

Issue

The Australian Lot Feeders' Association (ALFA) is concerned that Federal and State Government assistance for the unviable grain based ethanol industry distorts grain markets, increases food prices and threatens the internationally competitive and profitable rural businesses that compete with the sector for grain.

Background

- ALFA is the peak representative body for the lot feeding industry. The industry has a value of production of approximately \$2.7billion and employs some 9000 people directly and indirectly. Approximately 40% of Australia's total beef supply, 80% of beef sold in domestic supermarkets and the majority of beef industry growth over the last 10 years has been due to the expanding feedlot sector.
- There are approximately 600 accredited feedlots in Australia located in areas that are in close proximity to cattle and grain supplies. Feed grains represent the single biggest cost in a kilo of beef, pork, dairy and chicken. In a normal season 80% of Australia's east coast grain production is consumed by these intensive livestock industries with the feedlot sector being the largest user among these with 3.7 million tonnes. During drought periods this percentage increases greatly as exports diminish. These industries do not receive Government assistance yet directly compete with the Government assisted ethanol sector for grain.
- The arguments in favor of increasing ethanol production are that it will improve 1) fuel security and trade, 2) regional development and 3) the environment. These arguments are flawed;

1. The fuel security argument is flawed because currently ethanol can only be commercially produced from biomass feedstock's (eg wheat, sugar cane and sorghum) and these are affected by climatic variations. Accordingly grain derived ethanol production may actually reduce fuel security and increase our trade deficit because Australia's periods of dry weather will lead to grain shortages, reduced grain exports and potential imports of grain. A mandate for ethanol content in fuel would aggravate this situation.

The fuel produced from grain is also too small to have any significant impact on global fuel needs. For instance if 100% of the US corn crop is diverted to ethanol production only 7% of its fuel needs would be met. In fact even if 100% of the world's grain production in 2007 was converted to ethanol, it would only replace the US's fuel needs.

2. The regional development argument is flawed because the jobs created by a Government assisted ethanol industry are difficult to justify and are more than offset by job losses in other more viable rural industries that compete with it for grain. ABARE has estimated that while 648 direct and indirect jobs would be generated by meeting Australia's current biofuel target of 350 megalitres by 2010, the annual cost of maintaining each of these jobs was \$321,000 per year. These costs would increase under an ethanol mandate. The Centre for International Economics has determined that if a 10% ethanol mandate were introduced, increased competition for finite grain supplies would artificially inflate grain prices by 25%. Given that an average feedlot (using the same amount of grain) alone contributes more than 2 times the jobs of an average ethanol plant, the economic impact of a mandate would be large.
 3. The environmental argument is flawed because production of grain based ethanol uses almost the same amount of fossil fuel as the ethanol itself replaces. The latest life cycle studies of the green house benefits of grain derived ethanol indicate that there is a saving over petrol of only 1-4%.
- A Government assisted ethanol industry also distorts markets and leads to a misallocation of resources. ABARE has estimated that meeting our current biofuel target would lead to a \$90mill decline in GDP. Consumers are also negatively impacted. World wide biofuel production is responsible for between 25-33% of recent increases in global commodity prices. In 2006 the impact of \$8.8billion in US Government assistance towards its ethanol industry helped increase grain prices by 70% and retail food prices by \$14billion. To meet current mandate targets for biofuels in just the USA and the EU will require 240 million tonnes of grain or about 1/8th of the world's grain production.
 - Regardless of efficiency, no country's ethanol industry has survived without significant Government support. Australian Governments provided \$95mill in support to the biofuels industry in 2006/07, more assistance per litre of ethanol than in the US. To meet our current biofuels target the Federal Government has provided capital grants, fuel excise relief until 1st July 2011 and an effective tariff on imported ethanol until the same date. The NSW Government implemented a 2% mandate of ethanol content in fuel in September 2007 (increasing to 10% by 2011) while the QLD Government support a 5% blend in 2010 (increasing to 10% soon after). This support is also in direct opposition to Australia's WTO stance of reduced Government protection.

What we are seeking

- ALFA seeks the removal of distortionary Government assistance to an unviable and uncompetitive grain based ethanol industry.