



MANILDRA GROUP

Commitment to Excellence

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

11 September 2018

Dear whom it may concern,

Submission to the *Monitoring of wholesale and retail markets for fuel ethanol 2017-18 – Issues Paper*

Thank you for the opportunity to respond to Independent Pricing and Regulatory Tribunal's (IPART's) recent issues paper, in relation to your role in monitoring of wholesale and retail markets for fuel ethanol.¹

Manildra understands that the issues paper has been released in response to IPART's obligations under the NSW *Biofuels Act 2007* (Biofuels Act) to:

- determine and periodically review a 'reasonable wholesale price' ('wholesale price') for ethanol for use in the production of petrol-ethanol blends such as E10, and
- monitor the retail market (including prices) of petrol-ethanol blends and make reports to the Minister on the effect of a determination of the reasonable price for wholesale ethanol.

Manildra supports the continued application of a light-handed approach to setting maximum price of wholesale ethanol, on the basis there persists to be:²

- a high degree of consumer choice in the retail fuel market and emerging competition in the eastern Australian wholesale ethanol market; and
- compelling arguments that support the adoption of a less intrusive approach to a recommended maximum price.

Notwithstanding our support of IPART's ongoing role in reviewing the wholesale ethanol market, we note that there have been limited developments in this market since the conclusion of IPART's first review in December 2016. One ongoing development is the stepped introduction of the ethanol fuel exercise from 1 July 2015 to 1 July 2020. The rate of fuel exercise on domestically produced ethanol is now 8.1cpl an increase from 5.3cpl in September 2017.

Nevertheless, in this submission we make a number of constructive observations on IPART's approach to the monitoring of the retail and wholesale markets for ethanol blended fuels. The remainder of this submission sets out our comments to each of the fourteen questions posed by the issues paper.

- 1) We have outlined a range of indicators that we propose to use to assess whether the degree of consumer choice for retail fuel has changed over the past year. Are there any other indicators we should consider?

Manildra does not have any specific comments to this question. We support IPART's current approach to assessing the degree of consumer choice for retail fuel. This includes the assessment of the availability of both regular unleaded

¹ IPART, *Monitoring of wholesale and retail markets for fuel ethanol in 2017-18 | Proposed approach*, August 2018 (the "issues paper").

² See:

- IPART, *Review of a maximum price for wholesale ethanol in automotive fuel blends | Final report*, December 2016, pages 20-21; and
 - IPART, *Monitoring of wholesale and retail markets for fuel ethanol in 2016-17 | Final report*, December 2017, pages 1-2
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petrol (RULP) and premium unleaded petrol (PULP), and note that PULP is a closer substitute for E10 than RULP, since PULP has RON 95, and E10 has RON at least 94, whereas RULP only has RON 91.

- 2) Have there been significant changes since mid-2017 in the availability of regular unleaded petrol (RULP) in NSW?
- 3) Has there been any change in the factors likely to impact the availability of RULP in NSW in the near term?

Manildra does not have any specific comments to these questions.

- 4) We have outlined a range of indicators we propose to use to assess whether the extent of competition in the wholesale ethanol market has changed over the past year. Are there any other indicators we should consider?

Manildra strongly supports IPART's conclusion that where there is a high degree of choice in the retail fuel market, the price charged for wholesale ethanol is constrained by the price of non-ethanol petrol, and the need for pricing intervention in this market becomes less dependent on the extent of competition between ethanol producers. Further we agree with the statement that:³

...an in-depth review of the extent of competition in the wholesale ethanol market is only necessary if, compared to our 2016-17 findings:

1. *we find a significant deterioration in the degree of consumer choice of retail fuels, or*
2. *a preliminary assessment suggests there has been a substantial lessening of competition or changes in factors likely to negatively impact on competition in the near term.*

To our knowledge there has not been any significant changes to the degree of consumer choice of retail fuels. Furthermore, there has been no substantial lessening in competition in the wholesale ethanol market with the continued operation of three east coast ethanol producers.

- 5) Have there been significant changes since mid-2017 in the level of competition in the wholesale ethanol market in NSW, including the number of producers or changes in market shares?

See our response to question 4, above.

- 6) Are there any other factors likely to impact the level of competition in the wholesale ethanol market in NSW in the near term, such as regulatory barriers or the availability or cost of feedstock?

Manildra does not have any specific comments to this question.

- 7) Have fuel wholesalers and ethanol producers continued to negotiate prices below our determined wholesale prices?

The format and structure of the price of Manildra's fuel grade ethanol has not changed since the 2016-17 monitoring report. Manildra continues to consistently price wholesale ethanol significantly below IPART's determined wholesale price.

- 8) Do you agree that the principles set out in Box 3.1 are the appropriate principles to apply in assessing our approach?

Manildra broadly supports the principles set out in Box 3.1.

³ IPART, *Issues paper*, page 7



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- 9) Could improvements be made to the import parity price methodology without significantly impacting on the simplicity, transparency and predictability of the methodology?

Manildra continues to support the averaging of the US and Brazilian ethanol import parity price (IPP). As set out in our submission (Nov 2017) the data presented by IPART implies that US producers have had a substantial price advantage over Brazilian sourced ethanol in many years, without any increase in the level of US exports. This highlights some potential limitations of estimating a IPP from a spot ethanol mill-gate price – whether sourced from the US or Brazil.

- 10) Does the US and Brazil remain the two most likely sources for ethanol if it were to be imported to Australia in 2018?

Apart from our concerns outlined above, Manildra supports that the US and Brazil, as the two largest ethanol producers, would be the most likely source for ethanol if it were to be imported to Australia. We do not have any further comments to this question.

- 11) Would adopting a commercial IPP, from providers such as OPIS or Platts, align more closely with the principles set out in Box 3.1?

Manildra supports IPART investigating the use of commercial providers of FOB prices for (anhydrous) ethanol. The use of FOB prices has the potential to solve the limitations we observed with the use of spot mill gate prices. Specifically, our observation that US exports have not materially increased in recent years despite IPART's IPP analysis suggesting that US producers have substantial price advantage over Brazilian producers.

- 12) Should we continue to determine the wholesale price on a quarterly basis, or should we move to a longer timeframe such as six-monthly determinations?

Manildra supports the continued use of a quarterly wholesale price for ethanol. It has been our experience that fuel prices in Australian dollar terms can be volatile and the use of the quarterly averaging period more closely reflects wholesale ethanol prices.

- 13) Do you agree with our proposed approach to monitoring the retail price for E10, including our proposal to compare average E10 and average RULP prices?

Manildra supports the analysis proposed by IPART.

- 14) Are there other issues we should consider in monitoring the retail price of E10?

Manildra does not have any further comments on the monitoring of the retail price of E10.

Kind regards


John Honan
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Manildra Group