# Submission

June 2022

## Introduction

Fonterra welcomes the opportunity to provide feedback on the latest Sustainable Biofuels Obligation consultation paper. We recognise that reducing transport emissions is a priority if we are to meet our collective climate change commitments and we see sustainable biofuels as one of several important tools to materially decarbonise transport.

Fonterra is a dairy co-operative owned by more than 9,000 New Zealand farming families with 27 manufacturing sites spread across the country, making us the country's largest exporter and a major supplier of dairy products to the domestic market.

New Zealand has a modern and world-leading dairy industry where our products are desired in markets both here and around the globe and where an increasing number of consumers are prepared to pay a premium for New Zealand products with strong sustainability credentials. Fonterra recognises the importance of maintaining this reputation and last year we set our long-term strategy and made leadership in sustainability one of our three core priorities.

In order to get milk to our manufacturing sites and distribution centres to move finished products to consumers, we are significant users of the road, rail, port, domestic and global shipping networks. Our Co-operative is heavily reliant on an efficient, reliable and cost-effective transport network that supports the competitiveness, reliability and sustainability of New Zealand's products against competing nutrition sources both domestically and internationally.

Our fleet of milk tankers travel around 95 million kilometres every year collecting over 17 billion litres of milk from farms and delivering it to manufacturing sites. We invest and seek practical ways to reduce the carbon footprint of our fleet through activities and investment such as driver training focused on fuel efficiency, optimising the routes the tankers travel, and every year, investing in our fleet to lower emissions-producing vehicles. Most recently, we announced the trial of New Zealand's first electric milk tanker. In the coming months we will be road testing this vehicle to understand how the technology can best be deployed in our fleet.

Shifting freight off roads and onto rail where economically priced by KiwiRail is an important aspect of our strategy which centres on reducing carbon emissions and road maintenance costs, eases congestion and makes roads safer for all users. As the largest user of KiwiRail's freight services, we move 2.3 million tonnes every year of product via rail to ports across Northland, Waikato, Auckland, Bay of Plenty, Taranaki, Canterbury, Otago and Southland regions. We have invested in rail infrastructure, building it into many of

our manufacturing sites and distribution centres. Domestic coastal shipping, which we also support, has even lower emissions.

Our business, including our farmer suppliers, accounts for 20 per cent of New Zealand's gross greenhouse gas emissions. Our climate goal is to achieve net-zero emissions off-farm by 2050 and, as a stepping-stone, we will achieve a 30 percent absolute reduction of off-farm emissions from FY15 emission levels by 2030.

In 2014 we partnered with Z Energy to help introduce 5 per cent biodiesel to New Zealand as part of our commitment to reduce emissions across our operations. As a foundation customer, we agreed to pay a premium for the biodiesel which covered the cost of production in New Zealand. We ran 156 milk tankers in the Waikato and Bay of Plenty regions on the biofuel, producing 4 per cent fewer emissions each year.

Since the initiative was discontinued by Z Energy in 2020 due to the hibernation of its Wiri biodiesel plant, we were unable to source New Zealand manufactured biofuel and moved our 156 tankers back to standard diesel. We declined to use imported biofuel due to the cost premium, and there is currently no other source of biodiesel available at the volumes required for our fleet. The initiative was a positive step to reduce our carbon emissions and it proved that almost any diesel engine can run a 5 per cent level of biofuel without adaption.

Fonterra supports a range of competing technologies to reduce our transport emissions. Where possible, we actively explore and implement lower emission producing alternatives such as biofuel, electric, hydrogen and hybrid technology solutions for our milk collection fleet.

We acknowledge that biofuel is one technology as part of a growing number of solutions to displace liquid fossil fuels and accept the proposed Biofuels Obligation is a way to facilitate the development of a sustainable and competitive biofuel market.

We have previously indicated our support for the proposed Biofuels Obligation and believe it will help facilitate the earlier adoption of advanced drop-in biofuels. As we found in our experience with the biofuel blending trial we undertook with Z Energy, advanced drop-in biofuels are beneficial given their lower carbon footprint and ability to use without modifying engine or fuel infrastructure.

Fonterra supports a requirement for a certification of lifecycle emissions of biofuels sold in New Zealand using international standards and a third-party certification process, to ensure the proposed Biofuels Obligation is both effective in reducing end-to-end emissions and is fair across fuel suppliers and biofuel producers.

We also support the proposal that biofuel producers would need to be certified against an established sustainability standard, to ensure that biofuel production is not in competition with food production, reduces indigenous biodiversity or adversely affects land with a high conservation value. Biofuels would ideally be produced by utilising a waste by-product, such as organic municipal waste; or would help to enhance soil conservation, like canola for winter cover cropping.

We would like to work with the Government and the biomass industry on the establishment of a bioeconomy to help support a sufficient, sustainable, competitive and commercially viable biofuel system and we look forward to further engaging on policies announced as part of the Emissions Reduction Plan.

As our business evolves to meet changing customer requirements in a competitive global marketplace, we need reliable, cost-effective and sustainable transport options. We see biofuels as an important part of New Zealand's decarbonisation solution but note that any alternative fuel source must be cost competitive against other evolving solutions to ensure cost is not a barrier to choosing the best option for New Zealand's environment, customers and consumers.

We have provided feedback on some of the consultation questions below and welcome further engagement should the Ministry have questions.

| Question | Fonterra's Response |
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| 1. Do you agree with the proposal to allow the use of default values from the European Union's Renewable Energy Directive or actual values verified under sustainability schemes? | We believe that the values used to calculate the emissions intensity of a biofuel should be relevant to the country in which they are produced. For example, if the land use displaces arable land or areas of high carbon sequestration rainforest this should be reflected in the figure used as there is a degree of local mitigating and varying factors here. |
| 2. Apart from transport and distribution emissions, should we allow actual values that have been verified under the European Union's Renewable Energy Directive or the California Low Carbon Fuels Standard to be used? If not, why? | Yes, if it is like for like, however as above if there is a differing in the actual emissions saved this should be represented. |
| 3. Do you see value in developing a New Zealand-specific and inhouse GHG emissions model, similar to the GREET model? If not, who should pay for the model's development and upgrading? If not, why? | Yes, we see merit in the development of an inhouse model that takes into account New Zealand's unique characteristics to increase the accuracy and transparency of the process to obtain the emissions intensity factor. Cost should be shared amongst the government and fuel distributors.<br><br>Fonterra supports certification of lifecycle emissions of biofuels sold in New Zealand using international standards and a third-party certification process, to ensure the proposed Mandate is both effective in reducing end-to-end emissions and is fair across fuel suppliers and biofuel producers.<br><br>For businesses like Fonterra, the calculation of end-to end lifecycle emissions from a biofuel will be crucial to accurately report against our emission reduction targets within our supply chain. |
| 4. Do you agree with the proposal to use a default emissions factor that would apply to all fossil fuels? If not, why? | Yes we agree on the proposal to use a default emissions factor in line with the purpose stated in the proposal for regulation. |
| 5. Should we only allow biofuels that deliver a greater than 50 per cent emissions reduction, compared to fossil fuels, to be eligible for meeting the Obligation? If not, why? | |
| 6. Do you agree with the way that we propose to assess compliance with the sustainability criteria in legislation? | Yes. |
| 7. Are there any international sustainability certification schemes that you think should be included? | We strongly support biofuel producers needing to be certified against an established sustainability standard, to ensure that biofuel production was not in competition with food production, reduced indigenous biodiversity |

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| | or adversely affected land with a high conservation value. Biofuels would ideally be produced by utilising a waste by-product, such as organic municipal waste; or would help to enhance soil conservation, like canola for winter cover cropping.<br><br>We see merit with the inclusion of the International Sustainability and Carbon Certification (SCC) ISCC-PLUS standard and the Roundtable on Sustainable Biomaterials. |
| 8. Do you agree with our assessment that indirect land use change emissions should not be included in the lifecycle GHG emissions analysis, due to the inherent uncertainty in the economic modelling that would be required to do this? | Yes. We agree that measures are necessary to mitigate the risk that biofuels production does not impact on food production, indigenous biodiversity or adversely affect land with high conservation value. |
| 9. What is your preferred option, or combination of options, for addressing the risk of indirect land use change caused by additional biofuels production?<br>• Option 1: Set a cap on the maximum amount of food and feed-based biofuels, and ban feedstocks that have historically resulted in significant indirect land use change emissions<br>• Option 2: Require all biofuels to have certification showing they are considered at “low risk” of causing indirect land use change. | We prefer option 2 as it is more transparent and has external verification provided that the certification is from a reputable independent organisation. |
| 10. Do you think these options will adequately address the risk of indirect land use change? If not, why and what alternatives would you suggest? | |
| 11. What is your preferred option, or combination of options, for addressing the risk of the biofuels obligation adversely impacting food security and why?<br>• Option 1: Require all biofuels produced from food-based feedstocks to be certified against the Food Security Standard or an equivalent standard<br>• Option 2: Rely on the options outlined to address indirect land use change (ILUC) to mitigate any indirect impacts on food security (discussed in section 3.3 | |
| 12. Do you agree with our proposed approach to require biofuels derived from any of the waste streams to be certified against the relevant ISCC EU standard or RSB standard? If not, why? | |

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| 13. Do you agree with our proposed approach for allocating GHG emissions to products, co-products, residues and wastes according to Table 1, based on energy content? If not, why? | |
| 14. Do you agree that feedstocks that are classified as agriculture, aquaculture, fisheries or forestry residues or co-products would need to meet the sustainability criteria? If not, why? | |
| 15. Do you agree with our proposal to exclude or limit residues or co-products that may be excluded or limited under the other criteria (such as the ILUC options)? If not, why? | |