

Hon Pete Hodgson

Minister of Transport

Minister of Commerce

Minister for Land Information

Minister of Statistics

Associate Minister of Health

Associate Minister for Industry
and Regional Development

Convenor, Ministerial Group on
Climate Change



Thursday 21 April 2005

Speech Notes

Speech to EECA Biofuels conference

EECA's biofuels conference, James Cook Hotel, The Terrace Wellington, Thursday 21 April 2005, 9:20 to 9:50 am.

Thank you for inviting me to speak here today.

Biofuels are sold in most major markets, including Australia, the EU, U.S.A., Canada, South America, parts of Africa and Asia. In all these cases biofuels are produced and used because the full benefits outweigh the full costs.

However, they are yet to break through into the New Zealand market. With your help, this government intends to change that.

For the last three years, we have had a voluntary target as part of the National Energy Efficiency and Conservation Strategy (NEECS), of two peta joules (around 50 million litres) of renewable transport fuel. Despite this target, and the clear environmental benefits, there is still no biofuel product in commercial supply in New Zealand.

The government is focusing on two types of biofuel - bioethanol for use in petrol and biodiesel which can be blended with diesel. Both are renewable and both can be produced in New Zealand in sufficient quantities from currently available by-product or waste streams to meet that target.

We have been working hard to remove barriers to getting these fuels into the market. To date, this has included:

- Allowing ethanol in Petroleum Products Specifications Regulations
- ERMA approval of bioethanol and biodiesel as transport fuels
- Confirming zero excise on ethanol for blending with petrol
- Development of a New Zealand biodiesel Standard, and
- Providing information to key stakeholders.

But again, despite all of this effort, nothing is in commercial supply yet. So, we have moved to the next stage, which is investigating incentives and mandatory targets.

I wrote to many of you asking for your views on mandatory targets and incentives. Thank you for taking the time to reply. Your feedback is both interesting and valuable.

Your submissions confirmed broad support for the introduction of biofuels into the New Zealand market on a commercial scale. The debate has now moved onto how this can best be achieved.

There were a variety of views on whether a mandatory target is the right approach, and if any target should be a sales target or a blending target. Another common theme is the need to have a reliable and consistent supply.

However, the biggest issues seems to be the percentage of biofuel blend. Should it be three per cent, five per cent or higher? And what should be done with regard to vehicle warranties?

Some submitters advocate for a five per cent blend target, even if this is achieved in stages from a three per cent starting point. Five per cent is seen by some as having advantages in terms of both fuel quality and economics.

Many car manufacturers here are also comfortable with a five per cent blend. However, others question their ability to honor warranties should the blend level be set higher than the three per cent level prevailing in Japan.

Vehicle manufactures and service providers do though provide warrant cover for vehicles in markets with blends set at levels higher than three per cent in many markets such as Australia, the EU, U.S.A., Canada, South America, parts of Africa and Asia. It seems to be a matter of vehicle manufactures having sufficient confidence in the fuel quality standards that are set.

Motor industry acceptance is vital to give drivers the reassurance that they will not be at risk from using biofuel blends.

We have some experience with changing fuel formulations. In 1996 unleaded petrol was brought on to the market and we all learned a lot of lessons. This includes the “flat tyre syndrome” where just about any vehicle problem occurring after buying the first tank of unleaded was blamed on the fuel.

The case of low sulphur diesel taught us that public education is key. Many of you mention the need for early public education and information in your submissions. The negative publicity that was generated prior to the introduction of low sulphur diesel was not borne out in reality.

So while there is a lot of concern about warranties, international experience and the track record of vehicles operating around the world on blends of five per cent and higher suggest that predictions of major problems for drivers would once again amount to little more than scaremongering.

I now want to move this debate on.

The voluntary target clearly is not achieving results. I want to see the indicative NEECS target, which I regard as a minimum, met during the first Kyoto commitment period from 2008 to 2012. This is important, not just because of the carbon emissions it will save, but for advancing the economic benefits of reduced dependence on oil and saving on other vehicle emissions.

Infrastructure aside, when I look to the future of our transport system, two issues loom large. Biofuels help in both cases, though only to a limited extent initially.

The first is our transport system's dependence on oil, the second is climate change.

Some time this century, probably in the first half, oil supply will no longer be able to keep up with demand – a concept known as peak oil. Some say this point will occur in the 2030s. Others think it will be sooner. Either way, in the future we will be forced to find alternatives to oil, and to use the oil we have more carefully; more efficiently. The era of cheap oil will start to draw to a close.

Climate change is arguably an even more serious threat. The Kiwi way of life, our environment, and economy rely on our benign climate. A global failure to take steps to limit climate change would be potentially very damaging to us. Vehicle emissions are a significant source of greenhouse gas emissions in New Zealand.

Both of these long-term drivers mean that it is prudent to start becoming less dependent on oil. Along with increasing the efficiency of our national vehicle fleet, the development of biofuels is an area where this government wants to see real progress made.

Many of our competitors are realising the benefits of biofuels today. They have overcome the quality and warranty hurdles and I see no reason why New Zealand cannot do likewise.