



Melbourne Office:
 PO Box 276
 Mt Evelyn VIC 3796
 Tel 03 9737 1566
 Fax 03 9737 1555
 afe@alternativefuels.com.au

Sydney Office:
 #2, 145 Sydney Rd
 Fairlight, NSW 2094
 Tel 02 9948-6272
 staggart@alternativefuels.com.au
 www.alternativefuels.com.au



AFE Alternative Fuels and Energy

Biodiesel Newsletter #6, July 17, 2006

A Call To Action

We need to press the federal government to reverse recent tax legislation cutting biodiesel subsidies. In the US, two farm state lawmakers have introduced legislation to make biodiesel incentives permanent. Australia should do the same.

Permanence leads to certainty. Certainty leads to investment. Investment creates jobs and, in the cause of biodiesel, reduces fuel imports and improves Australia's air quality.

Here's What You Can Do:

Email Peter Dutton at Peter.Dutton.MP@aph.gov.au

Send him a simple, brief email saying you oppose recent changes to biodiesel taxation under the *Fuel Tax Bill*. Tell him you support moves to make biodiesel incentives permanent as under the *US Renewable Fuels and Energy Independence Promotion Act*.

Email Kim Chance at kim-chance@dpc.wa.gov.au

Tell him that you support his stance in favor of biodiesel.

Ask him to keep you up to date.

Email Adrian Lake at aplake@biodiesel.net.au

Tell him that you support the association's efforts to encourage the expansion of a biodiesel industry in Australia.

Ask him to keep you up to date

Email Daryl Butcher at rironside@arfuels.com.au

Tell him that you support his company's efforts in the biodiesel industry. Ask him to keep you up to date

Email Barnaby Joyce at senator.joyce@aph.gov.au

Tell him that you support his efforts to support the biodiesel industry. Ask him to keep you up to date

Biodiesel Tax Uncertainty

In Australia and the United States, the biodiesel industry is bedeviled by tax uncertainty. In the US, lawmakers are looking to remove the uncertainty. In Australia, they've moved to increase it.

Two US farm state lawmakers recently proposed that permanent biodiesel industry tax breaks replace current incentives lapsing in 2008.

In Australia, by contrast, federal lawmakers recently stripped away a series of biodiesel tax incentives.

For infant industries, it's hard to overestimate the impact of positive government incentives.

In the US, tax incentives enacted in 2001 have raised biodiesel industry production by 75-fold in six years, from 7.5 million litres in 2000 to a forecast 567 million litres in 2006. If the proposed *Renewable Fuels and Energy Independence Promotion Act* is made law, the current slate of tax incentives will be made permanent.

Unfortunately, the situation couldn't be more different in Australia. The government's *Fuel Tax Bill*, which took effect July 1, reduces biodiesel industry tax incentives by half between 2010 and 2014. The official reason is to create a more level playing field among various fuels. But this is disingenuous.

Fossil fuels benefit from a web of opaque subsidies estimated at \$8 billion a year in Australia. Why doesn't the government cut *those*?

During the March quarter, Australia's fuel imports hit a record \$5.66 billion, 70% higher than a year ago and quadruple 1999's imports. High oil prices are to blame.

Treasurer Peter Costello says such high oil prices should act as a signal for investment in alternative fuels.

"Things like biodiesel, LPG, might be things that some people are able to look at," the treasurer said. "I hope the market will work in this situation."

Thoughts and action from the federal government are at odds here.

For more information on the *US Renewable Fuels and Energy Independence Promotion Act*, see:.

Hulshof Introduces Permanent Renewable Fuels Incentive at <http://hulshof.house.gov/news.aspx?A=314>

ASA Rallies Support for New Pro-Biodiesel Legislation at http://www.soygrowers.com/newsroom/releases/2006_releases/r062306.htm

New Congressional Bill Would Make Biodiesel Tax Incentive Permanent at www.biodiesel.org/resources/pressreleases/gen/20060623_hulshoftaxincentivepermanent.pdf

"In a world of high oil and petrol prices, it is important that unnecessary barriers preventing the development of an alternative fuels market in Australia are removed."

Prime Minister John Howard
 September 23, 2005

Fuel and Energy for a Sustainable Future



Australia's Fuel Tax Bill = Bad Policy

Under the government's *Fuel Tax Bill*, a 38.1 cent per litre tax credit to biodiesel producers will be reduced to 19c between 2010 and 2014.

The impact on the biodiesel industry will be two fold.

First, it will reduce the attractiveness of biodiesel industry investment.

Second, fickle government policy makes investors wary. Who knows what may come next?

"A lot of the certainty is gone and that has a big impact on whether people will commit the resources required to develop the crops and the infrastructure to supply biodiesel," Adrian Lake, president of the Biodiesel Association, told the ABC.

Daryl Butcher, CEO of Australian Renewable Fuels has even more strident in criticising the bill.

"In excess of \$150 million has been invested in the biodiesel industry based entirely on assurances by the Federal Government that the status quo would prevail. These assurances have been shown to be an absolute sham."

"Why would we build another plant here when we can go to the US, where governments are bending over backwards to help the industry?" he told the Australian Financial Review.

Western Australia Agriculture and Food Minister Kim Chance says the system of excise tax credits for biodiesel should have been left alone.

"The WA Government recommends that the scheme in its current form be extended indefinitely to allow a viable biofuels industry to develop in Australia," Chance told the Western Australia Business News.

Queensland National Party Senator Barnaby Joyce told the Financial Review said the tax measures would "chop the industry off at the knees" and suggested the measures were drafted after big oil company lobbying.

Don't Despair, There's Also Good News

When it comes to "thinking globally, acting locally," the grassroots level is leading the way.

In America

Biodiesel Magazine has been tracing the progress of biodiesel industry leadership at the American state and local level, watching nearly 160 pieces of legislation. Here's a roundup:

- In Washington state, two percent of state consumption must be satisfied by biodiesel by the end of 2008 or whenever the industry can meet the increased demand, whichever comes first.

- In California, Arnold Schwarzenegger has signed an executive order setting a target of 20% renewable fuel use in that massive market by 2010

- The farm state of Kansas is offering qualified biodiesel producers a 10.5 cent per litre sales incentive starting April 1, 2007

- The farm state of Arkansas offers a 17.6 cent per litre excise tax credit on B100 biodiesel used for blending, albeit limited to the first two percent of biodiesel blended in the state

- The populous state of New York is offering residential home heating tax credits of up to seven cents per litre of biodiesel blended

into home heating fuels

- In the trendy municipality of San Francisco, Mayor Gavin Newsom has issued an executive directive requiring virtually all city diesel vehicles to run on B20.

... And In Australia

- In metropolitan Adelaide, certain trains and diesel buses are now running on a biodiesel blend (5% biodiesel)

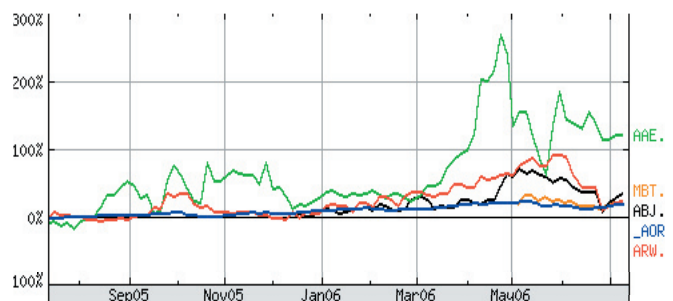
- In Adelaide and Newcastle, NSW and Camden, NSW, certain municipal vehicles are running on B20 blend. In Noosa, Queensland, a B20 blend has been used in garbage trucks.

In coming newsletters, we'll cover these local initiatives and provide handy tips how grassroots groups can lobby local officials to increase biodiesel usage in certain taxpayer-funded vehicle fleets.

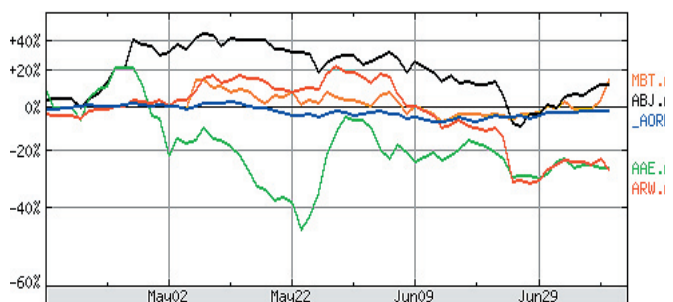
Despite Uncertainty, Industry Still on Positive Track

Despite tax uncertainty, sentiment in the biodiesel industry still appears positive. Over the last year, listed ASX biodiesel shares have generally outperformed the benchmark All Ordinaries, and have only taken a swoon in the past three months, with a major dip occurring in early June when the tax issue came to a head.

Australian Biodiesel Shares: Last Year



Australian Biodiesel Shares: Last Three Months



AORD-All Ordinaries

ARW, **Australian Renewable Fuels** www.arfuels.com.au/
AAE, **Australian Ethanol Ltd.**, <http://www.indcor.com.au/>
ABJ, **Australian Biodiesel Grp Ltd.** <http://www.abgbiodiesel.com/>
MBT, **Mission Biofuels**, <http://www.missionbiofuels.com.au/>

Fuel and Energy for a Sustainable Future

