

## Submission from the Bioenergy Association on the Sustainable Biofuels Mandate

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### The Bioenergy Association

The Bioenergy Association represents a significant portion of owners of biomass fuelled equipment; solid, liquid and gaseous biofuel producers and suppliers; waste-to-biogas consultants and facility owners; researchers; and equipment/appliance suppliers across New Zealand. It has members who have an interest in policies and programmes relating to the transport sector and the wise use of our renewable natural biomass resources for the production of biofuels and the betterment of communities, including Air New Zealand, Fonterra, Gull and Z Energy.

This submission complements individual submissions from members which go into more detail related to the implementation and operation of the mandate and may contain confidential information as evidence.

## Sustainable Biofuels Mandate

### How the Sustainable Biofuels Mandate would work

#### 1. Do you support having a GHG emissions reduction mandate?

Yes       Yes, with changes       No       Not sure/No preference

Please explain your views.

The speed of transition from fossil fuel to renewable fuels will be sped up if there is a mandate. Transition to renewable transport biofuels will provide significant GHG emission reductions. A mandate as proposed allows the most efficient solutions to emerge, while meeting specified targets.

The proposed mandate methodology will encourage the development and investment in production facilities for both conventional and drop-in advanced biofuels. The advantage of conventional biofuels is that they can be quickly available and can provide a suitable transition to greater use of biofuels by providing demonstration and experience to vehicle maintainers and users. However to achieve the required GHG emission reduction targets will require investment in the emerging drop-in advanced biofuels, which has significantly more incentive to deliver major GHG emission reductions from liquid biofuels due to the advantage of being able to continue use of existing infrastructure and vehicle engines.

This ability of drop-in biofuel users being able to avoid unnecessary capital cost by continuing to use their existing vehicles is a significant advantage over the alternative of use of electricity and hydrogen fuels.

A mandate provides wide flexibility for fuel suppliers to meet the GHG target limits.

A mandate avoids government picking fuel options as this is left to fuel suppliers according to the best economics they can manage.

The mandate will provide an incentive for investors to build biofuel production plant but unless there is a fully supported biofuel R & D programme for feedstock supply and technology commercialisation the mandate will only increase costs to transport users. The supply side R & D programme needs to be at least at or above the funding levels currently enjoyed by hydrogen and peak electricity.

Similarly a programme of a similar funding level is required to ensure that adequate amounts of biomass are available in the right place and the right time to meet advanced biofuel production demand. NZ has the potential to provide adequate feedstock from biomass and residual organic waste but development of the supply markets for these resources is essential if the potential from low emission biofuels is to be realised.

The document is silent on the existing ethanol excise exemption. It has been an important tool for use of ethanol in fuel to date and, in line with the excise exemption and other financial incentives applying to electric vehicles, Government is encouraged to widen the exemption so as to cover all biofuels at least for an initial period. This would provide an incentive for vehicle owners to use high % biofuel blends.

#### 2. Do you support the proposal to require certification of lifecycle emissions of biofuels sold in New Zealand using international standards?

Yes, I agree       I agree in part       No, I don't agree       Not sure/no preference

Please explain your views.

Adopting international methodologies allow domestic and/or import of biofuels without the need for additional certification. However experience with certification shows that often international methodologies require modification to be relevant and acceptable, particularly for domestically

## Sustainable Biofuels Mandate

produced biofuels as some have criteria of little relevance to NZ which has different land use parameters.

Regulations need to be clear about the process for certification and who has the capabilities to do this. Any certification system needs to produce results that are consistent with systems used for other comparable fuels.

The Australian and New Zealand biofuel sectors work closely together and parity is important as experienced practitioners may be domiciled in either country.

The certification regime should be developed in consultation with the biofuel supply sector as some international certification schemes would incur significant cost to producers while not providing any better outcomes for fuel users or regulators. Bioenergy Association has experience of adapting international certification schemes to the needs of New Zealand – adopting the good but avoiding the bad attributes.

### 3. Do you support applying the Sustainable Biofuels Mandate to all liquid transport fuel?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Please explain your views.

This will allow fuel suppliers to optimise how they meet the mandate limits. Targets should allow aggregation of fuel GHG reductions as is proposed, but should include international fuels (Marine and Aviation) too. As a nation with an export focus, we should demonstrate leadership in this sector and including these will help get to the scale of production in NZ that is economic.

However within the mandate there should be a SAF-specific target from 2025 as this is critical for facilitating SAF supply. Aviation will be one of the hardest to decarbonise sectors and there needs to be specific policy and certainty to incentivise decarbonisation in this sector. Also given the higher cost of SAF, under the current proposed mandate, there would be no incentives for suppliers to import or produce SAF. SAF is critical to aviation decarbonisation, and by association, essential for the decarbonisation of Aotearoa's tourism sector, highly perishable export sector, and social connectivity.

The separate SAF mandate should also apply to international fuels as this is essential to provide economies of scale for SAF production and import supply chains.

If all fuels are not included it will be logistically difficult and more expensive for airports and ports to have domestic and international grade(s) of fuel, with and without biofuels, ie two parallel supply chain and distribution systems.

The mandate should include for all transport biofuels including gaseous biofuels a supplier may deliver. The mandate should be future proofed so that the option of gaseous biofuels are not biased against. In Europe the uptake of gaseous biofuels is proving very strong and this option should be allowed for in New Zealand.

The methodology for calculating the emissions from biofuels should be neutral as to the type of biofuel, gaseous or liquid.

In our consultations in preparing this submission, we have learned that some groups, including some association members, favour separate Mandates and have well developed reasons for this. This suggests to us that particular consideration of this point by officials and government is needed. From the tourism and aviation viewpoint, a separate aviation Mandate that is also applied to international aviation is seen as essential to get the vitally-needed sustainable aviation fuel network in place and operating in New Zealand in any useful medium-term horizon.

## Sustainable Biofuels Mandate

4. Are the proposed initial emission reduction percentages for 2023–2025 appropriate for New Zealand? If not, what should they be?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

But must include provisional targets through to 2050 so that suppliers can manage and plan for full implementation. The more certainty the better as significant investments will be required by biofuel producers and suppliers

There are specific infrastructure implementation issues which members have set out in detail in their submissions which should be taken into account when finalising the regulated targets.

5. Do you support having single GHG emissions reduction percentages across all fuel types, or do you favour separate reduction percentages? Why and how many separate percentages would you suggest we have?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

It is agreed that a single GHG emissions reduction percentage is achievable across surface transport fuels including road, rail and marine. The GHG emissions reduction percentages for these transport categories should be capable of including both gaseous and liquid biofuels. However, for aviation a SAF-specific mandate (covering all aviation fuel uplifted in Aotearoa regardless of destination) is essential to decarbonisation. Without a SAF specific mandate there is a very significant risk that, given the higher cost of SAF, fuel companies will satisfy their GHG reduction obligations through supply of lower cost marine and ground transport fuels and will have no incentive at all to make SAF available. SAF is the only pathway available to aviation into the foreseeable future to reduce GHG emissions for long haul flights. SAF supply in Aotearoa is essential for the decarbonisation of Aotearoa's tourism sector, highly perishable export sector, and social connectivity.

6. Do you support provisional emission reduction percentages being set for 2026–2030 and 2031–2035 with the percentages being finalised in 2024 and 2029 respectively?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Greater certainty is required, at least for the first period out to 2036, given investment decisions and production lead times. For the first period the % targets should be set early so that suppliers have a firm target to aim for. The regulations should however allow for exceptions to be approved by the Minister when say a supplier is not able to install the infrastructure because of other party actions such as resource consents.

Flexibility should also be used where a supplier is investing in infrastructure, but it has not yet been commissioned.

However because the transition of the transport sector to be low emissions has a number of initiatives all happening at the same time there is great uncertainty as to what will or will not be achieved so the legislative provision for reviewing and resetting targets should be a balance between maximum certainty and flexibility to respond to changed circumstances.

## Sustainable Biofuels Mandate

7. Do you support the proposal that biofuel producers must be certified against an established sustainability standard to count towards achievement of the emissions reduction percentage?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

The sustainability standard and certification should apply to all the fuels whether imported or produced domestically. The certification should be on the fuel and not the producer.

8. Do you support having a joint fuel industry/government information campaign to inform New Zealanders about biofuels and the Sustainable Biofuels Mandate?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Government must lead the information campaign in a similar way as has occurred with the promotion of electric vehicles. The stamp of authority of government is critical to public acceptance.

Because the transition to biofuels is driven by Government for the benefit of the community as a whole Government must provide adequate funding to support the implementation of the public good policy. The fuel suppliers will have significant infrastructure costs so it is fair that promotion of a public good policy is funded by government.

Information from manufacturers on the suitability of biofuels / blends for specific vehicle is critical to getting uptake. Consumers will need confidence that their vehicle will not be damaged by the use of biofuels. Government funded independent verification as to the effects of using biofuels will be critical to user uptake. However this must be done in conjunction with the sector so that the information is agreed by all the major parties.

Information provided by Government must be more positive and neutral to the use of biofuels for transport than has occurred in some recent government produced discussion documents such as the tone in this discussion document. There are always issues with any new policies or technologies which need to be addressed and experience of the upbeat promotion of electric vehicles shows how the tone of Government actions can enthuse the community to adopt change as their own.

9. Do you support the labelling proposal that informs consumers about specific biofuels at the point of sale?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We support this but believe labelling at the pump should be kept simple and suppliers should have some minimum requirements (such as blend % on the pump) but have some flexibility on how other information is made available - so long as it is easily accessible to customers.

The sourcing of the biofuels component included in fuel sold at the pump will regularly change so the information required to be provided to users should be limited so that labelling does not have to change every time there is a change in the source of the biofuel.

EECA has an existing labelling scheme which is still in operation and it has worked adequately. Any new labelling scheme should be simple and should build on what we already have.

## Sustainable Biofuels Mandate

10. Should New Zealand try to overcome the challenges that domestic biofuel producers face in maintaining access to affordable supplies of domestically produced feedstocks? Do you have any suggestions for how this challenge could be overcome?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

A cross-sectorial plan for the bioeconomy is needed. There is a clear role for Government in providing direction and coordination through the development of a long-term plan, as well as R&D/investment. This would help to attract investment in production and supply chain infrastructure, and to build supply of biofuels.

The use of feedstocks should be focused on opportunities which offer considerable emissions reductions and which cannot be easily or cheaply achieved by competing technologies. This includes aviation, for which there are limited other viable pathways to decarbonisation. In addition, substituting conventional jet fuel with SAF can give up to an 85% reduction in CO<sub>2</sub> emissions over the lifecycle of the fuel, which makes the use of SAF a powerful tool for decarbonising aviation.

A cross-sectorial plan for the bioeconomy would assist with identifying appropriate policies to direct feedstock to hard to abate sectors.

A plan for the bioeconomy should include the research and development of new technologies and feedstocks to continuously improve decarbonisation options.

The markets for supply of biomass and waste as feedstocks for production of biofuels are in their infancy and still have significant well entrenched barriers by incumbents, such as forest owners assisting making biomass available, which are being overcome but at a slow rate. To speed up the use of residual biomass and organic waste to produce energy requires significant assistance such as guidance to farmers to grow more trees on their less productive areas of land. Theoretically there is adequate quantities of biomass and organic waste to allow production of solid, gaseous and liquid biofuels but significantly increased effort is needed to speed up the development of the feedstock supply market so that realisation of the potential GHG emission reduction targets is achieved earlier rather than later.

EECA has been managing a well funded demand side programme for encouraging transition from fossil fuels to low emission fuels for heat. A similar programme needs to occur on the biomass and residual organic waste supply side to ensure that adequate feedstock is available in the right place at the right time, not only for solid biofuels but also for liquid and gaseous biofuels. NZ has the potential to have enough biomass but it has to be a managed market during early days so as to encourage appropriate and adequate levels of planting of future sources of biomass.

It is a policy failure if there is not adequate volumes of biomass and residual organic waste available to biofuel producers.

## Sustainable Biofuels Mandate

**How could the Sustainable Transport Biofuels Mandate be implemented?**

11. Do you think the minimum threshold for compliance of 10 million litres of transport fuel in a calendar year in New Zealand is appropriate? If not, what level would you change it to?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

There is no need for a threshold as that puts larger parties who will incur significant infrastructure costs at a commercial disadvantage. The mandate should apply to all retail and wholesale fuel suppliers but applying only to first sale within NZ. (eg excludes resellers like Waitomo).

A threshold will encourage suppliers to split their business to avoid the threshold.

The reporting should be on prior year supply.

12. Do you agree with the method for calculating a supplier's GHG emission reduction?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

no

13. Do you think the annual reporting regime, including its offences and fines, is practical and appropriate?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

It is important that compliance is measured and reported on so that all fuel suppliers are on a similar footing.

Compliance should be on the companies and not individuals.

14. Do you support the performance of fuel suppliers being published to enable consumers to reward the industry leaders in reducing GHG emissions?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Summarised reporting to the public will be important for public acceptability of the scheme.

Experience in California has shown that public reporting is a stronger lever for compliance achievement than financial penalties.

## Sustainable Biofuels Mandate

15. Will the proposed penalties encourage fuel suppliers to achieve the required emission reductions? If not, would level should they be?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We believe the penalties are far too low and should be doubled. Otherwise many fuel retailers may decide it is simpler for them to pay the fine than supply biofuel. For achievement of the objectives of the scheme it is essential that all parties are in agreement and working to success of the scheme. If penalties are too high then the key parties will not support the success of the scheme. However some of our members are concerned that the current proposed penalties are too low. This risks companies electing to pay the penalty year-on-year rather than participate at all, because they believe it may be cheaper and easier for them to do so. This could significantly impede the decarbonisation of the transport sector by impacting the supply of biofuels in Aotearoa

If the scheme were to fix a safety or quality problem which is solely the responsibility of the fuel suppliers then significant penalties may be appropriate, but this policy is to encourage suppliers and their customers to participate for achievement of a public good so encouragement rather than penalties should be the underlying philosophy of the scheme.

As there is not likely to be consensus on the level of penalties we would like to participate in a meeting of the major interested parties convened by the Ministry to try and achieve consensus.

16. Do you support the proposal for fuel suppliers to defer achieving their emissions reductions for years 1 and/or 2, in full or in part, to the following year?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We don't support this as it would penalise the suppliers trying to do the right thing. In order to achieve the maximum emissions reduction for NZ, we need to ensure we start making progress early. Because the policy is for achievement of a public good then there needs to be flexibility and encouragement for the major parties to participate. Having the benefit of spreading the reduction across all fuels they sell provides great flexibility for them to manage infrastructure development. However some of our members are concerned that the flexibilities outlined in questions 16-19 introduce too much uncertainty as to supply quantities, inhibiting decarbonisation and proposing issues for/deterring investment by producers who need to operate consistently at certain volumes to achieve requisite economies of scale

17. Do you support fuel suppliers banking any surplus emissions reductions in a year and using it to reduce the percentage needed to be achieved the following year?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

The earlier the reduction is achieved the better so the policies should be encouraging early investment..

In early years when infrastructure needs to be installed some reductions will be lumpy and banking allows smoothing while encouraging early investment.



## Sustainable Biofuels Mandate

18. Do you support fuel suppliers borrowing for shortfalls in emissions reductions in a year, and making the shortfall up the following year?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Yes in part, but that there should be a slight penalty to do so (ie need to make up slightly more than what was deferred)Because infrastructure investment will be lumpy in early years there needs to be a number of flexibility mechanisms which encourage suppliers.

19. Do you agree with the proposal to allow trading through the use of entitlement agreements?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

This could allow suppliers to collaborate on larger (more cost effective) initiatives. Reduce the cost of meeting the mandate. Good for the suppliers, their customers and for New Zealand.

This is another flexible mechanism which will encourage positive participation by suppliers and other potential investors