Channel
Infrastructure NZ

1 July 2022

Via email: energymarkets@mbie.govt.nz

Sustainable BioFuels Obligation: Proposals for regulations

Tēnā koutou,

Channel Infrastructure NZ welcomes the opportunity to further engage with the Government on this policy, and appreciates the opportunity to respond to the consultation paper.

We have chosen to provide MBIE with general comments on the proposal direction, rather than answer the detailed questions included in the proposal. Our submission reflects the ongoing concerns Channel Infrastructure has with the work still to be completed by MBIE ahead of the 1 April 2023 implementation of the Sustainable BioFuels Obligation and strongly recommends MBIE facilitate an industry-wide forum to solve the infrastructure challenges that remain before finalising and implementing this policy. The recent work of the Infrastructure Commission has highlighted the critical importance of upfront, long-term planning for key infrastructure including our energy infrastructure. In receiving the first report of the Commission, Minister of Infrastructure, Hon Grant Robertson noted: "as a country, over decades we have simply not invested enough, not planned far enough ahead or with sufficient coordination or efficiency to meet our infrastructure needs." The Minister goes on to note that this lack of coordinated planning has led to an infrastructure deficit in a range of areas.

Channel Infrastructure's role in the energy supply chain

Channel Infrastructure is New Zealand's leading infrastructure company, with ownership of highly strategic assets within the fuel supply chain. We have now completed the shutdown of the former Refining NZ refinery assets and following our conversion to New Zealand's largest fuels import terminal, imported refined fuel (including Premium and Regular petrol, diesel, jet fuel, and marine fuel) is flowing through our Marsden Point terminal to Auckland and Northland, which makes up around 40% of New Zealand demand.

One of the key reasons our business took the difficult decision to stop the refining of crude oil was the movement towards reducing carbon emissions in New Zealand and the impact that this change would have on our business over time. Fossil fuels will have a role to play in keeping kiwis and the New Zealand economy moving for many years to come, however this is predicted to decrease over time as new alternative fuel sources are developed, and affordable alternate fuel supply chains are created.

As New Zealand makes its energy transition, Channel Infrastructure's highly strategic assets and transport energy infrastructure can and will support this shift to a lower-carbon economy. We see great opportunity for Channel Infrastructure to support decarbonisation beyond our operations and we are committed to doing so. We are willing and able to support the implementation of the Sustainable BioFuels Obligation in New Zealand and are supportive of Government efforts to ensure that this policy is well structured and designed to achieve long-term policy outcomes that ensure affordable and available supplies of fuel to keep New Zealanders moving.

The BioFuels obligation will need to be met with imports in the near term.
It is widely acknowledged by industry, and the Government, that in the short term the obligation will have to be largely met by BioFuels imported to New Zealand, with decisions yet to be taken on if, and how New Zealand might successfully establish material local manufacturing capability in the future. With the outcomes of the MPI Wood Fibres Future Study still ongoing, we take this opportunity once again to remind officials that without a functioning refinery, as is the case now that we have shut down our refining operations, BioCrude from woody biomass will need to be exported to other refineries for subsequent processing into usable transport fuels.

While Ministers Woods and Wood acknowledged in the draft mandate's foreword released on 13 June 2021, that if "biofuels are locally produced; they will facilitate low-carbon growth and employment creation that will help future-proof our economy", the Cabinet Paper that was subsequently published on 15 December 2021 shows that the Government are taking a 'wait and see' approach on the viability of domestic BioFuels production.

While New Zealand has been dependent on imports of crude-oil and refined fuels for its fuel requirements up to now, the development of a local biofuels manufacturing industry provides the opportunity for New Zealand to become more self-sufficient in its future fuel supply, and for New Zealand to contribute to global biofuels supply which will need to grow significantly in coming years.

For this policy to succeed, any additional costs to consumers need to be considered within the wider high-inflationary environment
Most forms of biofuels are currently significantly more expensive than existing fuels, with further technology breakthroughs and economies of scale required to drive down the cost of sourcing sustainable biofuel feedstock and the cost of processing.

Unlike crude-oil based refined fuel markets, the global market for new fuels such as Biofuels is not as well developed, there is limited global production which is often supported by Government subsidies, and the market overall is not well traded, or transported. New Zealanders will pay a premium for these imports as the price of imported biofuels will be set by countries and regions which provide the highest incentives for production. New Zealand will be competing with other countries around the world for supply of biofuels and access to biofuel feedstock.

Furthermore, given the proposed timeline for implementation, we do not expect the fuel industry will initially be able to source and have the infrastructure ready to support the required level of biofuels. Therefore, New Zealand is on track for a default penalty regime adding to cost of living pressures for New Zealanders. At a time when the cost of living is a significant challenge for many people, we urge Government to be cognisant of the resultant pass through of these costs to consumers, adding to the already high fuel prices as a result of volatile global oil and refining markets.

Determining the Emissions Intensity of fuels
We agree that the life cycle emissions analysis approach proposed is the best mechanism to ensure that this policy results in net emission improvements from renewable transport fuels. We would argue that a single emissions intensity number for all fossil fuels is simplistic and undermines the wider policy ambitions of the Government, by discouraging efforts to continue to bring down emissions in the fossil fuels supply chain, for instance, by pursuing lower emission fuel distribution options, or fuel switching between petrol and diesel.

It is also unclear from the consultation paper whether there will be a common specific emission intensity factor for the transport of all existing fuels to New Zealand, or whether there will be different factors for different products depending on mode of distribution, location of supply, and fuel destination. We believe that the use of a common factor for all products (and all modes of distribution, and all destinations) would remove any incentive for industry to seek opportunities to reduce the emissions from the fuels supply chain, and will not recognise the benefits obtained from lower-emission sourcing options (e.g. refineries co-processing fossil and biofuel feedstock) and distribution options (e.g. use of ammonia-fuelled ships, transport via pipeline rather than trucking by road).

First-generation biofuels, such as ethanol, are only a short-term fix, due to blending limits and they can't be distributed via the Marsden Point to Auckland pipeline as they are not compatible with the jet fuel that is carried via the same pipeline. This means that any biofuel that was to be consumed in Auckland (New Zealand's largest demand centre) would need to be trucked to Auckland instead of being transported via the pipeline, with an emission intensity of trucking compared to pipeline that is 10x greater, as well as increasing road congestion.

Second generation (advanced biofuels) provide a direct replacement to fossil fuels, however, drop in fuels cost significantly more to produce than first generation biofuels, and global supply capacity is currently very limited. In several countries with biofuels mandates, governments recognise the higher cost and complexities of producing second generation biofuels by either providing double the amount of emissions credits and incentives, or setting specific targets for second generation biofuels as a percentage of the fuel blend.

We still have a need for an industry-wide infrastructure plan

A coordinated approach between industry and Government remains necessary and, given the timeframes needed for business to make investment decisions, perform the design and engineering, and potential new construction for any new infrastructure, we urge the Government engage in proper planning for the new infrastructure that will be required ahead of moving to implement this policy.

Prior to implementation of the obligation, more work will be required to understand the requirements to support biofuels import, storage, blending, and distribution. This work is required to properly assess the cost of these requirements, which if not undertaken efficiently, may significantly add to the cost of the Biofuels Obligation.

The Cabinet Paper published on 15 December 2021 includes extracts from a number of fuel suppliers, however each company has a different opinion on the cost and timeline to implement the above infrastructure. The replication of new infrastructure, at small scale, in multiple terminals around New Zealand would likely be a costly exercise. In particular, short-term investment in additional infrastructure to support first generation biofuels, rather than a long-term plan to support the move to second generation biofuels, may come at a high cost without delivering the emissions reduction that is being targeted.

An industry-wide plan to tackle the challenge of decarbonising the transport industry through BioFuels is an important step in ensuring that the infrastructure investments that are made are efficient, well-structured, and minimise the cost burden of this policy on the consumer. Having adequate time to plan, prepare, and invest for these future requirements will be an important part of being able to deliver the emissions reduction being targeted.

Channel Infrastructure believes Aotearoa is faced with great opportunity in the Biofuel realm, and our business can have a key role to play in enabling this change. However, we acknowledge further work must be done to ensure we can establish a new industry that is feasible, economic, and competitive and delivers affordable fuel for New Zealander's.

My team and I are here to support the Government with this work as it is important for all New Zealanders that we get this right.

Nāku noa, nā

[redacted]

Naomi James

Chief Executive Officer

Port Marsden Highway, Ruakaka, Northland 0171
Private Bag 9024, Whangarei 0148, New Zealand
+64 9 432 8311
corporate@channelnz.com
channelnz.com