



## Written comment on the proposed Sustainable Biofuels Obligation

### 1. Waitomo Group

[Waitomo Group](#) is a 100-percent family-owned and operated independent Kiwi fuel company, based in Hamilton. Started in Te Kuiti in 1947 by Desmond Ormsby, we have now grown to be one of New Zealand's largest independent fuel suppliers, with over 75 Fuel Stops between Paihia and Dunedin. We are market disruptors – and our business is 100-percent focused on providing more competition and choice, and lower fuel prices, to Kiwis wherever we operate.

Waitomo also operates a substantial commercial fuel business, servicing local businesses, agricultural contractors, roading and civil engineering contractors, forestry crews, workshops, quarries and farms. As well as supplying petrol and diesel, we offer bulk fuel supply, onsite diesel supply and fuel and oil storage solutions. Our fuel is currently supplied by Mobil, as part of a long-standing supply arrangement.

Seventy-five years on, we're proud to be serving our Kiwi customers with the same formula we always have – great people, top performance and a fairer price for fuel.

### 2. Our submission:

#### General comments

1. As outlined in our earlier submission dated July 2021, Waitomo Group is supportive of collective NZ Inc. initiatives to create a clean, green, lower emissions New Zealand to mitigate the impacts of climate change. We're showing leadership in the fuel industry in the reduction of emissions by working in partnership with Hiringa Energy to develop New Zealand's first green hydrogen refueling network, aimed at reducing the impacts of heavy transport emissions. Heavy vehicles make up 4 percent of the New Zealand fleet, but 26 percent of total GHG emissions. By developing the first New Zealand hydrogen network with our partners, with the first sites later this year, we can have a real and tangible impact on New Zealand's GHG reduction targets.



2. Waitomo is also supportive of a mandated Biofuels Obligation being introduced to the New Zealand market, applied at an importer level - the New Zealand wholesale importers (the majors) are the only ones with the infrastructure and means to introduce biofuels into the New Zealand market. With the importers being the point of obligation, the complexity of reporting and meeting the mandated guidelines is reduced. With the point of obligation at the importer level, importers will be incentivised to invest in the infrastructure needed to implement the Obligation.
  
3. We do, however, have concerns about the rushed nature of this Obligation coming into force. Careful consideration needs to be given to the potential for unintended consequences of committing to a mandated Biofuels Obligation when there are so many uncertainties and variables to be addressed. Establishing a robust supply channel for sustainably produced biofuel at economically sustainable prices will be a significant challenge. The complexity and scale of blending biofuels is significant and will require long-term planning and significant capital investment to deliver the emissions reductions that are proposed. Consideration also needs to be given to the impact of the Fuel Industry Act 2020, Marsden Point Refinery switching to an import terminal, pending changes to the national inventory scheme, current record product prices and related fuel excise duty cuts – all factors creating significant additional complexity in the industry. Adding the complexity of a Biofuels Obligation with these factors at play adds another layer of cost and risk for market participants as well as consumers. We are concerned at the speed at which these changes are being proposed. Rushed legislation can have unintended consequences that will be detrimental for all Kiwis.

### **Issues specific to distributors like Waitomo**

4. It is our strong view that a specified grade of biofuels should be mandated industry-wide (i.e., a standardised percentage grade ethanol / biodiesel v mineral such E5 or E10), as is done in other jurisdictions like Australia. This would also be consistent with New Zealand's Engine Fuel Specification Regulations 2011 which provides comprehensive fuel specifications for fuel products enabling consumers to buy fuel to a quality standard



appropriate for New Zealand's vehicle fleet and climatic conditions and limiting fuel components that could be harmful to the environment or public health. We note that MBIE is currently “reviewing the regulations during 2022 to look at, among other things, whether advanced biofuels should have specifications, and whether the current maximum percentage for blends is still appropriate”.<sup>1</sup> This review is essential before the Obligation comes into force in April 2023, otherwise there will be significant retail and consumer confusion in the market. Suppliers must be required to demonstrate that the biofuel is of a suitable standard for motor vehicle use, without causing any engine or performance degradation.

5. Specifying an industry-wide mandated biofuels grade is also the only way mandated biofuels could be introduced into New Zealand without undermining the intent of the Fuel Industry Act 2020, enabling distributors and resellers like Waitomo to continue to “shop around” for our supply. Without it, there would be too much variation in fuel products from one supplier to another to easily or practically buy from different suppliers. This undermines the intent of the Act – to promote greater competition in the wholesale fuel market. Mandating an industry-wide biofuels grade of fuel would ensure a level-playing field in the wholesale market and ensure the intent Act is not unintentionally undermined or put at risk by importers profiteering or price gouging under the new regime. Some importers are in a stronger position than others because of their existing terminal share and other infrastructure. This should not unfairly advantage them when the mandate is introduced.
6. Standardising a biofuels grade across the industry would also significantly reduce the complexity for retailers and consumers at the pump / point of sale e.g., labelling. We support labelling that informs consumers about specific biofuels at the point of sale, but unless there is a standardised biofuel grade, point of sale labelling would be overly complex for resellers / distributors like us, if we choose to get our supply from more than one wholesale supplier. If wholesalers used different biofuel percentages in their fuel or chose to use differing feedstock and conversion processes affecting the sustainability /

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<sup>1</sup> The Sustainable Biofuels Obligation: proposal for regulations, page 25., section 4.2.



lifecycle emissions of the biofuel, this would be exceedingly difficult for us to manage at the point of sale through labelling.

7. Specifying an industry-wide biofuels grade would also allow a terminal gate price (TGP) to be applied to that product. This is also consistent with the intent of the Fuel Industry Act 2020 – “to increase the transparency of wholesale pricing, and to provide a source of fuel supply for potential entrants to retail fuel markets on a nationwide basis.” The Fuel Industry Regulations 2021 should be amended to require the new mandated biofuels fuel grade to be included in the terminal gate pricing requirements – with the build-up of the biofuels component in the TGP being clear and transparent. The same would apply to the pricing for the biofuels grade in longer-term wholesale supply contracts negotiated with the importers / suppliers.
  
8. To have a meaningful impact on New Zealand’s transition to a clean, green lower-emissions future, it is vital that only sustainable biofuels are used to fulfil the obligation – i.e., using a sustainable biofuels source and that the lifecycle emissions of developing and introducing these biofuels into the New Zealand fuel market is well-considered. We are pleased to see that Cabinet has considered high-level sustainability criteria that will apply to all biofuels used to meet the Obligation. Our view is that further consideration should be given to the unintended consequences of implementing a rushed Biofuels Obligation on New Zealand’s emissions reduction targets E.g., that the development of the infrastructure and transportation required doesn’t actually result in even more emissions than the biofuel introduction would offset. Our view is that insufficient time has been given to fully understand these implications and we are aware that other submitters have raised similar views. Waitomo would not consider purchasing any wholesale fuel supply that includes biofuels that don’t come from a sustainable (preferably domestically sourced) feedstock, or that has high lifecycle emissions.



## Issues specific to consumers

1. In our previous submission (2021), we raised concerns that the likely cents per litre impact on Kiwis had been grossly underestimated i.e., a \$7.41 increase in weekly household expenditure in 2025.

*“A biofuels mandate will, however, increase fuel prices as biofuels cost more to produce. If the Sustainable Biofuels Mandate is implemented as proposed, in 2025 it would result in a 0.2 percent (0.4 cents per litre) increase in baseline petrol prices, a 5.8 percent (7.1 cents per litre) increase in baseline diesel prices, and an 11.2 percent (7.1 cents per litre) increase in baseline jet-fuel prices. The fuel price changes translate to a \$7.41 increase in weekly household expenditure in 2025.”<sup>2</sup>*

In our view, the cents per litre increase would be materially different than stated. Since this consultation paper was written, there have been serious economic and global impacts which would make the price increase significantly more (e.g., commodity price increases, international demand versus short supply of feedstocks, food shortages and inflation).

The impact of this legislation on the cost of the existing fuel grades does not appear to have been given enough attention or rigour. Importers are likely to spread the cost of this mandate (e.g., new infrastructure, blending, transport, storage) across other fuel grades, thereby increasing the cost of fuel to all Kiwi households, rather than only those who can afford to use biofuels.

2. Fuel is a grudge purchase – a necessity for most Kiwi families – and high fuel prices hit those families and whānau who can least afford them. Currently Kiwis are experiencing record fuel prices, and the Government has had to take steps such as the fuel excise duty cuts and road user charges reductions to reduce the very real impact on Kiwi pockets *and* manage inflation rates not seen since the 1970s. Adding additional costs to fuel supply through a Biofuels Obligation will have the effect of raising pump prices even higher during a cost-of-living crisis, leaving Kiwis even less for other essentials like food, electricity and

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<sup>2</sup> Increasing the use of biofuels in transport: consultation paper on the Sustainable Biofuels Mandate – MBIE, 13 June 2021, page 25.



heating. A biofuels incentive or rebate paid to consumers by Government would be one way to help offset this added cost.

3. We still have concerns about how a Biofuels Obligation will be managed from a consumer perspective. It is proposed that the Environmental Protection Authority (EPA) will be the regulatory body for the obligation, and Trading Standards within MBIE will continue to be the regulator responsible for monitoring fuel quality and for enforcing compliance with the Engine Fuel Specifications Regulations 2011. However, the proposal document does not address how consumer issues relating to the Obligation will be dealt with.

Getting consumer buy-in for mandatory biofuels in fuels will require significant Government support (funding and management) for a public awareness campaign to encourage and educate consumers about the benefits of biofuels and to dissuade them of any negative impacts on their vehicles. Consumers will naturally be very wary of new fuel sources and the impact on their vehicles, and there is also likely to be significant concern about the impacts on already record fuel prices. As the Obligation is rolled out, which body will be responsible for addressing and mitigating these concerns? Our view is that there will be significant consumer “noise” about the real or perceived impact of biofuels on engine performance. As a low-cost retailer with low overheads, we don’t have the resources to manage heightened customer enquiries around these issues and would strongly recommend this is managed by a public service / Government body or other agency.

4. The Government needs to consider how it will address the demand side of the biofuels equation, not just the supply side. Consumers should be incentivised to increase their uptake of biofuels in the same way that EV purchases are being encouraged through rebates and taxes on diesel vehicles such as utes. The Government should be offering a cents per litre biofuel rebate to consumers who use biofuels in their vehicles to encourage faster uptake. Consumers need to be incentivised to drive demand if the Obligation is to succeed and biofuels are to be widely adopted.



### 3. In summary

In principle, Waitomo is supportive of the introduction of biofuels to help lower emissions and address the impacts of climate change. However, further consideration should be given to the issues we've raised in relation to the impacts of the proposed Sustainable Biofuels Obligation on distributors like Waitomo, particularly how it impacts the intent of the Fuel Industry Act and regulations. We are also concerned about the very real impact on Kiwis already suffering for record high fuel prices and a cost-of-living / inflation crisis. If further information on any of the points raised in this submission would assist the Ministry, we'd welcome the opportunity to discuss them further.

### 4. Waitomo Group contacts

#### Jimmy Ormsby – Managing Director

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Withheld under section 9(2)(a)

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#### Simon Parham – Chief Operating Officer

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