

Second Reading

The Hon. TONY KELLY (Minister for Police, Minister for Lands, and Minister for Rural Affairs) [5.07 p.m.]: I move:

That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

Leave granted.

This bill marks another important step forward in our strategy to promote renewable biofuels in New South Wales.

The Biofuel (Ethanol Content) Act 2007 introduced the first mandate of its kind in Australia, and fulfilled a commitment in February 2007 that a re-elected Labor Government would introduce a mandate requiring 2 per cent of the total volume of sales of petrol in New South Wales to be ethanol.

That 2 per cent mandate has been successfully implemented. Between the commencement of the mandate in October 2007 and December 2008, over one billion litres of E10 was sold in New South Wales.

This bill now delivers on the second part of our election promise—that the 2 per cent mandate was the first step towards a 10 per cent ethanol mandate by 2011.

However, to retain the option of ethanol-free petrol for older vehicles, boats, ultralight aircraft and small engines that may not be able to use ethanol-blend fuel, the 10 per cent mandate will apply only to regular grade unleaded petrol, commonly known as ULP.

I am pleased to advise that BP has recently confirmed that it guarantees its E10 petrol for use in any vehicle manufactured post-1986, that has been designed for ULP, irrespective of the vehicle manufacturer's recommendation regarding ethanol content. BP are to be congratulated for so clearly demonstrating its confidence in its ethanol-blend petrol.

Premium grade unleaded petrol of 95 RON or higher will continue to be available without ethanol for those who cannot use it.

This will mean a small additional cost per litre for some users, but just like those who use E10, motorists who change to premium unleaded petrol will enjoy a higher octane, cleaner burning fuel.

This bill goes beyond that commitment to ethanol and introduces, again for the first time in Australia, a biodiesel mandate.

Just as Henry Ford's T Models were designed to run on ethanol, Rudolf Diesel demonstrated his new compression ignition engine at the World Exhibition in Paris running on peanut oil. In 1911 he wrote:

The engine can be fed with vegetable oils and would help considerably in the development of agriculture in the countries that use it.

The biodiesel mandate will be initially set at 2 per cent, but will be increased to 5 per cent in 2012. 5 per cent is the maximum biodiesel content currently covered by most vehicle warranties, and the Federal Government has recently amended the diesel fuel standard to permit up to 5 per cent biodiesel in all diesel fuel.

The global economic crisis has taken some of the attention away from some of the important issues that our biofuels mandates are designed to address peak oil ongoing instability in the Middle East and the importance of energy security.

We have recently seen the price of oil fall dramatically, but that fall is certain to be short-lived. The impact of the crisis on the development of further difficult-to-extract oil reserves will last longer, and will mean the next oil price shock will be even higher.

The temporary low price of oil makes it even more important that farsighted governments support the development of alternative fuels now, to ensure fuel security in the future.

This bill is another example of the foresight of the Rees Government, looking beyond the present low oil price and criticism that current first generation biofuels may be less than perfect.

We recognise that the establishment of a sustainable first generation base now will provide us with the essential base from which to develop a vibrant second generation renewable fuel industry.

The level of first generation biofuels that we are now mandating will be sustainable in the future, because it is all integrated with food production. The primary feedstock at Manildra's Nowra ethanol plant is waste starch from its gluten plant.

The primary feedstocks at Biodiesel Industries Australia's plant in the Hunter Valley are waste cooking oil and tallow.

The proposed National Biofuels Group soy plant at Port Kembla will produce not only biodiesel, but also soy meal to replace the hundreds of thousands of tonnes that are imported annually for poultry food.

The Dalby Biorefinery that recently opened in Queensland uses sorghum to produce ethanol and high-protein distillers grain livestock food.

The distiller's grain is so valuable as a livestock food that the production was all presold even before the ethanol was.

This shows how biofuels plants are often integrated with food production.

Benefits of ethanol

There are a number of benefits that can flow from a greater uptake of biofuels.

1—Regional development

A number of proposed biofuel plants are currently on the drawing board across the State, although the ability of companies to deliver projects has been impeded by the global economic crisis. This bill demonstrates our commitment to the New South Wales biofuels industry, and will assist these projects to secure funding.

Biofuels production facilities in regional New South Wales will support hundreds of jobs. Second generation biofuels will add enormous value to regional agriculture and forestry industries, and algae have the potential to capture the carbon dioxide emitted by coal-fired power stations, while producing high quality biodiesel and stock food.

First generation biofuels provide new, stable domestic grain markets for farmers and produce high-quality stock food for the livestock, poultry, and aquaculture industries. With the development of second generation technologies, new energy crops will offer sustainable agricultural potential in marginal farmlands.

This is yet another example of the Rees Government's commitment to generate jobs in the regions and country areas.

2—Environment

Replacing all ULP with E10 will reduce the total greenhouse emissions from all petrol engine vehicles by about 2 per cent. Replacing 5 per cent of our diesel with biodiesel could reduce the total greenhouse emissions from diesel fuelled vehicles by around 1.3 per cent. The proposed mandates will reduce carbon dioxide emissions by about 450,000 tonnes per year, equivalent to taking 1900 buses and trucks, and 77,000 light vehicles off the road.

Biofuels burn cleaner than petroleum fuels, reducing toxic emissions, especially carbon monoxide and particulates. Fine particles are a major cause of illness and death and are responsible for 97 per cent of the health impacts of emissions from vehicles.

Federal Government trials have recently demonstrated that E10 petrol will reduce fine particle emissions from petrol-engine vehicles by 33 per cent. B5 biodiesel will reduce particle emissions from diesel-engine vehicles by 4 per cent. These reductions will produce health benefits of approximately of \$22 million per annum in the Sydney basin.

3—Price of petrol

Throughout last year's petrol price peak, motorists enjoyed savings of about 3 cents per litre on the price of E10 relative to unleaded petrol.

Not only did motorists using E10 enjoy lower prices, but I am pleased today to advise the House that the competition from E10 seems also to have forced down the price of regular unleaded. Before the commencement of the ethanol mandate in 2007, Sydney had the highest average unleaded petrol price of any State capital, about two and a half cents per litre higher than the average of the other mainland capitals.

Now, our prices have fallen to be cheaper than either Melbourne or Adelaide. Our prices have fallen by 2 cents per litre compared to the average.

Even at the current low oil price, E10 remains 2 to 3 cents a litre cheaper than unleaded petrol.

4—Balance of Payments and Energy Security issues

We need domestically produced fuel to improve our Balance of Payments and increase our energy security. Local oil reserves are falling, and the price of imported fuel is likely return to even higher levels.

Locally produced, sustainable biofuels are an important way of addressing these issues.

The ethanol we have used since the start of the mandate has saved importing about 100 million litres of petrol. ,

This bill establishes an optimal level of sustainable first generation biofuels production in New South Wales. E10 petrol and 85 biodiesel are also the optimal levels that can be used in the current vehicle fleet.

I turn now to the Mechanism of Legislation.

The legislation builds on the successful implementation of the initial 2 percent ethanol mandate. It increases the volumetric mandate progressively to 4 per cent and then 6 percent in the next two years, phasing out regular grade unleaded petrol from July 2011.

The legislation expands the mandate to include biodiesel, again at an initial 2 per cent level, but increasing to 5 per cent as supplies are available.

These mandate levels are optimal, but this legislation is flexible enough to react to changing economic and environmental conditions.

In particular, the global economic crisis makes the availability of finance and the timing of new development, including biofuels production uncertain. The legislation continues to provide for the suspension of the mandate if the available supplies of biofuels or feedstocks are inadequate or uneconomic. This situation will be closely monitored.

The Expert Panel was established in 2007. The bill will expand membership to include a representative from the Treasury.

The Expert Panel will continue to advise the Minister on whether or not there is any need to suspend the provisions in whole or in part, and whether exemptions should be granted to individual companies.

It will continue to take into account the widest possible range of considerations before it makes any recommendation to the Minister.

To be eligible to be counted under the mandate, the biofuels will be required to comply with a sustainability standard. The details of the sustainability standards will be promulgated in the Regulations to permit them to be kept up to date with emerging requirements.

The sustainability of domestic biofuels plants is assessed during the environmental assessment processes. Domestic producers operating in accordance with the conditions of their approval and environmental licences will be considered sustainable.

Other countries may not apply the same rigorous environmental protections. Imported biofuels will be required to be certified as sustainable in accordance with international standards.

Under the current wholesale mandate, the major retailers in the State have not been bound to comply. This legislation will broaden the application of the Act to include major retailers controlling more than 20 service stations.

The regulatory system remains as simple as possible, with only primary wholesalers and major retailers, collectively known as volume sellers, required to submit returns to the Government in respect of the volumetric mandates. However, the phase out of regular unleaded petrol in July 2011 will impact all retailers. Exemptions will be available for small businesses that suffer hardship, and for marinas that supply petrol for boats.

The Government's biofuel strategy is both short and long term.

In the short term, we are establishing a sustainable first generation renewable fuel industry right here in New South Wales. We are leading the nation, we are doing something now for the environment, and we are delivering cheaper fuel for New South Wales motorists.

We have positioned New South Wales to lead the development of second generation biofuels in this country.

Through the Office of Biofuels and Departments such as State and Regional Development, Primary Industries, and Environment and Climate Change, we continue to work with stakeholders in the industry developing proposals for sustainable production using current technology, as well as pursuing new technologies and feedstocks.

We will develop a ten-year Biofuels Strategy to pursue second and subsequent generation technologies, and will review the strategy every three years to ensure that it remains abreast of current developments and global conditions.

In conclusion The Biofuel (Ethanol Content) Bill 2007 led the nation towards renewable transport fuels.

The Biofuel (Ethanol Content) Amendment Bill 2009 builds on what we have achieved since 2007, takes us to the optimal level of biofuels for the current vehicle fleet and commercial biofuels technologies, and positions us to lead the development and application of emerging technologies.

The mandate sends a very strong signal to motorists, investors and the fuel industry that the Rees Government is committed to a renewable fuels future.

I commend the bill to the House.