

MTA Submission

To the Environment Select Committee on the Sustainable Biofuel
Obligation Bill

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Tēnā koutou

Submission Name: The Sustainable Biofuel Obligation Bill

This submission is from:
Motor Trade Association (Inc)
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Thank you for the opportunity for MTA to provide comment on the proposed Sustainable Biofuel Obligation Bill regarding the views of and its effect on the automotive industry.

A handwritten signature in blue ink that reads "BC Anderton". The signature is stylized with a large "B" and "C" and a horizontal line underneath the name.

Ngā mihi

Brian Anderton

Advocacy and Stakeholder Manager

Introduction

The Motor Trade Association (Inc) (MTA) was founded in 1917 and has maintained over 100 years of trust with the NZ motoring community. MTA currently represents over 3,800 businesses within the New Zealand automotive industry and its allied services. Members of our Association operate businesses including automotive repairers (both heavy and light vehicle), collision repair, service stations, vehicle importers and distributors and vehicle sales. The automotive industry employs approximately 60,000 New Zealanders and contributes around \$3.5 billion to the New Zealand economy.

This submission is predominantly written with MTA's 911 service station members in mind (representing approximately 70 per cent of the NZ retail fuel sector).

The service station segment of our membership will be most impacted by a biofuels mandate, however there will be ancillary effects on our repairer members (needing to address any engine issues with the use of biofuels and ensuring that skills and parts are available to convert older engines). As well, our dealer members will need to ensure that customers are fully aware of the level of biofuel compatibility of any vehicle purchased.

Submission

MTA welcomes the opportunity to provide feedback to the Environment Select Committee on the Sustainable Biofuel Obligation Bill. We want to ensure the industry can innovate and diversify in a way that New Zealand can leverage all available low emission technologies and work towards a 'net' zero emissions future. MTA recognises the need for pragmatic action to address climate change and that our sector has a key role to play to achieve targets. Co-ordinated action is key to achieving New Zealand's zero carbon targets.

In preparing this submission, MTA has been fortunate enough to have the opportunity to read the submission prepared by the BusinessNZ Energy Council ('BEC'). MTA supports the submission prepared by BEC and reiterates the importance of implementation and feasibility.

In the MTA July 2022 submission on the Proposal for the Sustainable Biofuels Obligation, MTA recommended a start date in 2024, and a year of reporting only, with no penalties. This was in the context of a 1.2% reduction target. MTA supports the various mechanisms the Bill provides that give parties flexibility with compliance of emission intensity reductions and welcomes the one-year delay. This delay gives the Government time to probably educate the industry and the public on the impacts the changes outlined in the Bill will have on them. This is something that MTA called for in its 2022 submission and is pleased that the Government has considered this feedback.

However, it is MTA's position that even with even with this one-year delay, the obligation imposed by the Bill will be difficult to successfully meet. MTA supports BEC's proposal of a 1.8% reduction target for 2024. As illustrated by BEC, the global limit on biofuel coupled with New Zealand's lack of infrastructure means the industry will be hard pressed to meet the obligated reduction rate of 2.4% in year one.

MTA therefore agrees with BEC's "practical alternative reduction target of 1.8% for 2024 over 12 months" and refer to the reasons outlined in BEC's submission.¹

Listen to industry

On the face of it, the calculations for meeting the obligations seem to stack up. However, MTA is aware of at least one fuel supplier who is concerned that the blend needed to meet the carbon reductions may be incompatible with some vehicles (that is, greater than E10). We reiterate our comments from last year's consultation: "There needs to be ongoing and meaningful consultation with fuel suppliers to ensure the proposed percentages are feasible."

The cost of change

Do the public understand the cost implications of this move? With current commodity prices, the Government has temporarily reduced the Fuel Excise Duty (FED) by 25 cents. When the FED is fully restored by 31/3/23, and inflation continues to remain well above recent norms, will consumers be able to afford the new fuel blends?

Related to the above, we can't expect prices for biofuel feedstock to remain at current levels. Increased demand for feedstock will lead to increased prices². While some infrastructure might be repurposed, there will be a cost to establishing the infrastructure needed to distribute biofuel blends. While most vehicles should be able to run on a blend, some suppliers may find it necessary to maintain an unblended option for vehicles such as marine craft. The fuel industry has recently gone through costly upgrades to price-boards to display all fuel grade pricing. We expect further signage and infrastructure changes will be needed.

MTA recognises that this obligation is set to create an incentive to develop domestic supply of generation 1 biofuels to reduce the need to import expensive product from overseas markets – that will increasingly have limited supply out to 2030. However, the economics of producing first generation biofuels in New Zealand are still in question. In July 2022, Z Energy confirmed it would permanently close its mothballed Te Kora Hou biofuels plant. The decision was largely driven by the unfavourable economics of producing biofuels domestically. If producing biofuels in New Zealand does become commercially viable at scale, it will require extensive capital expenditure to develop production facilities and form domestic supply chains – not to mention the considerable time it will take to have such supply chains running smoothly, providing security of supply.

As indicated in MTA's previous submission July 2022, the obligation, and its implications for the importation of biofuels, at least in the short to medium term, will increase the fuelling costs motorists face.³ Budget constrained households will be disproportionately affected. Such households are more likely to already experience higher fuelling costs as they predominantly own older, less fuel-efficient vehicles compared with the average age of New Zealand's fleet.

¹ Business Energy Council, Submission on the Sustainable Biofuel Obligation Bill, January 2023.

² We saw this with the introduction of the Clean Car Discount rebate for electric vehicles. Within a day of the rebate being announce in July 2021, the price of used EVs in the Japanese auctions went up by about the same amount as the rebate.

³ MTA, Submission on the Regulations Proposal for the Sustainable Biofuels Obligation, July 2022.

The obligation is estimated to increase fuel prices by 5 to 10 cents per litre – adding further strain to budget constrained households. However, the price impact is only an estimation. The actual price increase could be higher or lower. Applied under the current context of inflationary pressures, this strain should not be forgotten. Reduced energy affordability diminishes New Zealand’s public ability - more specifically the ability of low-income and budget constrained households, to participate in society, for instance, their ability to commute to work and school affordably.

Educate the industry and the public

It is essential that the fuel industry and the public are properly and fully informed of the impacts that these changes will have on them. In MTA’s view, such an information campaign would need to be carefully crafted – being clear about why it is being done, what is the message, and how is the impact of the campaign measured. Given the possible impact of biofuels on older vehicles and small engines (lawnmowers, marine engines, etc), adequate labelling and explanatory information will be needed to reduce the chance of fuelling mistakes by consumers.

As with most consumer information, there is heavy reliance on the consumer being knowledgeable enough to make an informed decision. Any labelling relating to specific biofuels needs to be clear and easily understood in relation to the vehicle being fuelled. If biofuels offered are compatible with all vehicles, then labelling is not required, and it may be more appropriate to identify that the fuel has a lower emission output and incentivise (price) the wider use of this fuel. It is our understanding that some small engine equipment (motorcycles, lawnmower, marine outboard motors etc) can’t run on ethanol blended fuel so the mandate would need to consider the impact on these consumers. This work has been done – look for the “Working with E10” guide produced by EECA around 2008.

As outlined in MTA’s previous submission, a consumer awareness campaign is crucial. The original start date of April 1 2023 did not provide enough time to inform consumers about biofuels and their impact on the range of ICEs they can and cannot be used with. MTA reiterated the importance of a successful awareness campaign, providing reassurance to consumers that blended biofuels are safe and dependable. A lack of confidence with biofuels could potentially risk the obligation’s ability to garner trust with the New Zealand consumers. MTA is pleased with the one-year delay, as it provides additional time to inform consumers. However, at the time of writing this submission, there is a lack of clarity about the direction of the consumer awareness campaign, with no clarity about how it will run, and when it is expected to begin.

Further details about the consumer awareness campaign will help reduce the uncertainty over consumers trust in biofuels and allow the MTA to collaborate and support the messaging regarding the use of biofuels.

Is there time to do this?

The start date of 1 April 2024 is approaching quickly. Will the necessary infrastructure be in place? Will the necessary supply arrangements be settled? Putting in place the relevant infrastructure will be costly and take longer than one year (e.g., terminals, storage tanks, gantry injection, slops management, retail site grade introduction etc.) The process of mixing biofuels involves further complications and additional costs. The capital to fund the infrastructure must be sourced and allocated – which again takes time. Consenting is required. Materials must be sourced. Combining

these realities, it is unlikely obligated parties will meet the emissions intensity reductions of 2.4% in year one (2024). Even with a deferral – depending on the Minister’s discretion – the shortfall will only put further pressure on obligated parties for the following year, making it less likely they will meet their obligated reduction beyond year two. This increases the risk that penalties end up flowing through to motorists in the form of higher prices.

How does the start date impact on existing supply arrangements? If we start too soon, we may doom the sector to a failure spiral as penalties are imposed each year for missing potentially aspirational targets set in stone too soon. MTA notes that the penalty for obligated parties that do not comply with the obligation has increased from \$300 to \$800/per ton of CO2 equivalents, not abated. The purpose of increasing the penalty was to reduce the risk that obligated parties would absorb the penalty, rather than comply with the obligation. However, there are many forces beyond the control of fuel suppliers that influence their ability to comply with the obligation. As mentioned, global biofuel supply remains constrained. Securing sufficient supply internationally to meet the 2.4% reduction in 2024 will be challenging. Developing supply chains that ensure security of supply at the right price requires adequate time.

MTA made the point in its 2022 submission that care would be needed in setting reduction targets too far out into the future. MTA is pleased the Bill provides several mechanisms that give obligated parties a degree of flexibility in complying with the emissions intensity reductions. Obligated parties can apply to defer the reductions in the obligation’s first two years to the following year; they can trade with other obligated parties to comply with the reduction; they can carry forward 10% of the reduction to the following year, and apply to carry forward up to 20%, depending on the Minister’s discretion.

Notwithstanding these mechanisms, the introduction date of 1 April 2024 still provides inadequate time for parties to comply with the obligation. MTA notes that clause 11(3)(b) of the Bill outlines the considerations the Minister must take into account when reviewing the obligation – to the extent that they appear relevant to the Minister. Clause (3)(b)(iv) notes the Minister must consider the extent percentage trajectories allow a reasonable time to build necessary biofuel infrastructure. This is a positive consideration. The obligation can only be met if fuel suppliers can realistically build the necessary biofuel infrastructure in the given time. The MTA agrees. However, this applies to the obligation’s review periods in 2024 and 2029.

We would recommend a start date in 2024 and a year of reporting only (no penalties). At the very least, penalties in the first year or two should be reduced in recognition of the uncertainty around implementation. A slower ramp up of the reduction target to 2.4% in the year 2025 will give more certainty for obligated parties in sourcing adequate supply and building the infrastructure needed to deliver first generation biofuels.

MTA appreciates the opportunity to submit on the Sustainable Biofuel Obligation Bill



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