

21 December 2018

## DETERMINATION

The Independent Pricing and Regulatory Tribunal (IPART) has determined a reasonable wholesale price for fuel ethanol from 1 January 2019 to 31 March 2019 of **113.3 cents per litre** excluding GST.

We have made this determination under s17A(1)(a) of the *Biofuels Act 2007* (NSW) (*Biofuels Act*) and have considered the matters in s17A(2) of the *Biofuels Act*.

## WHY

The *Biofuels Act* requires IPART to determine a reasonable wholesale price for fuel ethanol. The determined wholesale price forms part of the exemptions framework for the NSW ethanol mandate. We make determinations of the wholesale price on a quarterly basis.

## WHO

Under the NSW ethanol mandate, volume fuel retailers are required to ensure that at least 6% of the total volume of fuel they sell is ethanol (sold in petrol-ethanol blend, such as E10).

The Minister may exempt a volume fuel retailer from complying with the ethanol mandate. One of the grounds for exemption is that the wholesale price of ethanol for use in the production of petrol-ethanol blends exceeds the reasonable wholesale price determined by IPART.

## HOW

Since January 2017 we have determined a reasonable wholesale price for fuel ethanol using an import parity price (IPP) methodology. We adopted this less-intrusive approach based on our finding that there is a high degree of consumer choice in retail fuels and competition in the supply of wholesale ethanol.

We consider that our IPP methodology minimises distortion in the market for fuel ethanol and provides scope for ethanol producers and fuel wholesalers to negotiate prices below our determined prices.

More information on the IPP methodology and why we consider it is the most appropriate approach is available on our website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

Our IPP Excel model accompanies this fact sheet and is also available on our website.

## CHANGES

The determined wholesale price for the first quarter of 2019 is slightly higher than the determined wholesale price for the last quarter of 2018. The following pages set out how the determined wholesale price has changed and outline the key reasons for the change.

We have also updated a number of components in the IPP model which are updated annually. The 2019 values for those components are also outlined below.

## 1 Changes in the determined wholesale price

The determined wholesale price for the first quarter of 2019 is 0.8 cents per litre higher than the previous quarter, due to changes in the 9-month averages of the following components:

- ▼ The Free-On-Board (FOB) price increased from 58.2 cents per litre to 58.7 cents per litre.
- ▼ Transit costs increased from 13.5 cents per litre to 13.6 cents per litre, as a result of changes in the exchange rate.
- ▼ The excise on imported fuel increased from 40.8 cents per litre to 41.0 cents per litre.

Table 1 compares the determined wholesale price for Quarter 1 2019 and Quarter 4 2018.

**Table 1 Determined reasonable wholesale price for fuel ethanol compared with the previous quarter (ex GST, AUc/litre, \$nominal)**

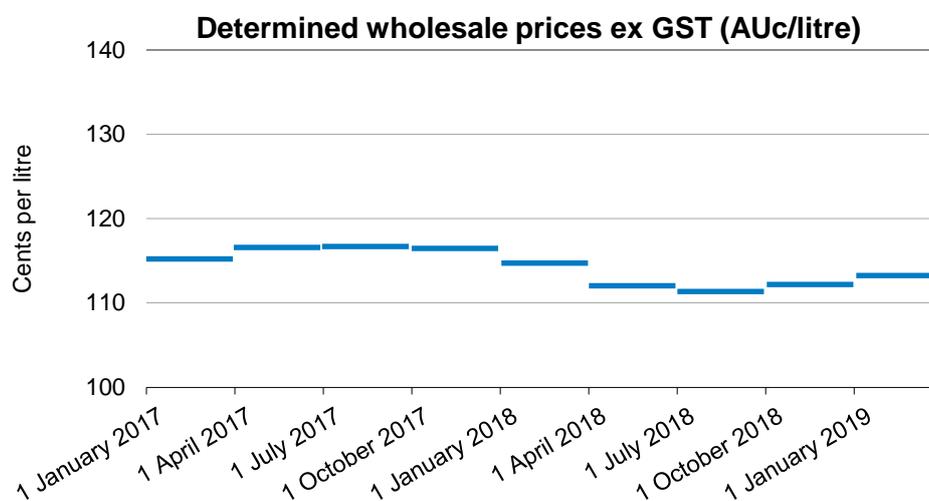
IPP Component	Q4 2018	Q1 2019
Mill gate price	47.6	47.7
Origin country freight	7.3	7.6
Origin country port charges	3.3	3.4
<b>Total FOB price</b>	<b>58.2</b>	<b>58.7</b>
Sea freight	8.5	8.6
Insurance costs	0.3	0.3
Wharfage import terminal (Sydney)	0.2	0.2
Storage and handling costs import terminal	3.0	3.0
Transport from port to fuel wholesaler's terminal	1.5	1.5
<b>Total transit costs</b>	<b>13.5</b>	<b>13.6</b>
Customs value duty	0.0	0.0
Customs fuel import duty	40.8	41.0
<b>Total landing costs (taxes)</b>	<b>40.8</b>	<b>41.0</b>
<b>Total IPP delivered to wholesale terminal (ex GST)</b>	<b>112.5</b>	<b>113.3</b>

**Note:** Totals may not sum due to rounding. The ethanol IPP is based on the lower of US and Brazilian ethanol prices in each relevant week. For the determination period US ethanol prices have been used.

We have updated the USDA dataset in the Q1 2019 IPP model, which has resulted in a small change to two of the previous quarter estimates produced by the IPP model for the wholesale price for fuel ethanol. The change gives an estimate of the IPP for ethanol in Q4 2018 of 112.2 cents per litre and Q3 2018 of 111.4 cents per litre compared with our determined prices for these quarters of 112.5 cents per litre and 111.3 cents per litre, respectively.

The full IPP methodology is detailed in Appendix A of our report *Monitoring of wholesale and retail markets for fuel ethanol 2016-17 – Final Report*, December 2017. This is available on our website [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

Figure 1 shows the wholesale ethanol prices determined by IPART for each quarter since we commenced making determinations in January 2017.

**Figure 1** Determined wholesale prices for fuel ethanol (ex GST, AUc/litre, \$nominal)

Source: IPART IPP Excel model

## 2 Updates to the IPP model for 2019

Consistent with our recent review of the wholesale ethanol market,<sup>1</sup> we have made a number of annual updates to the IPP components, which will apply over the 2019 calendar year and will be used to calculate weekly IPPs from 1 January 2019.

As we determine wholesale ethanol prices using a lagged nine-month average of the lowest weekly ethanol IPPs from either the US or Brazil, the updated inputs will flow through to determined wholesale ethanol prices from the second quarter of 2019.<sup>2</sup> The updated components are set out in Table 2.

**Table 2** Updated IPP components for 2019

Component	Unit	2018	2019
<b>Brazil</b>			
Origin country freight costs	BRL per litre	0.10	0.11
Origin country port costs	BRL per litre	0.10	0.10
Sea freight (from Santos)	USD per litre	0.069	0.069
<b>US</b>			
Origin country freight costs	USD per litre	0.056	0.061
Origin country port costs	USD per litre	0.025	0.025
Sea freight (from Houston)	USD per litre	0.064	0.062

Note: Figures have been rounded.

Source: IPART calculations.

<sup>1</sup> IPART *Monitoring of wholesale and retail markets for fuel ethanol in 2017-18 Final report*, December 2018.

<sup>2</sup> Our IPP model calculates weekly IPPs for US and Brazilian ethanol for nine months up to one month prior to the commencement of the pricing period. The averaging period will typically include around 39 weekly IPPs.

---

## 2019 values for local freight and port costs

---

Our benchmark international ethanol prices are mill gate prices in their respective locations. This means we need to add an estimate of the costs of land transportation from the factory to the port, as well as any relevant port costs. From 1 January 2019, we will use the following updated local freight and port costs for Brazilian and US IPPs.

### Brazil

To estimate Brazilian local freight costs, we use factory to port costs in Brazilian cents based on monthly average transport costs from ethanol producing zones to Port of Santos obtained from the University of Sao Paulo. For 2018, we used a value of 10 Brazilian cents per litre. For 2019, we will use an updated estimate of 11 Brazilian cents per litre.<sup>3</sup> We will continue to use port costs of 10 Brazilian cents in 2019.

### US

To estimate US local freight costs, we use a US factory to port cost based on ethanol transport tariffs published by the USDA Agricultural Marketing Service. For 2018 we used an estimate of 5.6 US cents per litre. For 2019, we will use an updated estimate of 6.1 US cents per litre.<sup>4</sup> We will continue to use port costs of 2.5 US cents per litre in 2019.

---

## 2019 values for sea freight

---

Ethanol is transported in specialist ships called chemical carriers. These ships are smaller than oil tankers and as such shipping costs are more expensive per litre for ethanol than for petrol. There is currently limited chemical trading on the Brazil to Australia and US to Australia shipping routes.

We have obtained updated data from ICIS Market Intelligence and have estimated sea freight costs based on tariffs for a 2,000 metric tonne (MT) chemical shipment (approximately 2.5ML) for the Brazil to Asia-Pacific and US Gulf to Asia-Pacific chemical shipping routes. Based on weekly sea freight costs we have decided to use a shipping cost of 6.9 US cents per litre for the Brazilian IPP calculation, and 6.2 US cents per litre for the US IPP calculation for 2019.<sup>5</sup>

---

<sup>3</sup> Based on available data for the period from November 2017 to June 2018.

<sup>4</sup> Based on available data for the period January 2018 to November 2018.

<sup>5</sup> Averaged from January 2018 to November 2018.