

# Submission

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

## Introduction

Fonterra welcomes the opportunity to provide feedback to the Ministry of Business, Innovation and Employment and the Ministry of Transport on the Sustainable Biofuels Mandate 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 co-operative owned by around 10,000 New Zealand farming families. In partnership with the New Zealand Government, our country has a modern and world-leading dairy industry where our products are desired in markets both here and around the globe.

In order to get milk to our 27 New Zealand manufacturing sites and 6 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.

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.

## Our experience with biofuel blending

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 last year 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 also have a goal of 50 per cent of our forklifts across our operating sites and warehouses being electric by 2022 which is well underway.

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

### **Developing a biofuel market**

We acknowledge the work currently underway by the Government to investigate how advanced biofuels can be produced in New Zealand. As part of the New Zealand Wood Fibre Futures Project, we have been actively engaged with agencies such as Te Uru Rākau – New Zealand Forest Service to share our commercial insights on wood biomass supply chains, given it is our preferred lowest carbon abatement cost decarbonisation pathway for our remaining nine coal fired manufacturing sites.

In order to ensure New Zealand's future forestry utilisation for key sectors like housing, while maintaining existing forestry activities, the utilisation of forestry in the future will need to be approached as a managed activity. This will ensure there are adequate amounts of biomass available for all uses – whether bioenergy or other bioeconomy products such as biofuel. We see the challenge will be developing supply chains for gathering and processing biomass, and ensuring that biomass is located close to where it is required, as distance from source to site can add significant costs.

We acknowledge the recommendations made by the Climate Change Commission that new exotic afforestation would help to provide biomass feedstock for the domestic bioeconomy at the rates necessary for fuel switching. 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.

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 welcome the opportunity to work with the Government and relevant agencies in the development of the Sustainable Biofuels Mandate as part of the action plan for how New Zealand will continue to reduce its transport emissions. If there is any further information that the Ministry would like from Fonterra regarding this submission, please do not hesitate to contact us.*

## Response to questions

### Consultation paper on the Sustainable Biofuels Mandate comments table

Question	Response
<p>1. Do you support having a GHG emissions reduction mandate?</p>	<p>Fonterra supports the proposed greenhouse gas (GHG) emissions reduction mandate as a way to focus fuel suppliers on reducing the emissions of their transport fuels. We agree with the Mandate’s proposed approach to emissions reductions and agree that this will help facilitate the earlier adoption of advanced drop-in biofuels.</p> <p>As we found in our experience with the biofuel blending trial we undertook with Z Energy in 2014, advanced drop-in biofuels are extremely beneficial given their lower carbon footprint and ability to use without modifying engine or fuel infrastructure.</p> <p>As alternative fuel sources and technology progress, we note the benefit of the proposed Mandate’s focus on emissions to be expanded in the future to include other low-carbon fuels such as green hydrogen. We are about to undertake a trial with hydrogen injection on a select number of our tankers which we anticipate producing fuel savings of up to 14 per cent per tanker and would be happy to share our findings with relevant agencies as this work develops.</p> <p>We also see the proposed Mandate as a way to facilitate greater collaboration with Government and industry around the development of a biofuel market to reduce emissions across heavy road freight and shipping, where other low emission technologies are less developed.</p>
<p>2. Do you support the proposal to require certification of lifecycle emissions of biofuels sold in New Zealand using international standards?</p>	<p>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.</p> <p>Fonterra supports the proposal to require 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.</p>
<p>3. Do you support applying the Sustainable Biofuels Mandate to all liquid transport fuel?</p>	<p>Fonterra supports the application of the proposed Mandate to all liquid transport fuel, given the opportunities biofuels offer to reduce emissions across heavy road freight and shipping, where other low emission technologies are less developed.</p> <p>We note the flexibility the mandate provides both fuel suppliers and their customers, to decide where biofuels are best deployed. This flexibility would help to mitigate against any short-term supply disruptions, such as those which contributed to biodiesel becoming uneconomic within the New Zealand market in early 2020.</p>
<p>4. Are the proposed initial emission reduction percentages for 2023–2025 appropriate for New Zealand? If not, what should they be?</p>	<p>We believe that the proposed percentage reductions are appropriate and may help to underwrite new biofuel production plants in New Zealand.</p>

	<p>We note that with the proposed Mandate it is estimated that just over double the number of petajoules (PJ) would be supplied in the New Zealand market by 2025 (11.08PJ), compared to what was anticipated by the Climate Change Commission in their advice to Government (5PJ).</p>
<p>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?</p>	<p>Fonterra believe that separate percentages based on fuel type are more appropriate and would better support the deployment of biofuels in hard to abate sectors such as road freight, rail freight and coastal shipping, and better support advanced biofuels.</p> <p>This approach would also allow the regulator to undertake detailed analysis around the availability of biofuels, and for this analysis to be factored into the fuel suppliers' performance calculation.</p>
<p>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?</p>	<p>As technological advances and market demand and supply for biofuels are uncertain, we support the setting of provisional emission reduction percentages for 2026-2030 and 2031-2035, with percentages being finalised in 2024 and 2029, to help give greater certainty for biofuel producers, suppliers and customers.</p> <p>We note that the process for setting future percentages would be tied to the decisions the Government makes on New Zealand's five-yearly emissions budgets and look forward to participating in the consultation process with Government and industry.</p>
<p>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?</p>	<p>We strongly support the proposal that biofuel producers would need to be certified against an established sustainability standard, to ensure that biofuel production was not in competition with food production, reduced indigenous biodiversity 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.</p>
<p>8. Do you support having a joint fuel industry/government information campaign to inform New Zealanders about biofuels and the Sustainable Biofuels Mandate?</p>	<p>Fonterra strongly supports the proposal to inform New Zealanders about the benefits of biofuels and welcome the opportunity to work with the Government and industry partners on a joint information campaign.</p> <p>For example, if we were able to start using a biofuel blend in our tankers again as we did in our previous partnership with Z Energy in 2014, we could look to use our tankers and our communications channels to publicise our use of biodiesel and the emission reduction benefits under the campaign umbrella.</p>
<p>9. Do you support the labelling proposal that informs consumers about specific biofuels at the point of sale?</p>	<p>Fonterra supports this proposal as a further means to grow understanding about biofuels and their benefits.</p>

<p>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?</p>	<p>We acknowledge the work currently underway by the Government to investigate how advanced biofuels can be produced in New Zealand. As part of the New Zealand Wood Fibre Futures Project, we have been actively engaged with agencies such as Te Uru Rākau – New Zealand Forest Service to share our commercial insights on wood biomass supply chains, given it is our preferred lowest carbon abatement cost decarbonisation pathway for our coal fired manufacturing sites.</p> <p>In order to ensure New Zealand’s future forestry utilisation for key sectors like housing, while maintaining existing forestry activities, the utilisation of forestry in the future will need to be approached as a managed activity to ensure there are adequate amounts of biomass available for all uses – whether its bioenergy or other bioeconomy products such as biofuel. The challenge will be developing supply chains for gathering and processing biomass, and ensuring that biomass is located close to where it is required, as distance from source to site can add significant costs.</p> <p>We acknowledge the recommendations made by the Climate Change Commission that new exotic afforestation would help to provide biomass feedstock for the domestic bioeconomy at the rates necessary for fuel switching. 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.</p> <p>Fonterra welcomes the Government’s commitment as part of Budget 2021 to recycle future Emissions Trading Scheme (ETS) to achieve more emissions reductions from Budget 2022 and would encourage that consideration is given to using recycled revenue to fund the development of domestic biofuel supply chains and production facilities so that they are cost competitive to fossil fuels.</p>
<p>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?</p>	<p>We support the proposal that fuel suppliers that sell more than 10 million litres of transport fuel in New Zealand in a calendar year would have to comply with the Mandate.</p> <p>To help ensure a fair system for both suppliers and consumers, robust checks and balances need to be put in place to ensure there is not the unintended consequence of liable suppliers creating multiple companies to sell under the threshold to avoid compliance costs – under cutting those that are complying with the Mandate.</p>
<p>12. Do you agree with the method for calculating a supplier’s GHG emission reduction?</p>	<p>We support the proposed method for calculating a supplier’s GHG emission reduction but ask that consideration be given to including the life cycle emissions of a supplier’s fossil fuel to ensure both fuels (fossil and biofuels) are being compared to the same baseline.</p>
<p>13. Do you think the annual reporting regime, including its offences and fines, is practical and appropriate?</p>	<p>Fonterra supports the proposed annual reporting regime, including its offences and fines.</p>
<p>14. Do you support the performance of fuel suppliers being published</p>	<p>Fonterra supports the publication of fuel supplier’s performance, in a way that is easy for consumers to use, to increase transparency and public accountability.</p>

to enable consumers to reward the industry leaders in reducing GHG emissions?	
15. Will the proposed penalties encourage fuel suppliers to achieve the required emission reductions? If not, what level should they be?	Fonterra supports the proposed penalty regime to encourage fuel suppliers to achieve the required emission reductions.
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?	Fonterra supports the proposal that for the first two years of the Mandate, fuel suppliers could defer meeting their required emissions reductions.  We believe that the deferral process and its associated checks and balances, is an effective mitigation against the risk of long lead-in times associated with increasing biofuel production and supply.
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?	We do not support this proposal as the Mandate should increase emission reductions, rather than averaging reductions to a trend.
18. Do you support fuel suppliers borrowing for shortfalls in emissions reductions in a year, and making the shortfall up the following year?	We do not support this proposal as it would complicate the penalty regime, based around fuel suppliers achieving required emission reductions.
19. Do you agree with the proposal to allow trading through the use of entitlement agreements?	We support this proposal as it may help to assist the production of biofuel with both domestic producers and for imported product.

**ENDS**