

Biofuels Australasia 2006
The Australian Biodiesel Story – Growth, Challenges and
Insights
Speaker Notes
Presented on Monday, November 20

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INTRODUCTION

1. Good morning Ladies and Gentlemen. On behalf of Axiom Energy, it is my pleasure to be here.
2. Today, I've been commissioned with the rather ambitious task of relaying the Australian Biodiesel Story, and more specifically, growth, challenges and insights into the sector.

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3. While arguably the use and production of biodiesel is still relatively new in Australia, what I hope to convey today is that we have come a long way in establishing this sector nationally and have tremendous opportunities looking forward in ensuring the growth, success and viability of this industry.
4. Indeed, the need for the manufacture of renewable fuels in Australia and the opportunities for growth have never been more apparent.
5. Over the past few weeks, we have been inundated with media reports on the intersection of renewable fuels with energy security and discussions on Australia's place within the global fight against climate change.
6. Experts and government alike have been busy debating national implications of volatile fuel costs and the sustainability of global fuel production supplies.

7. The increasing demand for oil is also generating concerns regarding global production supplies. Some of you may be familiar with the “peak oil” theory argument, which suggests that global oil production will peak before 2030 and then start declining, with terrible social and economic consequences.
8. No consensus has been reached as yet on how much of a security issue global production supplies pose in the Australian context. It has been suggested that Australia’s crude oil reserves could dry up within the next seven years
9. On an environmental level, renewable fuels have also become buzz terms of late.
10. With the release of the recent climate change study from the CSIRO and the Stern Report out the UK, it has become increasingly evident that we as a society have to act now to reduce carbon emissions or face grave consequences.
11. These concerns have also culminated in several announcements from the business community and government, who in seeking to address these issues, are looking to re-examine their own sustainable practices and establish taskforces to investigate these issues respectively.
12. Even Mr. Rupert Murdoch has had a change of heart and two weeks ago stood up to discuss the role of government and business in managing climate change.
13. Over the next fifteen minutes, I hope to illustrate that the opportunities that exist for the establishment of a thriving biodiesel industry in Australia are tremendous, not only in addressing the environmental and global supply issues I have just outlined, but in meeting growing industry

demand and increasing public concern over health and lifestyle.

14. While my presentation will today focus on biodiesel and the biodiesel industry, my intention is not to pose the merits of one type of renewable fuel against the other.
15. While my own expertise is in biodiesel, I do think there exists great opportunities to move the alternative fuels industry as a whole into the mainstream.
16. But if you will please indulge me, I'd first like to start off with providing some background information on the company I represent, Axiom Energy.

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AXIOM ENERGY BACKGROUND

17. Axiom Energy is an energy business focussed on producing renewable liquid fuels.
18. Based in Victoria, we are driving alternative fuel projects with the aim of meeting the growing demand for renewable fuel locally, nationally and globally.

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19. Our biodiesel will be made from renewable oils and animal fats and our first project, based at Toll Geelong Port will have capacity to produce 150 million litres of biodiesel a year.
20. This is the largest planned commercial biodiesel facility in Victoria to date.
21. In addition Axiom has an option over a site in Botany Bay in Sydney for a second plant.

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THE RENEWABLE FUEL OPPORTUNITY

22. Axiom Energy sees great potential for expansion within the Australian diesel market.
23. While the passenger transport industry in Australia is still largely dominated by petrol, in recent years, growth for petroleum diesel has surpassed that of petrol.

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Growth in demand for diesel in Australia currently sits at around 3 percent a year, while demand for petrol and other products has been growing at a much lower rate of approximately 1.2 percent a year.

24. As we look to operate within the current 15.2 billion litre petroleum diesel market, we should be reminded of the great opportunity that exists – particularly in light of the fact that current biodiesel production sits at just 50 million litres per annum.
25. While global car manufacturers, particularly European, have become increasingly interested in the production of new diesel car models – consumer demand for diesel passenger cars in Australia remains at the low end of the scale.

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27. In March 2005, diesel passenger cars represented 3.2% of all passenger cars in Australia. In contrast, in certain countries in Europe, diesel passenger cars represented approximately 50% of all new passenger cars purchased.
28. Within the transport industry, we have already witnessed strong interest from various groups. Axiom has recognised the transport sector as a key industry and has thus strategically chosen our site at Geelong Port - as it provides easy access to metropolitan Melbourne and is

the gateway to rural Victoria.

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29. In recent months, we have also entered alliances with Visy Industrial Packaging and Linfox to trial our biodiesel blend in their fleets.
30. We have also received many expressions of interest – including Local Councils and bus fleets – as well as other large commercial players.
31. On the part of industry as a whole, we know that companies such as Fosters are trailing biodiesel and spearheading research into the effects of climate change, while others are looking at additional ways they can incorporate sustainability into their business strategies – whether it be through direct or supplier practice.
32. These small but significant gains illustrate an important learning. Location of biodiesel infrastructure is important and must be seamlessly integrated within the existing mainstream fuel and logistics capability if the industry is to tap into the opportunity that exists to replace petroleum diesel.
33. Importantly biodiesel blends do not need new infrastructure. The ability to use the current distribution and retail infrastructure is an important advantage.

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ENVIRONMENTAL OPPORTUNITY

34. Investigating the environmental impacts of business practices has also been supported and encouraged by the Australian Government. For example, the Australian Greenhouse Office has begun advising businesses to extend the Australian risk management standard to climate change.

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35. It's clear that as global warming and environmental sustainability issues continue to remain at the centre of political stage, we are slowly changing mindsets and public opinion re-enforcing the fact that climate change is not solely a government issue, but one that has implications for businesses and industry as well.
36. I'm sure most of you are already well aware of the environmental benefits of biodiesel and I will thus spare you from a large list of emissions savings.
37. However, what –is starting to be understood by users is the fact that biodiesel reduces greenhouse gases by more than 60% when compared with petroleum diesel.
38. And if you use Axiom Energy as an example, our 150 million litre a year plant will save Australia approximately 150,000 tonnes of greenhouse gas emissions.
39. That equates to taking some 37,500 cars off the road.

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INDUSTRY CHALLENGES

40. Currently Australia's biodiesel industry is a producer driven market compared to the US and Europe where the market is largely demand driven. In other words in the US demand is superseding supply and this is the position that we as an industry should strive for.
41. There is a good reason for this – Australian Government incentives have seen the establishment and growth of biodiesel infrastructure in Australia far more rapidly. Our conservative estimates show that Australia will have the

capability to produce between 800 – 1 billion litres of biodiesel – however, at this point in time; there is a lag between demand and production capability.

42. As an Industry, it is imperative that we make it easier for users to embrace biofuels and make it attractive for large and small industry.
43. Our experience tells us that most users lack knowledge about the role biodiesel can play in their current fuel mix both on an economic and environmental level. It is our obligation as an industry to bridge this gap – if we are to gain user confidence and participation.

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44. Another challenge that biodiesel producers will face moving forward is ensuring that the entire cycle of biodiesel production remains environmentally friendly.
45. From feedstocks, to manufacturing and distribution, biodiesel producers will have to ensure we too meet growing demand for sustainable business practices.
46. From the outset, Axiom Energy has been diligent in ensuring our facility will meet the highest possible environmental and operational standards.
47. In addition, Axiom Energy has also entered into agreements with Cargill Australia and Gardner Smith to supply raw materials including palm oil and tallow for the production of biodiesel.
48. Cargill Australia and Gardner Smith are members of the Roundtable for Sustainable Palm Oil, an international organisation that aims to ensure sustainable production and use of palm oil.
49. While our intention was to always look into the use of local raw materials in our manufacturing, as I'm sure

some of you will relate, this option is not economically viable for the industry as yet.

50. Thus over the past year, we have been in discussions with farming groups to investigate opportunities for the use of local grown energy crops.
51. On an economic level, we believe there is much room for growth for local farmers to get involved in the production of renewable fuels – and in a way that does not compete with food supplies.

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FISCAL INCENTIVES

52. The opportunities I've been outlining have been recognised by the Australian Government and it has been supportive of growth in this industry thus far.

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53. In 2003, a major stimulus was provided to the Australian biofuels market by the Federal Government policy of establishing a 350 million litre per annum biofuels target by 2010.
54. In support of this policy, the Government initiated a cleaner fuel grant scheme, which offsets excise or customs duty paid, so that the current effective rate of excise for biodiesel is zero.
55. On a state level, we have also seen quite a bit of support around the biofuels industry.
56. Queensland has been active in developing an active ethanol industry and New South Wales and the ACT have been looking at ways to introduce and mandate ethanol use.

57. South Australia has already switched some of its council diesel buses to biodiesel and in Victoria; a government committee inquiry into the use and production of biofuels has recommended greater use of biodiesel in the state as well.

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58. However, some of these incentives and opportunities have been overshadowed of late in the media and political arena. We are all well aware of the media exposure that resulted following the passage of the recently enacted Fuel Tax Act 2006.
59. The major change under this Act that affects biodiesel deals with the ability for business users to claim a tax credit for biodiesel and its blends. Previously, most eligible business users were able to claim a full excise credit of 38.143 cents per litre, similar to that of the biodiesel producers.
60. However, since the advent of the Bill, some business users will not be able to claim a credit, with some exceptions:
 61. Business users of biodiesel blends, where that blend meets the Australian diesel standard, will still be eligible for a fuel tax credit.
 62. A grant is additionally still available to on-road business users whose vehicles meet size and operational specifications.
 63. While the fuel tax reforms changed the way users claimed a credit on biodiesel, there are provisions in the Fuel Tax Act that allow users to benefit from using biodiesel blends.

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64. According to the Act – where a particular fuel blend meets the fuel standard for petroleum diesel the fuel tax credit is payable as though the blend was a fuel entirely of that standard.
65. In other words, what this means is that so long as the biodiesel blend meets the Australian diesel fuel standard – whether that will be B5 – B10 or B20, users will still be able to claim a credit of 38.143 cents.
66. From an industry perspective it seems unfair that the Government has made these changes at all and in fact removed the ability for users to get a full rebate.
67. However, as I have just illustrated this is not so. The Government has factored in biodiesel blends in calculating these reforms.
68. The opportunity for the industry is to create higher biodiesel blends that still meet the Australian diesel standard. This can only be achieved with using higher quality feedstocks. Our experience from using palm oil and palm oil fractions is that you can still produce higher biodiesel blends that are consistent with the Australian diesel standard.
69. Where choice of raw materials restricts certain producers to lower blends, those plants need to be located in the larger diesel markets in Australia.

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70. What this means on a commercial level is that some biodiesel producers have been affected, particularly those who might not have factored in the full implications of these reforms and the commercial impact of these reforms on their projects' viability.
71. As such the industry is divided. While some of us may not be supportive of the Government fuel tax reforms several biodiesel proponents including Axiom Energy

have had the opportunity to incorporate all tax reforms into their business and financial modelling.

72. That said, much recent criticism has been right to point out that the complexity surrounding the recent reforms, the difficulty in explaining the changes to users and the wider industry, and the outcry that has resulted against it have had negative impacts on some publicly-listed biofuel companies and potential user confidence.

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MARKET CONFIDENCE

73. This brings me to one of the major challenges we face ahead as an industry.
74. While to date, a number of oil companies such as BP and Caltex have boosted public confidence by publicly stating their intent to become involved in the marketing of biofuels, we would still like to caution the industry and say that confidence can be fragile.
75. As with all emerging industries, there is a high level of risk associated with entering the biodiesel market.
76. Moving forward, one thing suppliers will need to ensure is that users are properly advised on fuel blends and adhere to fuel quality standards.
77. In September 2003, the Government set a fuel quality standard for biodiesel, however apart from this and the standards set in the Fuel Tax Act pertaining to meeting the diesel fuel standard, there currently exists no specific standard for biodiesel blends.
78. The Department of Environment and Heritage recently released a discussion paper seeking comment on management options for standardising biodiesel blended fuels and we believe the industry as a whole has a significant opportunity to play as the department looks to

submissions in January.

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79. While the number of biodiesel players in Australia has grown significantly over the past few years, to date, there has not been a concerted effort to work together in growing market confidence locally.
80. As illustrated by the negative impacts individual responses to recent fuel tax reforms have had on market confidence, it's essential that we work together to overcome any hurdles or challenges we might face in growing this industry in Australia.
81. The Biodiesel Association of Australia and the Renewable Fuels Australia have recently agreed to combine the strengths of both groups into a combined entity. In addition at the recent NRMA biofuels forum, it was encouraging to see a number of interested parties agreeing to work together to further the biofuels cause in Australia.
82. I believe that through these working opportunities, we will have even greater success at moving our industry into the mainstream.

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CONCLUSION

83. As illustrated by the vast number of companies that have emerged over the past few years, I am confident that my optimism is shared by colleagues within this industry as well.

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84. It is currently estimated that by 2010, the Australian biodiesel industry will grown from current production levels of around 50 million litres to close to 1 billion litres.

85. Even though our own plant is only expected to commence production next year, over the past year through import, we have been active in expanding our customer base and have been greeted with a significant and positive response.
86. While it has been suggested that recent drops in world oil prices negate the need for biofuels in Australia, I think this statement is a confused one and as I hope I've already made clear, concerns regarding sustainable options and alternate sources of fuel to manage energy security issues surpass general price concerns.
87. As seen through some of the economic and environmental benefits discussed, by supplying a high quality biodiesel that will not only deliver short to medium term savings to business and individual pockets, but also cater to current demand for alternate and sustainable fuel options, I believe we have much to achieve in further shaping this industry.
88. If there are three things to take away from my presentation today, they are this:

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89. No 1: As an industry, we need to work actively together to ensure we grow and sustain market confidence in our sector.
90. No 2: We need to learn from best practice to determine what works and what doesn't and apply this to ensure ultimate industry performance.
91. And No 3: The overall significance of this sector is supporting the very serious fight against climate change – a real solution that will one day negate any arguments surrounding world oil prices and move our emerging industry into the mainstream.

92. Once again, on behalf of Axiom Energy, I am grateful to have had this invitation and welcome your questions to clarify any matter raised here today.
93. Thank You.