



1 July 2022

Submission: The Sustainable Biofuels Obligation: proposals for regulations

Submission made by:

Organisation: Gull New Zealand Limited

Name: Dave Bodger

Email: [REDACTED]

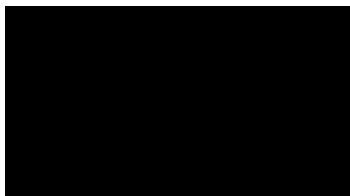
Telephone: [REDACTED]

Privacy and information release

This submission may be published on government websites and released under the official information act. Any publication should remove all contact phone numbers and emails.

Meeting and discussion

Gull is available and happy to discuss further any points of this submission with Government.



Dave Bodger
General Manager

Overview

Gull is concerned with the rapid progress of Sustainable Biofuels Obligations Proposal.

Gull supports the move to decarbonise New Zealand's fuel slate but is very concerned a system has been designed that is proposing implementation at far higher rates and far faster than is appreciated by the motor vehicle industry and the New Zealand public or was expected in the last round of consultation. In Gull's view this is likely to be unwelcome (prior to any price increases) by internal combustion engine manufacturers, importers and users.

The Proposal introduces new concepts and processes that have not been widely discussed, they require significant investment in storage and blending infrastructure for volumes of biofuel that are well in advance of current levels and any contemplated prior to this discussion document. To Gull's view there has been insufficient discussion with engine manufacturers and importers regarding these higher blend levels to date.

The investment in infrastructure required to meet these levels is significant. Gull views a spend on its own account in the broad area of \$10 million to \$20 million to comply. This is set against the legislation coming into effect within nine months of writing, at significant volumetric levels. There is no certainty of the legislation passing and there is history in New Zealand of such legislation being repealed by subsequent governments. Therefore, certainty regarding this legislation (and therefore the ability to commit to this capital investment now) is very low.

Gull does not believe it is possible to comply with the high volumetric consequences of the Green House Gas Reduction system as outlined in this Proposal in the proposed time frame. Infrastructure needs to be consented and funded against certainty. The law is in draft, a similar law was repealed in the past and nine months is totally insufficient for the proposed volumetric ramp up; which will require consenting, funding, construction, and establishing a supply chain.

Gull apologises but the specific question and answer basis of the Proposal does not enable a submission that addresses key issues directly and so Gull has chosen not to directly answer on these points. We expect many of Gull's answers can be determined from our submission. Instead, Gull submits on what we see as key sections set out below.

Assessing the sustainability of Biofuels / Accessing fuel to meet the standards

Gull supports using sustainable biofuels. Gull has pioneered biofuel use in New Zealand, continually selling at least one biofuel blend for fifteen years on 1 August this year. However by implementing an overly complex assessment system New Zealand is in danger of setting unachievable requirements as we restrict or eliminate international supply.

On reviewing the Proposal as written with a major international trading house they eliminated all the original options that they had proposed to Gull as biofuel import options.

Sustainability is key but the Proposal risks throwing the baby out with the bathwater. If regulations are so tight, complying biofuels will not be able to be economically sourced and New Zealand will achieve minimal emission reductions. The sustainability criteria must be achievable and not drive supply options to such a low level they are prices at a monopolistic level for the motorist.

Gull supports the initial use of RED II and/or RSB (or any other independently audited and certified) sustainability criteria for biofuels, but agrees that additional requirements and standards, not already covered by these schemes i.e., those relating to Indirect Land Use Change (iLUC) and Food Security are initially excluded.

That is not because they are not important additional criteria for assessing sustainability of biofuels, but due to the ability (or inability) of these standards to accurately account for and mitigate global food security risks or respond to emerging food crises in an effective or timely manner as noted in the discussion document. Further development of international sustainability criteria should however seek to incorporate these risks with a view to incorporating these in later years of the mandate.

Gull supports the Government publishing default emissions standards for biofuels. This will encourage domestic production and simplify supply.

Standards should be published by Government for major generic supply options for example Brazilian Sugar Cane Ethanol, Australasian Tallow based biodiesel etc. There should be a review process established that can prove different standards for specific fuels that may improve Green House Gas reductions against the default standards.

Wheel to Wheels Analysis / Default Emission Factors for Mineral Fuels

Gull supports a single default value being used for emissions intensity for mineral fuels. That value in Gull's view is already defined for emissions in New Zealand by the Emissions Trading Scheme.

Gull agrees that proving Well to Wheels for a very complex supply chain of crude and refineries (that exist outside of New Zealand control) would be extremely difficult. There would be major issues with providing traceability of a crude oil through a refining process and then imported to New Zealand. This is not practical in Gull's estimation. Oil and fuel is blended through the supply chain from extraction through refining, knowing what molecule came from where would make New Zealand purchasers an outlier greatly restricting our supply options with consequential impacts on prices for the consumer.

Gull believes that the methodology used and the default values to calculate the intensity of fossil fuels to provide a single annual Green House Gas emissions reduction target conflicts with the principles of the Emissions Trading Scheme and Gull's understanding of international agreements where we focus on *emissions in New Zealand*.

The emissions from oil extraction and refining are offshore. The New Zealand Emissions Trading Scheme and to our understanding New Zealand's international obligations are on-shore focused. New Zealand takes ownership of our agricultural emissions when the vast majority of our agricultural production is exported yet here, we plan to take responsibility for emissions created in other countries. This is confusing. There will likely be an expensive double reduction of emissions as the New Zealand economy will pay both for imported emissions and exported emissions under this Proposal.

Gull is very disappointed that there has not been an opportunity to discuss at an industry and government forum the calculation of these factors before submissions are due. These numbers give rise to the immediate very high volumetric blend requirements that then fall from the Proposal

Volumetric Implications

The worked example (P26 to P30 of the Proposal) gives a litre percentage blend in year 1 of over 4% (overall for biofuel) and 5.5% for ethanol for Company A, and this still falls short of the first-year requirements. Moving the country from a near zero base of biofuels to a blend of over 4%, by the projections in the Proposal in *nine months from now* is simply not feasible for Gull. Given Gull

currently blends 1% (volumetric) biofuels, we assume this step will be very problematic for other industry participants who are blending at less than 1%.

Gull is concerned that the rapid ramp up of volumetric blend percentages of biofuels is in immediate and direct conflict with the current operational performance of the New Zealand vehicle fleet – i.e. noting the worked example and doubling for 2024 we get volumetric blends at an average of over 8% and 11 % for ethanol, further noting that almost no petrol powered vehicles in New Zealand are manufactured for a tolerance to greater than 10% ethanol and that 7% is the current maximum for a biodiesel blend in New Zealand which was set after review with engine manufacturers.

Additional infrastructure to store biofuels for blending is required, with resource consenting and build time. Gull appraises it is simply not possible to meet 5.5% levels in year 1 (11% levels in year 2). This is a major increase from our expectations that 2.5% blend levels (volumetric) would be close to meeting a 1.2% Green House Gas reduction in year one.

Gull instead proposes that New Zealand starts the Green House Gas reduction process as a journey in starting to use biofuels across our transport network but that the reduction targets are litre for litre – i.e. volumetric for the first three (3) years so that the transition can be made to allow the infrastructure to catch up with the need. Following that increasingly stringent Green House Gas emissions criteria can be introduced.

Gull questions where on a volumetric blend basis, the Government believes this Proposal would place New Zealand against other countries with biofuels mandates in place now. Potentially this moves New Zealand from effectively nil blending to world leading by 2024. That is an extreme and risky change for a small country with the longest supply chain for liquid energy.

Fuel Standards Update

New Zealand Fuel Standards work and work well and have done so for many years. They deliver an excellent balance between fuel availability from refineries while delivering fuel that new and existing vehicles required to run well. Gull is concerned that these standards may be reviewed in haste prior to April 2023 when this Proposal will come into effect. A hasty review may disrupt the good balance that we have now.

That said given the volumetric blend requirements indicated by the worked example mean we will exceed the current 10% ethanol blending “wall” in 2024, therefore review of these standards is key. Gull emphasises this *should not be in haste* as it is key New Zealand specifications are in step with refineries production abilities in the Asia Pacific region. New Zealand must not be ahead of the curve defining boutique grades of fuel that restrict supply and increase price.

Further Gull is concerned that engine manufacturers and importers are not yet across the very rapid scale up of volumetric blends to and beyond E10 and B7; how this will affect the existing fleet and the likely import vehicles that will arrive in New Zealand into the future. The input of engine manufacturers and importers is key in any review.

Ethanol excise exemption

Gull has already noted planning issues with uncertainty of legislation, short lead time, and capital investment. This is further compounded by no notice or discussion from Government on the current excise tax exemption for ethanol. It is not practical to plan (again noting the very short time frame) when we must run two scenarios with a 70 cent per litre (post min August 2022) differential for one of the key biofuels world-wide.

Please can Government advise what plans are in place for the ethanol exemption on excise tax?

Proposed Alternative

Gull's concern is that the proposal as outlined is restrictive in options, it ramps up faster than infrastructure can be put in place and is in conflict with the existing vehicle fleet and the likely incoming fleet almost immediately.

Gull proposes a walk before we sprint mandate.

- Determination on the ethanol excise exemption
- Implement from April 2023
- Establish volumetric targets for the first three years for biofuel blends (as per the 2008 legislation)
- Certain biofuels with very low Green House Gas reduction parameters (or negative contributors) would be banned from use
- Agree and implement sustainability criteria that is achievable / acceptable for all parties including engine manufacturers during the first three years. During this period Fuel standards can be reviewed in an unhurried manner that does not bring unintended consequences

This enables an infrastructure build to meet growing demand and ensures good supply chains are contracted. It also enables the biofuels use to be considered with the Proposal on minimum onshore stock holding. Both Proposals may interact (should they become law) and determining one without the other is challenging.

Fuels Industry Act

Gull agrees the Terminal Gate Price (TGP) sale system needs to be updated to reflect the proposed obligations. It is not acceptable that a party could buy TGP fuel from another party and impose additional biofuel obligation on the seller unannounced.

Gull recommends TGP prices are required to be published for denatured ethanol, and biodiesel (if held) and any other sustainable fuels that become used in New Zealand. In addition that the supplying party has a right to blend up to engine fuel specification limits for fuel sold under TGP terms. Thus, obligation cannot be imposed in a surprise manner and purchasing parties can receive on specification fuel to a known cost.

Labelling

Gull supports the retail labelling proposal as noted.

Banking Trading

Gull supports the trading and banking proposals.

Emissions Intensity Calculations – Hale Twomey Report

Gull notes that it received this report only 24 business hours before submissions on this Proposal were due. We note the report is dated two-weeks prior to it being released to Gull.

Gull notes it's disappointment with the timing of the release of this report set against the timing of submissions closing. Gull has briefly reviewed the report but has not had the opportunity to canvass the findings with external consultants. Gull notes that Hale-Twomey are well established and a

reputable consultancy and on that basis in general we accept their view, however we note that a full review in the time available has not been possible.