



MANILDRA GROUP

Commitment to Excellence

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

28 April 2017

Dear whom it may concern,

Submission to the *Monitoring of wholesale and retail markets for fuel ethanol – 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:

- monitor the retail market of ethanol blended fuels; and
- determine and periodically review a 'reasonable wholesale price' for fuel ethanol.

Manildra supports IPART's 2016 findings that a light-handed approach to setting maximum price of wholesale ethanol is appropriate, on the basis of IPART's assessment that:²

- the degree of consumer choice in the retail fuel market is relatively high and there is emerging competition in the eastern Australian wholesale ethanol market; and
- the current degree of consumer choice for retail fuel, the extent of competition in the wholesale ethanol market and the level of petroleum prices support 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.

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 nine questions posed by the issues paper.

¹ IPART, *Monitoring of wholesale and retail markets for fuel ethanol in 2016-17 | Proposed approach*, March 2017 (the "issues paper").

² IPART, *Review of a maximum price for wholesale ethanol in automotive fuel blends | Final report*, December 2016, pages 20-21.



MANILDRA GROUP

Commitment to Excellence

- 1) We are proposing to consider a range of indicators to assess the degree of consumer choice for retail fuel, such as the percentage of service stations that offer regular petrol in addition to E10. Are there other indicators than those proposed in section 2.1.1 that we should consider in assessing the degree of consumer choice for retail fuel?

Manildra does not have any specific comments to this question. We support IPART's proposal to assess the availability of both regular unleaded 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-2016 in: – the availability of regular or premium unleaded fuels in NSW? – factors likely to impact the availability of regular or premium unleaded fuels in NSW in the near term?

Manildra does not have any specific comments to this question.

- 3) We are proposing to consider a range of indicators in assessing the extent of competition in the wholesale ethanol market, such as the number of ethanol producers and their market shares. Are there other indicators than those proposed in section 2.1.2 that we should consider in assessing the level of competition in the wholesale ethanol market?

Manildra supports each of the indicators included in IPART's proposed approach for assessing the wholesale ethanol market including its assessment on an eastern Australia wide basis. As noted in our submission to the 2016 review the transportation costs of fuel supports a finding of an eastern Australian wholesale ethanol market.

- 4) Have there been significant changes since mid-2016 in: – the level of competition in the wholesale ethanol market in NSW, including the number of producers or changes in market shares? – 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?

To our knowledge there has not been any significant changes in the ethanol production sector since mid-2016. We note that the Queensland ethanol mandate started on 1 January 2017 which has been accompanied with a highly effective consumer awareness campaign.

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

The format and structure of Manildra's fuel grade ethanol sales has not changed. Manildra has consistently priced wholesale ethanol below IPART's determined wholesale price.

- 6) 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 of the limitations of estimating a IPP from a spot ethanol mill-gate price – whether sourced from the US or Brazil.



MANILDRA GROUP

Commitment to Excellence

The absence of any apparent response in the level of US ethanol exports despite periods with a significant estimated price advantage over Brazilian ethanol could indicate one or more of the following problems with the estimated IPP:

- issues with the reliability of the published mill-gate ethanol prices;
- problems with the estimated local freight and export terminal charges and freight charges from Brazil and/or the US;
- potential transportation bottlenecks that limit the ability of US ethanol from being sold on international market, which causes a difference between the mill-gate price and FOB price of ethanol; and/or
- a structural price difference between the contract market (under which most ethanol exports is sold) and the domestic spot price of ethanol in Brazil and the US.

Manildra urge IPART to examine carefully these potential issues with the estimated IPP, and to adopt an average of the different information sources, rather than to rely on whichever happens to be the lowest at any particular point in time. Such an approach would involve an appropriate degree of caution, without the risk of any detrimental impact since the domestic wholesale ethanol price is unlikely to approach the IPP for fuel grade ethanol in the foreseeable future.

- 7) 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 does not have any further comments to this question

- 8) Do you agree with our proposed approach to monitoring the retail price for E10, including our proposal to compare the implied gross retail and wholesale margins on ethanol in E10 with those on regular petrol?

Retail monitoring

The issues paper states that IPART's role in the retail market is:

to monitor the retail market (including prices) for petrol-ethanol blend and make reports to the Minister for Innovation and Better Regulation (the Minister) on the effect of a determination of the reasonable price for wholesale ethanol.

However, we find that the analysis presented in section 3.1.1 of the issues paper does not clearly address this task. In particular, the calculation of an implied gross retail margin on ethanol relative to RULP provides limited insight as to whether any restraint in the price of wholesale ethanol is being passed through to consumers, thereby promoting the achievement of the 6 per cent ethanol target.

Our most significant concern is the focus on "ethanol in E10" at the retail level, even though retailers only purchase and sell E10 itself (not its ethanol component), RULP and PULP. In our opinion, the focus on ethanol in Figure 3.2 is misleading since it suggests that retailers are discounting ethanol by up to 40 cents per litre. This is clearly nonsensical.

Instead we suggest that the analysis of the retail market be limited to the petroleum products sold by retailers, ie, E10, RULP and PULP.



MANILDRA GROUP

Commitment to Excellence

Further we would suggest that, IPART consider:

- providing some context for its analysis by providing information on
 - the proportion of total petroleum sales that is of E10, RULP and PULP, which would allow stakeholders to understand the extent to which:
 - the target is being achieved or not; and
 - if not, whether NSW petrol market is moving closer to, or further away, from meeting the minimum ethanol sales target;
 - the average price difference between E10 and RULP and PULP, which would allow readers to understand whether the NSW price differentials are changing through time;
- provide information on the estimated gross retail margins (or relative margins) of E10 and RULP and PULP through time similar to that undertaken in Figure 3.3 for wholesale margins.

Further, a focus on weekly margin differentials is potentially too granular and maybe misleading. In our opinion, an examination of trends in retail margins would allow IPART to assess:

- whether retail margins for E10 are reasonable, having factored in the relative costs of purchasing E10, RULP and PULP; and
- trends in the retail margin through time, in order to identify any concerns that retailers are not passing through the wholesale price of E10.

Wholesale margins

Manildra supports the analysis of the wholesale margins contained in section 3.1.2 of the issues paper, in that it allows IPART comment on whether wholesalers are changing the margin they earn from wholesale ethanol used to produce E10.

That said, we believe the analysis could be further strengthened by analysing the implied margins earned by wholesalers on ethanol, RULP and PULP. For example, a chart that sets out over the last six months the implied wholesale margin on:

- ethanol per litre;
- RULP per litre; and
- PULP per litre.

This would allow IPART and stakeholders to assess the reasonableness of the margins earned by wholesalers on ethanol.

9) 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.

Peter Stretton
Chief Financial Officer
Manildra Group