

Wholesale price for fuel ethanol 2021

1 January 2021 to 31 December 2021

17 December 2020



DETERMINATION

The Independent Pricing and Regulatory Tribunal (IPART) has determined a reasonable wholesale price for fuel ethanol from 1 January 2021 to 31 December 2021 of **114.2 cents per litre** excluding GST.



WHY

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). However, the Minister may exempt a volume fuel retailer from complying with the ethanol mandate on various grounds.

Since 2017, 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. Therefore from January 2017, IPART has been required to determine a reasonable wholesale price for ethanol under s17A(1)(a) of the [Biofuels Act 2007](#) (NSW) (Biofuels Act).



HOW

We determine a wholesale price for fuel ethanol in line with what it would cost retailers if they had to buy it from overseas (the import parity price or IPP). It is based on a nine month average (to one month prior to the commencement of the pricing period) of weekly IPP estimates based on the lowest cost origin for ethanol from either the US or Brazil.

We adopted this approach in 2016 after extensive consultation with stakeholders, and taking into account the matters in the Biofuels Act. It is based on our findings that there is a high degree of consumer choice in retail fuels. If producers sell ethanol into the market at a price that is too high, it would increase the price of E10 relative to other fuels, and consumers would switch fuels. There is also some competition in the supply of wholesale ethanol.

Our approach should minimise distortion in the market for fuel ethanol and provide scope for ethanol producers and fuel wholesalers to negotiate prices below our determined prices.

This determination is accompanied by an IPP Excel model that we use to calculate the reasonable price for ethanol.

More information on our calculation, and why we consider it is the most appropriate approach is available in our [2017-18 ethanol market monitoring report](#).

COMPONENTS OF THE DETERMINED WHOLESALE PRICE

The main components of the price are the mill-gate price, average fuel excise and sea freight costs (see Table 1).

For most of the nine month averaging period underlying the 2021 price, the US was the lowest priced origin for wholesale ethanol. Brazil was the lowest price origin for around 12 weeks intermittently between May to October 2020.

Table 1 Determined reasonable wholesale price for fuel ethanol (ex GST, \$AU c/litre, \$nominal)

IPP Component	1 Jan 2021
Mill-gate price	45.3
Origin country freight	7.4
Origin country port charges	3.4
Total Free-on-board price	56.1
Sea freight	10.2
Insurance costs	0.3
Wharfage import terminal (Sydney)	0.2
Storage and handling costs import terminal	3.0
Transport from port to fuel wholesaler's terminal	1.5
Total transit costs	15.2
Customs value duty	0.7
Average fuel excise	42.3
Total landing costs (taxes)	43.0
Total IPP delivered to wholesale terminal (ex GST)	114.2

Source: IPART IPP Excel model.

Note: Numbers may not add due to rounding

Figure 1 shows the wholesale ethanol prices determined by IPART over the past two years. The 2021 determined price is higher than the determined price for the previous period, which was 111.7 cents. However, we have subsequently found an error in our model, which understated the US mill-gate price. The correct price of ethanol for 2020 should have been 119.4 cents. While the modelling error resulted in a lower determined price, this has not had any practical consequences, as no fuel retailers applied for an exemption for meeting the ethanol mandate on the grounds that the price being offered by producers exceeded IPART's determined price.

Figure 1 Determined wholesale prices for fuel ethanol (\$AU, ex GST, \$nominal)



Source: IPART IPP Excel model.

Note 1: For the Determination for Jan 2020 to Dec 2020 prices, the wholesale price was set at 111.7 cents. However we have found an error in our model and after correction, this figure is 119.4 cents. The error does not affect the determined price of ethanol for 2021.

Note 2: From January 2020, we have determined an annual wholesale price of ethanol. Prior to this we determined prices quarterly.