

BILLS DIGEST

BIOFUEL BILL 2007

Date of Introduction: 08 October 2007

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BIOFUEL BILL 2007

Date of introduction:	08 October 2007
Portfolio:	Environment
Select Committee:	As at 16 October, 1st reading not held

PURPOSE

The Bill implements the mandatory use of biofuels (the Biofuel Sales Obligation (BSO)) and regulates engine fuel, including biofuels and blends.

BACKGROUND**The use of biofuels**

"In August 2005, the government agreed in principle to the introduction of a biofuel sales obligation over alternative means to encourage biofuel. Biofuel is any fuel produced from biomass (of plant or animal origin). They are a renewable energy source, unlike petroleum and coal. The use of renewable energy sources, such as biofuels, contributes to a sustainable energy system for New Zealand. They can help to reduce our net carbon dioxide emissions (a greenhouse gas) and make the supply of energy, particularly for transport, more diverse and ultimately more secure. Climate change objectives are assisted because, as the plant or animal material is renewed, carbon dioxide is captured from the atmosphere. The carbon dioxide is therefore in a cycle rather than going one way from a fossil source (petroleum oil) to the atmosphere.

"Biofuels can replace fuel like petrol or diesel, either "neat" (100% biodiesel) or as a blend. The most common biofuels are bioethanol (ethanol) and biodiesel, used to replace petrol and diesel, respectively. Ethanol is produced by the fermentation and distillation of sugars and starches. It is generally blended at low levels with petrol (up to 10% ethanol and 90% petrol for retail), as at higher concentrations engine modifications are required. Biodiesel is made from vegetable oils or animal fats (ie, tallow) and is generally blended with diesel, commonly up to 5% biodiesel and 95% diesel. It is easily used in diesel engines, and "neat" is also used"¹.

The Bill

In a recent media release², Hon David Parker, Minister for the Environment, said that this Bill was being introduced " ... so that our transport sector can be more environmentally-friendly and reduce its greenhouse gas emissions, while also starting to wean ourselves off our dependence on oil".

¹ Biofuel Bill, 2007 No 148-1, Regulatory impact statement, Statement of nature of problem and need for government action, pp. 11 and 12.

² Media release, Hon David Parker, Minister for the Environment, *Government introduces biofuels legislation*, 03 October, 2007.

The media release stated that mandatory biofuel use would begin in New Zealand in 2008 and would comprise 3.4 percent of fuel company sales by 2012. Biofuels could be sourced from New Zealand, or from overseas. New Zealand sources were likely to include initially tallow (animal fats) and, afterwards, wood-waste, syngas derived from biomass, or algae grown on sewage ponds. The Minister said the legislation included a clause that enabled environmental sustainability standards to be developed. He said: "The government wants to ensure biofuels used in New Zealand come from sustainable sources". "We want to take care not to create a new environmental problem as we fix another. There are legitimate concerns that some biofuel production causes the destruction of rainforests, causing greenhouse gas emissions and loss of biodiversity, or competes unduly with food production. That's why we are going to explore, with the help of industry, rules to avoid that outcome."

David Parker said the introduction of biofuels was among a number of strategies the government was using to reduce fossil fuel use in the transport sector, including greater energy efficiency, improved technology, consumer awareness, and the introduction of electric vehicles.

MAIN PROVISIONS

The Bill is highly technical and a clear exposition of those technicalities can be obtained from a reading of the Bill itself.

Biofuel Sale Obligation

The Bill provides for the BSO. The Bill provides flexibility to obliged persons in meeting the BSO: an obliged person may apply for deferral in the first two years, has choices about how to treat surpluses and shortfalls of biofuels, and may enter into entitlement agreements to allow the obliged person to count others' biofuels toward its BSO (through a new Part 3A of the Energy (Fuels, Levies, and References) Act 1989³ (*Part 1, Clause 9, inserting New Part 3A (New Sections 34A - 34Z) into the Energy (Fuels, Levies, and References) Act 1989*).

Biofuel and taxes

The Bill amends the Customs and Excise Act 1996 to ensure that biofuel (including biofuel blended with petrol) continues to be free of excise or excise-equivalent duty. Levies for fuel monitoring under the Energy (Fuels, Levies, and References) Act 1989 (formerly the Ministry of Energy (Abolition) Act 1989) and local fuel taxes under the Local Government Act 1974, which currently apply only to petrol and diesel, will apply to biofuels and biofuel blends. The Bill also provides for the excise point to be used for BSO calculations and collection of the fuel monitoring levy, which will streamline processes and minimise compliance costs⁴ (*Part 2, Clauses 18 - 42*).

³ Biofuel Bill, 2007 No 148-1, Explanatory note, General policy statement, pp. 1 and 2.

⁴ Ibid.