



Australian Renewable Fuels Limited  
ABN 66 096 782 188  
Level 5 409 St Kilda Road  
Melbourne Victoria 3004  
T 61 3 9981 0010  
F 61 3 9981 0020  
arfuels.com.au

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The Manager  
ASX Market Announcements

**Australian Renewable Fuels Limited (ASX:ARW)**

Please find attached an update from Australian Renewable Fuels Limited in relation to the impacts of the proposed changes in the taxation treatment of Biodiesel announced in the Federal Government Budget released on 13 May 2014.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Mark Licciardo", with a large, sweeping flourish extending to the right.

Mark Licciardo  
Company Secretary



## **ARfuels ASX Announcement**

16 May 2014

### **2014 Federal Budget – Proposed Changes to Taxation of Biodiesel**

The Board and management of ARfuels have begun a full business review to focus on implementing a revised business model and operating structure which enables the company to maximise shareholder returns within the new regulatory framework proposed in this week's Federal Budget.

In summary, the Federal Budget contained the following statements in relation to biodiesel:

1. Imported biodiesel would be subject to excise at the rate of 38.143 cents per litre, effective 1 July 2015; and
2. Domestically produced biodiesel (hereinafter 'Australian Biodiesel') would be subject to fuel excise commencing 1 July 2016. The excise applicable to Australian Biodiesel will be increased for five years until it reaches 50% of the energy content equivalent tax rate.

If the proposed changes pass into legislation it will represent a significant change from the existing legislated position under which Australian Biodiesel effectively remained free of excise until an Industry review in July 2021. That legislation was passed by Parliament in June 2011, with bipartisan support, in order to provide the industry with the certainty required to stimulate Australian clean fuel technology investment.

It is clear that the unexpected introduction of excise on Australian Biodiesel will have a negative profit impact on the industry in the years from which it begins to apply. However based on initial financial modelling and using the current market prices for feedstock and biodiesel, ARfuels believes that by taking the appropriate action, the company can operate profitably and with positive cash generation over at least the next five years.

This is despite the continued flow of heavily subsidised imported biodiesel into Australia which has had a material effect on the Australian Biodiesel industry.

Imported biodiesel is effectively subsidised in its country of manufacture and receives further taxpayer funded subsidies in Australia, allowing it to undercut Australian Biodiesel by up to 30 cents per litre.

The European Commission responded in December 2013 to the same issue by introducing countervailing and dumping duties of up to 30% to create an even playing field.

While ARfuels applauds the Australian government for responding to industry submissions to curtail the double subsidising of imported biodiesel, it is difficult to understand why the Budget delays the imposition of this measure for over 12 months, resulting in millions of dollars of cost to the Australian taxpayer and giving imports a significant and artificial advantage over the local product.



Imported ethanol does not receive any Australian subsidy and we agree with that position. We see no reason why imported biodiesel should be any different.

The effective double subsidising of imported biodiesel has had a negative impact on ARfuel's efforts to generate additional sales especially out of the company's Picton and Largs Bay plants. While the Barnawartha plant has also been affected, it remains profitable due to its existing firm customer contracts.

As a result of the constrained sales from Picton and Largs Bay and the proposed introduction of the biodiesel excise from 2016, the future viability of those two plants will form a major part of the business review now underway.

At this stage ARfuels' trading results for January to June 2014 are still expected to be positive.

However given the negative impact that subsidised imports have had, and the impact of the potential re-structure costs mentioned above, we anticipate recording a loss for the full year ending 30 June 2014.

We will continue to make strong and urgent representations to the Federal Government on all of the above matters.

A further update on the company's plans will be provided when the review is completed, which we expect will be by the end of June 2014.

Any queries in relation to the above should be directed to Andrew White, Chief Executive Officer on 03 9981 0011 or [info@arfuels.com.au](mailto:info@arfuels.com.au).