past the 2 February 2024 deadline (The ACAPMA member survey provided a typical sample of dedicated diesel fuel distribution infrastructure from a sample of businesses that wholesale 2.1B litres of diesel per year).

The findings of the survey suggested that the average infrastructure intensity per billion litres of diesel sold into the Australian wholesale market was as follows:

Infrastructure element	No. of units per 1B litres of diesel sold per year
Depot based Diesel storage (Fuel supplier)	119 unit
Fuel Tanker barrels	113 units (Semi trailer volume)
Dedicated vessel (above ground tanks) on customer premises	5875 (mainly above ground tanks on farms)
Outdoor payment terminals	Unknown

Applying reasonable replacement costs for the above (i.e. new DG compliant road tanker barrels and replacement of storage tanks with double walled underground tanks), the survey suggests that the estimated adjustment cost of lowering the flashpoint of diesel to below 60 degrees Celsius per billion litres of diesel sold is likely to be as follows:

- Changes to industry infrastructure (DG Storage and tankers): **$124M**
- Changes to customer facing infrastructure (DG inground tanks): **$147M**

This unit cost is conservative given that it excludes consultant fees, ancillary pumping equipment, and DG licencing fees (which would accrue annually).

Extrapolating the above unit cost across the entire wholesale diesel volume sold in Australia per year (estimated at 22.7B litres in 2023), the adjustment costs associated with the adoption of a diesel flashpoint below 60 degrees Celsius is estimated to be in the vicinity of $AUD6.2B – or around 27cents per litre of diesel sold into the wholesale market (i.e. assuming full amortisation of costs in first year).

Importantly, more than 50% of this cost would be borne by diesel customers (i.e. mining, farming and road transport enterprises) in the form of capital investment in fuel storage and dispensing infrastructure.

5. Summary

ACAPMA supportive of any actions taken by all Australian Governments in respect of promoting the early market adoption of low carbon transport fuels such as renewable biodiesel. The principal benefit of these initiatives is that they provide an opportunity to realise GHG emission reductions from the hard to abate diesel vehicles and diesel machinery sector by utilising existing fuel supply infrastructure and existing diesel vehicles and machinery.

This advantage is lost entirely, however, if a decision is made to adapt the current diesel standard to accommodate renewable diesel by lowering the flashpoint of diesel below the current 60-degree Celsius threshold stipulated in the Australian Dangerous Goods Code. ACAPMA estimates that such an approach would necessitate the wholesale replacement of existing national diesel distribution infrastructure (with DG certified infrastructure) at an estimated cost of more than $AUD 6.2B – which equates to an increase of 27cents per litre in the wholesale diesel supply price in Australia.

Given the above, ACAPMA believes that the market entry of renewable diesel should be accommodated via the development of a stand-alone renewable diesel fuel quality standard – supported by specific labelling of same. This would allow native renewable diesel (and renewable diesel blends) with a flashpoint of less than 60 degrees Celsius to be transported via dedicated DG infrastructure, largely averting the above transition cost.

Should you require clarification of any of the material provided in this report in the meantime, please contact me on 0447 444 011 or by email via markm@acapma.com.au.

Yours sincerely,

Mark McKenzie
Chief Executive Officer