

1 July 2022

Energy Market Policy
Building, Resources and Markets
Ministry of Business, Innovation and Employment
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Dear Ministries,

A LETTER TO MBIE AND MOT REGARDING THE SUSTAINABLE BIOFUEL OBLIGATION

1. We are writing to you based on several concerns our members have raised regarding the implementation and feasibility of the Sustainable Biofuel Obligation — most notably the obligation timeframe.
2. Overall, we acknowledge and support the objective recommendations to progress reducing emissions within the transport sector. Biofuels are undoubtedly one crucial piece of the intricate puzzle for achieving New **Zealand's commitments to a net zero economy by 2050**.
3. However, we are concerned with the Sustainable Biofuel Obligation in its current form. The timeframe for implementing the Sustainable Biofuel Obligation is inadequate. It remains unrealistic for the industry to abide by the obligations set to come into force from 1 April 2023. Our members voiced this concern in their 2021 submissions.
4. **New Zealand's infrastructure for blending and storing** first generation biofuels is currently very limited. As mentioned in our [previous submission](#), relevant infrastructure will need to be built for the industry to comply with the obligation. This will be costly and time consuming. It will take a minimum of two years to design and build the relevant infrastructure needed, including the additional time required for receiving resource consents and sourcing local biofuel production that are not possible to secure until the legislation is passed. With the 1 April 2023 start date, the industry will simply not have the basic infrastructure needed to comply with the obligation in the initial years.
5. Local biofuels production is very limited, with not enough supply to meet obligated requirements. Preceding with the current timeframe means importing biofuel will be unavoidable, and with limited time to upgrade infrastructure for import, it could lead to perverse outcomes that require biofuels to be trucked long distances with associated emissions undermining the very objective of the obligation. The obligation ignores these supply chain considerations of reducing wheel-to-wheel emissions.
6. Either way, local or imported, there will be significant impacts upon supply and price. The production costs of generation 1 and especially generation 2 biofuels are still significantly higher than fossil fuels. Considering the current inflationary environment, enforcing a biofuel obligation within such a **short timeframe will add further price pressures to New Zealand's 'cost of living crisis.'**
7. Globally, feedstocks that are used to produce biofuels are in high demand, and supply remains constrained. Securing supply with such little time before the proposed commencement will be

challenging, due to biofuel markets still being in its growth stage as other countries speeding up their own transitions, leaving less supply available for New Zealand. This will lead to further cost pressures and the inability for industry to meet obligated emission reductions.

8. We welcome the proposed flexibility with the ability to borrow or postpone delivery, but this flexibility is limited by blending limits and fuel standards designed to ensure safety. The industry is constrained by external factors out of their control, i.e. sourcing biofuels from a volatile uncertain overseas market and the time it will take to build required infrastructure for first generation biofuels. The shortfall will only put further pressure upon the industry to deliver the obligated reductions for the following year, making it less likely the industry will achieve the target – meaning penalties will be paid. These costs will be passed onto consumers with no associated reductions in emissions.
9. The Government must also consider that when building the relevant infrastructure, the industry will face high prices due to current limited supply of building materials and trades people. High building costs will increase the cost of the obligation and ultimately the costs passed onto consumers.
10. We are also concerned that the equity effects have not been completely addressed — particularly low income and rural households will pay the current ETS component, plus the additional higher costs of biofuels, with no practicable alternatives available to them.
11. It is important that suppliers are provided with maximal flexibility in their compliance with obligations. The proposal implies suppliers will meet increasing obligations through direct purchase of certified biofuels. Greater flexibility could be achieved by allowing parties to demonstrate the emissions factor of their supplied fuels through redemption of tradable instruments such as energy certificates. Use of these instruments could allow parties to optimise purchase and trade behaviours to maximise efficiencies and reduce costs of complying with their obligations. In addition, the use of energy certificates could enable suppliers to allocate the attributes of their sustainable fuels to specific consumers – maximising the value of these fuels and supporting further their successful compliance.
12. We welcome the emphasis placed on educating New Zealand consumers about all biofuels. Yet we are concerned that the timeframe given does not provide sufficient time to inform consumers. The efficacy of the adaptation towards biofuels will primarily depend on motorists being confident with the final blended product. A rushed information campaign will not deliver confidence in the mind of consumers that the product is both safe and reliable.
13. We recognise that the consultation period for the biofuel obligation is relatively short, especially considering the gravity of the obligation upon the industry. We ask to possibly extend the consultation period to ensure that the obligation is done right, not fast.
14. The following solutions could be considered either individually or as a combination of options to ensure the industry delivers the desired outcome of meaningful emission reductions:

A later start date

15. As noted, the timeframe for implementing the obligation is not sufficient. The industry will simply not have the relevant infrastructure ready to meet the first-year target of 1.2%. The short timeframe will make importing second generation biofuels unavoidable. In the current context, sourcing second generation biofuels from overseas will be significantly challenging and costly, considering the large supply constraints experienced on these products worldwide. With very limited time to secure supply, the industry will compete directly for delivery of second generation biofuels that cost higher than the proposed penalty in the obligation.

16. We ask to consider extending the start date to 1 April 2025. This will give the industry time to accrue necessary investments, build relevant infrastructure and secure supply.

17. Additionally, we ask to consider fast-tracking the resource consent process. This would alleviate some time constraints faced in building the relevant infrastructure. However, it will not solve the main underlying problems mentioned.

Reduce the penalty for the first three years

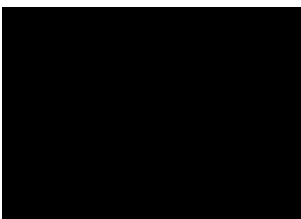
18. Under the current timeframe, the likelihood of industry meeting the first and second year target is low. Obligated parties will be penalised for a supply shortfall which is out of their control. Therefore, we ask to consider reducing the penalty for the first three years – providing flexibility to an industry constrained by external market forces.

Reduce the GHG targets

19. Faced with the current internal and external constraints, we ask the Minister to consider reducing the obligated percentage reductions suppliers will face. Any potential reduction should take into **account the Climate Change Commission's final advice to** Parliament, which proposed lower targets for year 1 and 2.

20. As mentioned earlier, we welcome the overall objective of reducing emissions in the transport sector, but we are concerned the obligation in its current form falls short of achieving effective and workable policy outcomes. We wish the Ministries reconsider the proposed obligation, ensuring New Zealand can realistically achieve the emission reductions sought.

Yours sincerely



Tina Schirr
Executive Director
BusinessNZ Energy Council