

Submission by

Z Energy



to the

Ministry of Transport

on the

Sustainable Biofuels Mandate

Monday 26 July

## INTRODUCTION

1. Thank you for the opportunity to submit on the proposed Sustainable Biofuels Mandate. It is well known that Z believes biofuels are an important transition fuel as we strive to meet our commitments under the Paris Agreement. We built our biodiesel plant, Te Kora Hou, on this basis.
2. Our submission on the proposed Sustainable Biofuels Mandate is primarily informed by our technical expertise in producing and distributing biofuels; by our **experience of our customers' needs**, whether large businesses or individual households; by our four-year membership of two Sustainable Aviation Fuel consortiums; and by our commitment to our Sustainability Stand and the energy transition.
3. We would like to begin by commending the attention given to the near-term decarbonisation potential of sustainable biofuels, particularly in heavy freight and as a bridging fuel as the light fleet decreases and/or electrifies.
4. We would also like to commend the use of a mandated *emissions reduction* – we believe this will help encourage the right market behaviours and realise the co-benefits of sustainable biofuels and local production.
5. Overall, we believe what has been set out is achievable for ground transport fuels, and we look forward to working on its implementation.

## OVERALL THEMES OF THIS SUBMISSION

6. Overall, the proposed mandate needs to lean into New Zealand's broader decarbonisation goals and strategy, for example the electrification of the light fleet and enabling the transition of the harder to decarbonise sectors like heavy freight and aviation, so that we can get to a net zero 2050. To that end, we encourage that the mandate aligns with the Climate Change Commission's recommendations for biofuels post-2025.
7. As a business, we are seeking long-term certainty to make long-term investments, whilst appreciating the ability to remain flexible in the short term as the market is created.
8. As such, the proposed mandate needs to ensure that an industry response is triggered and that obligations are met at the most appropriate part of the supply chain.
9. The proposed mandate also needs to incentivise the right fuel for right use case. For example, without the right approach, electrons could be displaced by first generation, imported ethanol, which would run contra to the objectives laid out by the Climate Change Commission for rapid electrification of the light fleet.
10. The balance of incentives and penalties is paramount, as is their continued monitoring to ensure appropriate behaviour is occurring – especially with respect to the sustainability of the biofuels and the measurement of GHG reduction.

11. Finally, the proposed mandate needs to ensure we pick up the pace on transport decarbonisation, specifically when it comes to the timely meeting of the mandate obligations, so that we have the best chance possible to meet Aotearoa New Zealand's climate change targets.

#### ASPECTS OF THE PROPOSED MANDATE WE ENDORSE

We endorse:

12. The suggested year-on-year ratcheting mandated reduction for transport fuel emissions – which we believe is achievable. Mandates for subsequent years should increase to at least meet the recommendation of the Climate Change Commission.
13. The provisional reduction percentages to be set for the periods 2026–2030 and 2031–2035 later this year, even though they may not be finalised until 2024 and 2029 respectively. Policy certainty is critical for investment.
14. The suggested certification for life cycle emissions – with the caveat that standardisation will be important. **We endorse Scion Research's submission that we will need clear direction about what international standards are relevant and acceptable, particularly for domestically produced biofuels.** We need to be clear about the process for certification of these emission reductions, and who in New Zealand has the capabilities to do this. We also believe that land use change should be included as part of the certification.
15. We also need to be clear on the life cycle analysis (LCA) for fossil fuels sold in New Zealand (i.e., petrol, diesel, marine fuel, aviation fuel and so on), so that there is an appropriate like-for-like basis for comparison.
16. The application to all liquid fuel – with caveats around ensuring the transition of the harder to decarbonise sectors like heavy freight and aviation. On the latter point, we suggest a more specific approach to Sustainable Aviation Fuel (see suggested changes below).
17. The suggested public reporting obligations – we believe it is important that the industry is publicly accountable for emissions reductions.
18. The seven-year retention period for records, as aligns with income tax record keeping obligations.
19. The timing of annual reports – which aligns with the timing of our ETS return, so creates some efficiencies for our finance team in that regard.
20. The labelling of biofuels products – with a caveat that we do not think some of the detail suggested will be relevant to customers at the point of sale and would increase marketing costs. We think labelling of biofuels should be kept simple at the point of sale. From experience, our customers will require assurance about the compatibility of the fuel with their engine and, depending on the fuel type, will likely be interested in the blend as an approximation for their emissions reduction.

21. Currently, we need to label petrol with octane. If the petrol contains >1% ethanol OR >1% methanol then pumps need to be labelled stating max percentage of the alcohol and that the fuel, 'May not be suitable for all vehicles. Check with manufacturer before use'. Diesel containing more than 7% B100 must be labelled showing the max percentage of diesel and that it 'May not be suitable for all vehicles.'
22. Beyond this, we think that information about country of origin, feedstock and energy content will be important to make available to customers, but whether that is at the pump or in the retail setting should ultimately be at the discretion of retailers – it may be that it is best housed on a website, for example. We think that customers need to make informed choices, so this information needs to be easily accessible, but there should be flexibility on how this information is shared with customers. It can be difficult to determine energy content batch-by-batch. In essence, the more detail that is required at the point of sale, the more potential for inaccuracies being presented to the consumer and the higher the cost.
23. The ability for fuel suppliers to trade emissions reductions via entitlement agreements. This will be important to build flexibility into the supply chain while the market is still being established, whilst maintaining overall carbon reduction benefit. For example, if one fuel provider is unable to meet their obligation due to an unforeseen supply chain disruption, the ability to trade emissions reductions will ensure that decarbonisation is still able to continue.
24. The ability for fuel suppliers to 'bank' surplus emissions. As above, we see this as a flexibility measure that assists the establishment of a market, whilst ensuring that carbon reduction takes place. We suggest that any surplus should be used *explicitly for this purpose*, however, i.e., it should be turned into a reduction entitlement unit that can be sold in a subsequent period or redeemed by entitlement holders if they find themselves physically short of product in a subsequent period.

#### ASPECTS OF THE PROPOSED MANDATE WE NEED FURTHER CLARIFICATION ON

We require further clarification on:

25. The ability for fuel suppliers to borrow up to 10% shortfall in emissions reduction.
  - We support this, but with the following conditions so that emissions reductions is achieved:
    - o Borrowing is slightly more expensive than reduction to account for the missed cumulative GHG emissions reductions and to create an incentive not to.
    - o That there is transparent reporting of a company's borrowings so that the system is not gamed.
    - o Borrowing is limited to the succeeding calendar year only.
26. The proposed regulatory regime
  - Regulator powers -

- We note that the Government will already have extensive information gathering powers under the Fuel Industry Act, which comes into force next month. Rather than having information gathering powers split across several different laws, we would like clarification of exactly what information will be required of participants in addition to the annual report.
- Offences
  - We suggest amending the language to make the offence clearer, i.e., we suggest it should only be an offence to file an incomplete statement if done so knowing it was incomplete. The wording currently used is somewhat ambiguous as to whether filing an incomplete statement is an offence even if done innocently. We contend it is important that the "knowing it was incorrect/incomplete" standard is used here, given the sizeable proposed fines and also the risk of innocent administrative errors.
- Fines
  - We support the need for fines but believe that there needs to be a bigger gap between the fines for not reporting accurately and fines for not meeting targets.
  - For example, regarding reporting, \$200,000 is what is set out in the Companies Act, so we require clarification on why \$500,000 is required here.
  - Conversely, we believe that the penalty for non-compliance with the mandated percentages is too low. Our suggestion is that this penalty should be more than doubled even for the first year. For example, Germany currently has a **€470 per ton of CO<sub>2</sub>e of GHG savings not achieved** and we believe that this is the ballpark New Zealand should aim for.
  - Without a more meaningful penalty regime, suppliers may be incentivised to simply pay the penalty rather than act on emissions reduction as they believe it may be more cost efficient or simpler for them to do so.
- Format of annual returns
  - As above, we require more detail of what would be required in the annual report aside from an audited statement.

27. The suggested joint government / industry public campaign – we like the idea of a trust-building campaign, as we think that additional trust in biofuels will be important given experiences overseas of crop displacement and destruction of indigenous forests in some cases. However, we find a joint campaign difficult to support, as we think it could prove difficult to implement in practice given the competing commercial interests and differing brand propositions of the industry participants. We are also cautious about the cost implication and how it would be shared across companies. We would be happy to participate in the generation of information and feedback customer concerns, but ultimately, we think that the government should be responsible for owning and releasing information.

**ASPECTS OF THE PROPOSED MANDATE WE DO NOT SUPPORT**

We do not support:

- 28. The **application to all fuel providers selling more than 10 million litres**. We believe this should be applied to wholesalers as per the way is applied in the Emissions Trading Scheme. It would be simpler and more cost effective to administer, both for fuel suppliers and for the monitoring/regulating agency.
- 29. The **ability for fuel suppliers to defer their emissions reductions** for one or two years – this does not encourage the carbon abatement required to meet our transport decarbonisation goals. Whilst we see the benefit of flexibility in the regime regarding trading of emissions reductions and the ‘banking’ of surplus emissions to generate further entitlements, deferral does not deliver the same benefit from our perspective.

**INFORMATION SUPPORTING THE PROPOSED MANDATE WE'D LIKE TO CORRECT:**

- 30. We note some errors in the EECA/Sapere research relied on in some aspects of the proposed mandate. We'd like to correct the following:
  - o **FAME biodiesel is NOT bound to fossil fuel** - it can be blended with renewable diesel just as it can be blended with fossil diesel and is generally cheaper and less energy intensive to produce.
  - o The **inaccuracies around conventional and advanced biofuels being defined by feedstock instead of the technology pathway/resulting fuel**. We are happy to discuss this in further detail with the relevant agencies. In short, “fats and oils” based feedstocks such as palm oil, used cooking oil and tallow can be used in conventional biodiesel processes as well as to manufacture renewable “drop in” fuel.

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**SUGGESTIONS TO ENABLE A MORE SUCCESSFUL PROPOSED MANDATE:**

35. It is our position that **incentives for local production would be a catalyst to realise the co-benefits of local production.**
36. One possible incentive could be around **supporting access to domestic feedstocks** as it would allow local producers to compete more effectively with demand from subsidised markets overseas.
37. For example, we suggest that **double accounting for the emissions reductions created by locally produced biofuels could be considered as a way of supporting access to domestic feedstocks.** One of the risks of this mandate is that participants will exclusively focus on imported first generation ethanol to meet the mandate as it is generally the cheapest product. We support choice and flexibility, but a first generation ethanol-only supply chain could present a risk for two reasons: ethanol is difficult to store and distribute, and it is used in petrol vehicles, which are the prime use cases for electrification. Double accounting for local production could stimulate greater focus on the local market and deter participants from only using the cheapest import product. (We understand that this approach usually takes places in jurisdictions that have volume-based (rather than GHG-based) emissions, however, we think it could be a useful approach to consider in GHG scenario also).
38. In addition, the excise tax exemption should concurrently be removed from ethanol.
39. Alternatively, **the 'double accounting' approach described above could be used for those fuels using waste products,** whether local or import, to incentivise a circular economy. This is a part of a number of similar mandates overseas and has

been one of the reasons why our favoured feedstock, tallow, has experienced significant price increases.

40. Another option, which has previously been introduced in New Zealand, is a local production incentive.
41. A reporting template for annual returns that sets out exactly what the government requires would simplify things for the industry, especially where smaller organisations are obligated to report.
42. Finally, we suggest treat Sustainable Aviation Fuel (SAF) independently. We think this is a key aspect of the mandate that requires amendment if it is going to realise its full potential.
  - We appreciate that by remaining transport type agnostic, the proposed mandate aims to ensure flexibility for fuel providers to meet their targets and to stimulate demand across the transport sector.
  - We also appreciate that exported emissions are out of scope.
  - However, as a member of the SAF Consortium, it is our position that aviation is a very specific use case that will require specific enabling policies, and potentially has export earnings impact, as well as domestic emissions impact. Biofuels for ground transport have a nascent market, some local production capability and at least two import supply chains already established. This does not yet exist for SAF, so it requires longer term certainty.
  - Specifically, we support Air NZ's position that a longer-term roadmap is required for SAF. We would advocate for clarity and certainty as to mandate percentages out to 2035, at the earliest for SAF.
  - This longer-term certainty is required to incentivise local SAF production. SAF production plants take approximately five years to build, plus lead time. In addition, it is common for initial SAF purchase obligations from new plants to encompass a ten- year commitment to uplift SAF, from the beginning of production. If a plant was built in Aotearoa by 2026, it is possible Air New Zealand would be obligated to purchase certain quantities of SAF from that plant until 2036.
  - We understand that a natural question is “why local production?”. Initial business cases developed by the SAF Consortium has showed that while both imports and local production will be required to enable successful SAF adoption in Aotearoa New Zealand, local production is cost competitive with, and some cases more competitive than, imports.
  - In addition, there is existing capability and infrastructure at the Marsden Point oil refinery that can be repurposed towards production of SAF, which would be positive for New Zealand.



## SUMMARY

43. In summary, we endorse the emissions reduction focus of the mandate and think that the suggested reductions are achievable, with room for more ambition post-2025. To improve outcomes, we suggest:

- Treating Sustainable Aviation Fuel independently from 2025.
- Increasing the fines for not meeting the emissions reduction to provide the necessary deterrent against suppliers electing to pay the fine in favour of participating in the mandate.
- Incentivising local production and/or the use of waste products via **'double accounting'** of emissions reduction created by those biofuels to enable greater purchasing power for local producers when it comes to domestic feedstock.
- Turning **'banked'** surplus emissions into entitlement units to enable some flexibility for suppliers.
- Standardising emissions calculation and product labelling expectations to ensure **consistent 'apples with apples' comparisons.**
- Reconsidering the requirements to include extensive labelling information at pump.
- Removing the excise tax exemption from ethanol to enable a level playing field for biofuels.
- The government taking responsibility for an information campaign, with industry support via data or product information.