

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

Federated Farmers of New Zealand

26 July 2021



SUBMISSION ON INCREASING THE USE OF BIOFUELS IN TRANSPORT: CONSULTATION ON THE SUSTAINABLE BIOFUELS MANDATE

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ABOUT FEDERATED FARMERS

Federated Farmers of New Zealand is a membership organisation, which is mandated by its members to advocate on their behalf and ensure representation of their views. Federated Farmers does not collect a compulsory levy under the Commodities Levy Act and is funded from voluntary membership.

Federated Farmers represents rural and farming businesses throughout New Zealand. We have a long and proud history of representing the needs and interests of New Zealand's farmers.

Federated Farmers aims to empower farmers. Our key strategic priorities as an organisation are that we:

- Be the respected voice of farming.
- Foster an inspired leadership network.
- Support vibrant rural communities.

SUBMISSION ON INCREASING THE USE OF BIOFUELS IN TRANSPORT: CONSULTATION ON THE SUSTAINABLE BIOFUELS MANDATE

1. SUMMARY OF RECOMMENDATIONS

- 1.1 The Federation considers that greenhouse gas (GHG) emissions reduction mandate is an approach preferable to a volume-based biofuel mandate as it incentivises innovation in the biofuel industry and incentivises the use of more GHG-efficient biofuels.
- 1.2 The Federation would like to see the practical concerns of farmers and rural New Zealanders addressed before the mandate is implemented.
- 1.3 The Federation recommends that the Sustainable Biofuels Mandate be examined through the Government's rural proofing framework.¹ We are concerned that this policy may not have been designed with all rural New Zealanders in mind.
- 1.4 If a sustainable biofuels mandate is put in place, the Federation support there being a regulatory framework in place to ensure such a mandate achieves genuine emissions reductions.
- 1.5 Given a biofuel mandate, the Federation supports applying this mandate to all liquid transport fuels and giving fuel suppliers the flexibility to decide where the use of biofuel is most appropriate for their business and customers.
- 1.6 The Federation requests that the rigid biofuel emissions reduction mandate percentages be caveated with the ability of the regulator to consult with fuel suppliers and make adjustments if appropriate.
- 1.7 It is important that fuel suppliers are given the flexibility to decide where the use of biofuel is most appropriate for their business and customers. That said, under this system we expect fuel suppliers to pace the uptake of biofuels with the availability of alternatives and such a system could also allow for steeper uptake rates where cost-effective biofuels become available for discrete fuel types.
- 1.8 The Federation considers it important that fuel suppliers are given the flexibility to decide where the use of biofuel is most appropriate for their business and customers. That said, under this system we expect fuel suppliers to pace the uptake of biofuels with the availability of alternatives and such a system could also allow for steeper uptake rates where cost-effective biofuels become available for discrete fuel types.
- 1.9 The Federation supports provisional emission reduction percentages being set for 2026–2030 and 2031–2035, to deliver market certainty. Final percentages should be set following consultation with fuel suppliers and major fuel consumers (such as farmers). Emissions reduction percentages should not be set at a linear rate, but rather should take care to consider the practical implications for each increase, particularly for those reliant on ICE vehicles (such as farmers and rural New Zealanders).
- 1.10 The Federation supports the setting of a framework to certify biofuel production. Doing so in a manner that is appropriate will require close consultation with farmers and we would like to be involved in this process as regulations are developed. We are pleased to see the importance the discussion document places on food production in New

¹ Ministry for Primary Industries, [2021](https://www.mpi.govt.nz/legal/rural-proofing-guidance-for-policymakers/), Rural proofing: guidance for policymakers, available at <<https://www.mpi.govt.nz/legal/rural-proofing-guidance-for-policymakers/>>

Zealand and note that this is in stark contrast to many other recently announced Government policies. When tackling the challenge of biofuels putting at risk food production, it should also be considered that allowing biofuel feedstocks from forestry could further incentivise the already accelerating blanket afforestation of productive farmland.

- 1.11 Federated Farmers supports a joint fuel industry/government information campaign. Such a campaign should not only focus on the mandate and the benefits of biofuels but should also address practical concerns farmers and rural New Zealanders may have. There should be a bespoke campaign that explores likely concerns of farmers and other rural New Zealanders as to the suitability of biofuels in the fuel mix for rural situations.
- 1.12 The Federation recommends, given the potential for changes in biofuel proportions to impact engine performance, that consumers be well informed as to the composition of fuels. This information should be made available both at the point of sale and also online.
- 1.13 Federated Farmers supports the market-driven creation of a domestic biofuel industry. However, the barriers domestic biofuel producers face in maintaining access to affordable supplies of domestically produced feedstocks should not be overcome via government intervention. We are concerned that artificially fostering a domestic biofuel industry could contradict decades of advocacy in favour for open rules-based trade and could result in unforeseen perverse outcomes.
- 1.14 The Federation agrees that the use of 10 million litres of transport fuel in a calendar year is an appropriate threshold for ensuring the burden for achieving emissions reductions in the use of liquid transport fuels. The mandate's burden should be shared across as many companies as possible to avoid the situation of a smaller range of companies having to meet more stringent targets.
- 1.15 The Federation recommends that the annual reporting regime for the mandate is aligned with current ETS reporting requirements as much as possible to reduce the duplication of reporting obligations and avoid unnecessary compliance costs being passed on to consumers.
- 1.16 The Federation supports allowing fuel suppliers to defer achieving their emissions reductions for years 1 and/or 2. This is an appropriate means of enabling biofuel suppliers to transition towards meeting the mandate.
- 1.17 The Federation supports fuel suppliers being given the flexibility to bank surplus emissions reductions.
- 1.18 The Federation supports fuel suppliers being given the flexibility to borrow for a shortfall in emissions reductions.
- 1.19 The Federation supports fuel suppliers being given the flexibility to trade through the use of entitlement agreements.

2. GENERAL COMMENTS

- 2.1 Federated Farmers of New Zealand welcomes the opportunity to comment on the Ministry of Business, Innovation and Employment's *Increasing the use of biofuels in transport: Consultation paper on the Sustainable Biofuels Mandate*.

- 2.2 The Federation has extensive experience advocating for the interests of our farmer members on climate change, energy, and transport policies. Most recently, we submitted on the Climate Change Commission's draft advice and evidence reports and on the Ministry of Transport's *Transport Emissions – Pathways to Net Zero by 2050* green paper. In both the draft reports and green paper, an increase in the use of biofuels is assumed by the reports' authors.
- 2.3 In 2005 Federated Farmers also submitted to the Ministry of Transport on the *Consultation on Encouraging the uptake of biofuels* discussion paper. In this submission Federated Farmers expressed concerns at the practicality of such a mandate. Many of these concerns went unaddressed and led to the eventual repeal of the mandate. We are hopeful a potential second scheme to encourage the use of biofuels will be more practical and therefore longer lasting.
- 2.4 Federated Farmers is committed to the New Zealand agricultural sector achieving a 2050 goal of becoming warming neutral, as is consistent with the 2015 Paris Agreement. Such a goal demands that short-lived flow GHG emissions (biogenic methane) are reduced by about 10% by 2050 and demands that long-lived stock GHG emissions (mainly nitrous oxide and carbon dioxide) are reduced to net zero by 2050.
- 2.5 Increasing the use of biofuels has the potential to reduce New Zealand's long-lived carbon dioxide emissions and we therefore support policies that increase their use. It is also important that such policies are fit-for-purpose for farmers and rural New Zealanders, who often lack practical alternatives to commercial and personal internal combustion engine (ICE) vehicles.
- 2.6 The reliability, performance and affordability of the fuels used by our members is important in maintaining both the standard of living in rural areas and maintaining the international competitiveness of the New Zealand agricultural sector.
- 2.7 New Zealand's agricultural products face tough competition from producers in other countries. The significant artificial barriers to trade imposed by overseas markets need to be overcome. These barriers to trade come in the form of tariffs, duties, and quotas, as well as a significant number of non-tariff barriers which are more difficult to quantify but can be equally obstructive.
- 2.8 In contrast, New Zealand primary producers, quite rightly receive minimal Government support or protection and New Zealand operates a relatively open economy that imposes minimal economic barriers on imports. For these reasons it is important that New Zealand's agriculture industry is not required to overcome domestically imposed barriers or costs that further impact on the sector's international competitiveness.
- 2.9 The Federation supports the use of biofuels as a means of reducing long-lived carbon dioxide emissions. We do, however, caution that care must be taken to ensure that any mandatory biofuel emissions reduction target does not result in a reduction in fuel quality (particularly in cold climates), a loss in productive farmland or an overly burdensome increase in the cost of fuel. It is therefore a concern that the discussion document expects the Sustainable Biofuel Mandate to increase the cost of diesel by 5.8% and that it lacks detail on the practical considerations of farmers and rural New Zealanders. Many of our members are very large consumers of diesel, which is a critical input in food and fibre production. Farmers and rural New Zealanders will shoulder a disproportionate share of the financial burden of this mandate with no practical alternative.

- 2.10 A cost effective and efficient transport sector plays a significant role in New Zealand farmers' ability to compete internationally. Along with being a critical input to farm systems directly, freight and - by association - fuel is a significant component of the costs involved in the distribution of goods to market. The cost of transport fuels impacts directly on the bottom-lines of primary producers, therefore the large increase in the cost of diesel and uncertainties regarding the quality of biofuel, are of significant concern.

3. Answers to Specific Questions

Q1. Do you support having a GHG emissions reduction mandate? If not, why?

- 3.1.1 A GHG emissions reduction mandate is an approach preferable to a volume-based biofuel mandate as it incentivises innovation in the biofuel industry and incentivises the use of more GHG-efficient biofuels.
- 3.1.2 We are, however, concerned by the financial impact the mandate is expected to have on our members, particularly in regard to biodiesel. A 5.8% increase in the cost of diesel is expected in 2025 as a result of the mandate. This extra cost to our members will not occur in a vacuum and will be combined with the cost from the Government's revived electric vehicle (EV) feebate scheme, the cost from the ETS on fuel and the many other recently announced additional regulations and additional costs facing farmers which are not directly related to the cost of fuel. We are concerned that government may be viewing this policy proposal in a silo ignorant to the cumulative impact of various government climate change-related policy proposals on rural New Zealanders.
- 3.1.3 An element of rationalisation of the thinking within government would assist in ensuring better regard is being given towards the varying trade-offs and competing / conflicting interests arising from climate change and other policy issues. Too often, aspects of one policy issue affecting another policy issue are left unresolved or unaddressed, leading to less-than-optimal outcomes for the country. An example of this is afforestation to support climate change efforts and the forest industry that ends up resulting in the loss of productive farmland, increased fire risk, decreased biodiversity, and rural anxiety around the future viability of their industries and communities.
- 3.1.4 Further, transparency in such rationalisation would assist future policy development relevant to climate change efforts to reduce emissions. Government entities have not always made it entirely clear why they have opted to make the decisions they have, especially regarding climate change. That is not to say that decisions have lacked explanation, merely that the explanations themselves have not proven particularly persuasive in supporting the final decision made.
- 3.1.5 There is a need for clarity as to how the Sustainable Biofuels Mandate fits in to other related Government policies, such as the EV feebate scheme, the Government's green hydrogen strategy and emissions budgets and emissions reduction plans.
- 3.1.6 We are also concerned at the potential performance issues biofuels, and particularly biodiesel could cause for our members who operate in cold climates.² Fuel quality concerns during periods of extreme cold could not only threaten the productivity of rural business but could also directly threaten the safety of rural New Zealanders. Many

² Radich, Anthony, Biodiesel performance, costs, and use, Combustion 24, no. 2 (1998): 131-132, available at <<http://large.stanford.edu/courses/2011/ph240/garcia1/docs/biodiesel.pdf>>

of our members live in areas with unacceptably poor telecommunication infrastructure and rely on their ICE vehicles to travel across often poor-quality rural roads. We do not want to see our members encountering issues caused by fuel quality, particularly in emergency situations.

3.1.7 We would like to see these practical concerns addressed before the mandate is implemented.

3.1.8 We recommend that the Sustainable Biofuels Mandate be examined through the Government's rural proofing framework.³ We are concerned that this policy may not have been designed with all rural New Zealanders in mind and as stated by Minister O'Connor when releasing the rural proofing guidance:

"The Rural Proofing Policy will ensure that when policy-makers sit down to design the rules they take into account the unique factors that affect rural communities such as low populations, isolation, and reliance on the primary sector for employment."⁴

3.1.9 It is important that unique challenges being faced by rural New Zealanders are acknowledged and considered when developing policy. The rural proofing guidance should not sit dormant but should be prioritised to ensure that central government policy that is designed in Wellington is not only fit-for-purpose for Wellingtonians, but for all New Zealanders.

3.1.10 We would like to see the rural proofing guidance applied to the mandate to avoid unnecessarily and disproportionately impacting rural New Zealanders.

Q2. *Do you support the proposal to require certification of lifecycle emissions of biofuels sold in New Zealand using international standards? If not, why?*

3.2.1 If a sustainable biofuels mandate is in place, we support there being a regulatory framework in place to ensure such a mandate achieves genuine emissions reductions.

Q3. *Do you support applying the Sustainable Biofuels Mandate to all liquid transport fuel? If not, why?*

3.3.1 Yes, given a biofuel mandate we support applying this mandate to all liquid transport fuels and giving fuel suppliers the flexibility to decide where the use of biofuel is most appropriate for their business and customers.

Q4. *Are the proposed initial emission reduction percentages for 2023–2025 appropriate for New Zealand? If not, what should they be?*

3.4.1 We request that the rigid biofuel emissions reduction mandate percentages be caveated with the ability of the regulator to consult with fuel suppliers and make adjustments if appropriate. Such adjustments could include adjusting the percentage requirement depending on the make-up of the market supplied by the fuel supplier (petrol, diesel an aviation fuel) and the potential of these markets to incorporate biofuel as an emissions reduction solution. We would be concerned by a future where fuel

³ Ministry for Primary Industries, 2021, Rural proofing: guidance for policymakers, available at <<https://www.mpi.govt.nz/legal/rural-proofing-guidance-for-policymakers/>>

⁴ Beehive.govt.nz, 2018, Rural communities at heart of all decisions, available at <<https://www.beehive.govt.nz/release/rural-communities-heart-all-decisions>>

suppliers are required to supply fuel that is unfit-for-purpose in order to meet the percentage demands of the mandate.

Q5. *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?*

3.5.1 It is important that fuel suppliers are given the flexibility to decide where the use of biofuel is most appropriate for their business and customers. That said, under this system we expect fuel suppliers to pace the uptake of biofuels with the availability of alternatives and such a system could also allow for steeper uptake rates where cost-effective biofuels become available for discrete fuel types.

3.5.2 Consideration should be given to smaller fuel suppliers that do not have the scale to balance the mandate percentage across various fuel types, each with differing potentials to incorporate biofuels. An additional complicating factor that needs to be carefully considered is the impact on smaller fuel suppliers that also primarily serve a geographic market in which the cold climate negatively impacts the practicality for the uptake of biofuels. We do not wish to see a system that disproportionately favours large, diversified fuel suppliers.

Q6. *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? If not, why?*

3.6.1 Yes, we support provisional emission reduction percentages being set for 2026–2030 and 2031–2035, to deliver market certainty. Final percentages should be set following consultation with fuel suppliers and major fuel consumers (such as farmers). Emissions reduction percentages should not be set at a linear rate, but rather should take care to consider the practical implications for each increase, particularly for those reliant on ICE vehicles (such as farmers and rural New Zealanders).

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? If not, why?*

3.7.1 Yes, we support the setting of a framework to certify biofuel production. Doing so in a manner that is appropriate will require close consultation with farmers and we would like to be involved in this process as regulations are developed. We are pleased to see the importance the discussion document places on food production in New Zealand and note that this is in stark contrast to many other recently announced Government policies. When tackling the challenge of biofuels putting at risk food production, it should also be considered that allowing biofuel feedstocks from forestry could further incentivise the already accelerating blanket afforestation of productive farmland.

3.7.2 We support there being a framework in place to ensure that the biofuel mandate occurs in a manner that does not contradict other industry and government policy. Given that the criteria for the certification process includes reference to concepts such as indigenous biodiversity, land of high conservation value, land of high carbon stocks and land of high value for food production it is important that the regulations use definitions and send signals consistent with numerous existing overlapping policies.

3.7.3 We fully support the use of science-based life cycle assessments for biofuels but are concerned by the inclusion of other more subjective criteria (noted in 3.7.2 and 3.7.4) with the promise of details to follow in future regulations. It is alarming to see the

continuation of the recent trend of Government consultation lacking key details, with the promise of these details to come in further regulations. This is poor public policy.

3.7.4 Many of the sustainability criteria outlined in the discussion document are highly subjective and will be dependent on local circumstances. It is therefore difficult for us to comment on these criteria without seeing the final regulations. Questions we have on these criteria include, but are not limited to:

- How is it determined if a biofuel feedstock is competing with food production?
 - Is it the simple use of a crop for biofuel production when that crop could be used for food production, or is it also using land for biofuel production when that land could be used for food production?
 - Are international biofuel and food commodity prices taken into account?
- What thresholds will be set for the loss of indigenous biodiversity and for adversely affecting land with high conservation value?
- How is land with high carbon stocks defined?
 - Is this criteria consistent with the reduction of soil carbon that occurs when grasslands are afforested?
- How is highly valued soils defined?
- How will these criteria be applied internationally?

3.7.5 We would welcome working with MBIE to answer these questions. We need these and other discussed issues clarified before being able to fully support the Government proceeding with the proposed mandate

3.7.6 The details of the yet to be announced future regulations will be critically important in making the mandate workable for farmers and rural New Zealanders. Use of the rural proofing framework and genuine consultation will be important to ensure these regulations address the practical implications the mandate poses for rural New Zealand.

Q8. *Do you support having a joint fuel industry/government information campaign to inform New Zealanders about biofuels and the Sustainable Biofuels Mandate? If not, why?*

3.8.1 Federated Farmers supports a joint fuel industry/government information campaign. Such a campaign should not only focus on the mandate and the benefits of biofuels but should also address practical concerns farmers and rural New Zealanders may have. There should be a bespoke campaign that explores likely concerns of farmers and other rural New Zealanders as to the suitability of biofuels in the fuel mix for rural situations.

Q9. *Do you support the labelling proposal that informs consumers about specific biofuels at the point of sale? If not, why?*

3.9.1 Yes, given the potential for changes in biofuel proportions to impact engine performance it is appropriate that consumers are well informed as to the composition of fuels. This is particularly important for our members that operate diesel machinery in cold climates.

3.9.2 This information should be made available both at the point of sale and also online. Many farmers and rural New Zealanders need to travel large distances to purchase fuel, making information on fuels available remotely will help avoid wasted travel in the event the fuel is unfit for purpose.

Q10. *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?*

3.10.1 Federated Farmers supports the market-driven creation of a domestic biofuel industry. However, the barriers domestic biofuel producers face in maintaining access to affordable supplies of domestically produced feedstocks should not be overcome via government intervention. We are concerned that artificially fostering a domestic biofuel industry could contradict decades of advocacy in favour for open rules-based trade and could result in unforeseen perverse outcomes.

3.10.2 We recommend giving the recent amendments to the ETS and the proposed Sustainable Biofuels Mandate a chance to have an impact before intervening in the market. We also caution against the Government intervening to artificially favour domestic products over international competition, which sets a dangerous precedent and invites retaliatory action.

3.10.3 Many of our members are currently experiencing negative social, environmental, and economic impacts occurring due to the perverse outcomes caused by poorly thought out and short-sighted intervention by Government in the forestry sector. Much of this blanket afforestation is driven by the allure of valuable emission units from forestry, while planting under the National Environmental Standard for Plantation Forestry drives it away from marginal land towards productive farms.

3.10.4 This afforestation is already having an impact on many rural communities along the east coast of the North Island, with the recent spike in forestry resulting in less local economic activity. Our members have already seen jobs lost and rural schools close and there is a fear that as a result of 'carbon farming' large amounts of productive land will be lost long term for a short-term climate accounting gain, with no beneficial behaviour change resulting, and rural communities being blanketed in increasingly fire-prone pine trees. We do not want similar perverse outcomes to arise from a desire to foster a domestic biofuel sector.

Q11. *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?*

3.11.1 The use of 10 million litres of transport fuel in a calendar year is an appropriate threshold for ensuring the burden for achieving emissions reductions in the use of liquid transport fuels. The mandate's burden should be shared across as many companies as possible to avoid the situation of a smaller range of companies having to meet more stringent targets.

3.11.2 The Commerce Commission's Fuel Market Study in 2018 mentions that the big three (being Z Energy, BP, and Mobil) supply more than 90% of the retail fuel sold at retail sites owned by themselves and other companies. That said, the Commission also found that there is a trend of new retail sites emerging from other companies at the same time as the number of retail sites operated by the big three are decreasing.

3.11.3 As such, the use of a threshold that provides comprehensive coverage of fuel companies is important for the mandate to achieve its objectives without unfairly interfering in the transport fuel market. The proposed threshold would appear to do this.

Q12. *Do you agree with the method for calculating a supplier's GHG emission reduction? If not, why?*

3.12.1 Federated Farmers has no opinion to offer on this specific question.

Q13. *Do you think the annual reporting regime, including its offences and fines, is practical and appropriate? If not, why?*

3.13.1 We recommend that the annual reporting regime for the mandate is aligned with current ETS reporting requirements as much as possible to reduce the duplication of reporting obligations and avoid unnecessary compliance costs being passed on to consumers.

3.13.2 Fuel companies that will likely be bound by the mandate are also likely to already be bound by the Climate Change (Liquid Fossil Fuel) Regulations 2008. Reg 4 of the 2008 regulations already impose reporting obligations on liquid fossil fuels that would provide the vast majority of information required under the mandate. As such, it makes sense to align the timing of annual returns needing to be filed by Mandate-bound companies with the filing of emissions returns, to apply the same penalties for offences under the mandate as are described in section 46 of the Climate Change Response Act 2002, and only require that mandate-bound companies provide that information that is not already being reported under the 2008 regulations necessary for assessing compliance with the mandate.

Q14. *Do you support the performance of fuel suppliers being published to enable consumers to reward the industry leaders in reducing GHG emissions? If not, why?*

3.14.1 Federated Farmers has no opinion to offer on this specific question.

Q15. *Will the proposed penalties encourage fuel suppliers to achieve the required emission reductions? If not, would level should they be?*

3.15.1 Federated Farmers has no opinion to offer on this specific question.

Q16. *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? If not, why?*

3.16.1 Yes, Federated Farmers support allowing fuel suppliers to defer achieving their emissions reductions for years 1 and/or 2. This is an appropriate means of enabling biofuel suppliers to transition towards meeting the mandate.

Q17. *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? If not, why?*

3.17.1 Yes, we support fuel suppliers being given the flexibility to bank surplus emissions reductions.

Q18. *Do you support fuel suppliers borrowing for shortfalls in emissions reductions in a year, and making the shortfall up the following year? If not, why?*

3.18.1 Yes, we support fuel suppliers being given the flexibility to borrow for a shortfall in emissions reductions.

Q19. *Do you agree with the proposal to allow trading through the use of entitlement agreements? If not, why?*

3.19.1 Yes, we support fuel suppliers being given the flexibility to trade through the use of entitlement agreements.

ENDS