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Consultation: Sustainable Biofuels Mandate,
Energy Markets Policy,
Building, Resources and Markets,
Ministry of Business, Innovation and Employment,
PO Box 1473,
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Submitted by email

Submission on:

**Increasing the use of biofuels in transport: Consultation paper on
the Sustainable Biofuels Mandate**

By Carbon and Energy Professionals New Zealand

1. INTRODUCTION

- 1.1** CEP welcomes the opportunity to comment on the consultation on increasing the use of biofuels in transport. It is well understood that transport is a critical emissions source in New Zealand, one that demands urgent attention. We support the intent of the proposed mandate and provide comment with the aim of contributing to making the increased use of biofuels practical to implement as well as effective in reducing emissions.
- 1.2** For context, CEP is the professional body that represents energy efficiency and carbon professionals in New Zealand. We train and certify individuals in a wide array of energy efficiency, carbon management and carbon measurement disciplines.
- 1.3** CEP is a not-for-profit Incorporated Society, affiliated with Engineering New Zealand as a Collaborating Technical Society. Our members are dedicated to improving energy efficiency and reducing carbon emissions across the New Zealand economy. These objectives are set in our constitution.
- 1.4** We note the consultation document makes no reference to a national energy strategy. Clearly, a mandate on the uptake of biofuels into the transport fuel mix will need to be consistent with a wider, national energy strategy and we look forward to seeing how these policy initiatives integrate.
- 1.5** The premise of the mandate is to set obligatory minima around biofuels inclusion. While this may be a reasonable starting point, the common outcome of minimum standards is compliance and minimum required performance, or satisficing. We strongly suggest measures to encourage performance beyond the minima are considered, perhaps through an incentive scheme that will operate to encourage suppliers to exceed the mandated minima. We note the consultation does mention the possibility of trading, however, this would merely lead to aggregated minimum compliance rather than encouraging the industry wide exceeding of the stipulated minima.
- 1.6** The consultation document requests comment on specific questions raised within it. Our responses to these questions are included in Section 2, below.

2. RESPONSES TO SPECIFIC QUESTIONS

2.1. Do you support having a GHG emissions reduction mandate?

CEP is supportive of a mandate to accelerate the uptake of biofuels into the New Zealand energy mix.

We agree that without positive intervention the uptake of biofuels will lag that which is required to deliver a net zero economy by 2050. Other countries have already demonstrated the efficacy of mandating proportions of biofuels and while many of these are better placed for a smooth transition, New Zealand cannot afford to wait in the hope that emerging technologies may simplify ours.

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

CEP supports the certification of fuels.

Understanding the lifecycle emissions of fuels is important. The use of international standards for lifecycle assessments delivers consistency and there appears little, if any, incremental benefit in developing local standards.

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

All liquid fuels should be encompassed into the standards.

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

Ideally, the percentage would be higher. However, we acknowledge the current state of the liquid biofuels sector in New Zealand and that higher percentages may be impractical at the moment. Other policies should be considered, as part of a national energy strategy, that will encourage investment in liquid biofuels manufacturing to enable higher percentages and swifter uptake in the near future.

2.5. 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?

Having separate reduction percentages allows for flexibility to adjust mandated reductions as new technologies that may impact some fuel types more than others emerge or achieve market maturity. For example, technological advances may be different for the production of ethanol and biodiesel and having a blanket rate may stifle improvements if percentages are set at the minimum credible for the least advanced fuel type. Different rates for different fuel types could also work to encourage fuel switching where credible alternatives exist. For example, in the light fleet electricity is rapidly becoming a credible substitute, whereas for aviation there are currently no credible substitutes.

A simple split of types would be: Petrol; Light vehicle diesel; Heavy vehicle diesel; Rail; Shipping; Aviation.

2.6. 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?

Predictability and stability is essential to encourage investment in biofuels and so early setting and publication of targets will be beneficial.

We note the dates here are consistent with Climate Change Commission carbon budgets and consequent action plans. Maintaining that consistency is useful for wider planning. Concerns with the timeline suggested centre around a relatively short period between confirmation (2024) and implementation (from 2026) which may not provide sufficient lead time for investment decision making, obtaining approvals and consents and plant build before production can commence at scale.

2.7. 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.

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

Information to reassure the public that the inclusion of biofuels into their regular purchases will not damage vehicles, incur additional maintenance costs or impact fuel economy or performance is important.

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

Labelling may be a useful tool in normalising biofuel inclusion and providing the opportunity for differentiation between suppliers, however care will be needed to make sure the information is succinct and useful at the point of sale. Key data only should be included and presented in simple form. Biofuel percentage is informative, possibly also country of origin. Items such as lifecycle emissions, processes and feedstock will be of interest to some consumers and should be available, perhaps via websites and apps, but these are not common decision influencers and inclusion of this information in point of sale labelling risks confounding understanding. Fuels will continue to be purchased mainly on price and labelling should be restricted to critical items only that will inform rather than confuse. The purpose of labelling should be twofold; (i) to reassure and improve understanding; and (ii) to facilitate differentiation between fuels and suppliers. The likely outcome of the mandate is minimum compliance by suppliers. If suppliers are to exceed minimum standards, they will require premium pricing for higher biofuel percentages, i.e. labelling will need to facilitate this differentiation and premium pricing in a simple way.

2.10. 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?

There should be a concerted effort to develop a domestic biofuels capacity as part of a national energy strategy. Firstly, this will help support fuel independence and national, economic sustainability. Secondly, there will be stronger export earnings potential from exporting added-value, processed product than raw materials for overseas processing. Even if feedstock costs sit at international market levels, domestic processing will deliver superior economic outcomes for producers and consumers so long as economies of scale can be comparable to those found overseas.

2.11. 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?

This level sounds reasonable in the short term but should be reviewed in two years.

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

The calculation methodology seems reasonable.

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

The reporting regime seems reasonable. CEP has no specific comment on the level or application of fines and penalties.

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

Information on the performance of suppliers should be available to the public, although effective labelling will be a much stronger weapon in influencing public behaviours.

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

CEP has no specific comment on this point.

2.16. 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?

Modest flexibility is acceptable given the uncertainty over feedstock supply and cost, although this flexibility should not be manipulable for avoidance of action.

2.17. 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?

Again, modest flexibility is acceptable but not to the extent of avoiding continuous improvement. Rather, superior performance should carry potential reward, such as market accepted premium pricing or tax incentive. Otherwise adherence to minimum compliance standards is encouraged by default.

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

Modest flexibility is acceptable, however, borrowing should be discouraged and be permissible at only very low levels for both volume and duration.

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

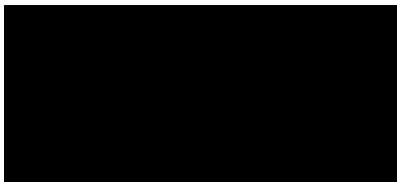
CEP is concerned that trading entitlements will result in a race to the bottom, i.e. the aggregated effect across the industry would be minimum compliance. We would prefer to see a regime whereby superior performance at the individual supplier level is incentivised rather than inferior performance being given a get out of jail card (even if not free).

3. Additional Comments

The mandating scheme needs to ensure the incentive to exceed a minimum standard is sufficient to encourage swifter and higher uptake of biofuels. We need to avoid situations of minimum compliance and satisficing and while recognising that carry-forward, carry-back and trading arrangement may be consistent with not penalising superior performance, they do not necessarily provide sufficient incentive to drive superior performance in integrating biofuels. Another tranche of incentive that encourages superior performance or facilitates superior returns through premium pricing for superior performance may be beneficial in driving biofuel adoption and uptake.

4. Epilogue

CEP supports the intent of the mandate and we look forward to seeing biofuels becoming a material component of our energy mix. We trust our comments will be useful to MBIE and MoT in its deliberations on the mandate's introduction.



Withheld under section 9(2)(a)

CEO
Carbon and Energy Professionals New Zealand