

2 May 2022

Ministry for the Environment  
23 Kate Sheppard Place  
Wellington

## **AIR NEW ZEALAND SUBMISSION ON PROPOSED CHANGES TO REGULATIONS FOR THE NEW ZEALAND EMISSIONS TRADING SCHEME 2022**

Air New Zealand welcomes the opportunity to submit on the *Proposed changes to regulations for the New Zealand Emissions Trading Scheme 2022*. **This submission focuses solely on proposal 4: Changing the Climate Change (Liquid Fossil Fuels) Regulations 2008.** Air New Zealand strongly supports option 2.

New Zealand's commitment to achieving net-zero carbon emissions by 2050 requires immediate action to decarbonise the economy, including the transport sector. Biofuels, next generation "power to liquid" fuels and Sustainable Aviation Fuel (**SAF**) will be key enablers of gross emission reductions within the transport sector – particularly for the hard to abate parts of the sector.

Accelerating domestic uptake of biofuels and SAF will require New Zealand to introduce measures to support the production, use, scaling and commercialisation of these products. Measures include policy interventions, investments and other enabling initiatives that work together to remove barriers along the SAF and biofuel value chains.

The Climate Change (Liquid Fossil Fuels) Regulations 2008 (the **Regulations**) currently serve as a barrier to private sector funded decarbonisation action. Option 2 offers a pragmatic solution, incentivises greater decarbonisation action from the private sector, and increases alignment with a key New Zealand Emissions Trading Scheme (**ETS**) objective to drive investment in lower emission technologies. Administratively, this change will be straightforward to manage within the current information collection provisions of the Regulations.

On the contrary, option 1 will act as a disincentive to private sector investment in decarbonisation and will slow gross emissions reduction in the transport sector. Private sector participants that fund decarbonisation measured under the ETS need to receive a corresponding reduction in ETS compliance obligations – sharing privately funded decarbonisation benefits with less progressive competitors is not aligned with commercial reality.

Option 2 aligns the treatment of biofuels and SAF with other international emissions trading schemes, including the European Union Emissions Trading Scheme (**EU ETS**) and the new United Kingdom Emissions Trading Scheme (**UK ETS**) as well as carbon accounting under the Greenhouse Gas Protocol and the International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme for International Aviation (**ICAO** and **CORSIA** respectively). These systems adopt a chain of custody approach (directing the environmental attributes of the SAF to the progressive participant paying a premium to access the SAF) rather than trying to follow the molecule. To the contrary, option 1 adopts a novel approach by following the molecule, departing from international norms and standardised accounting practices.

## **The problem – closing the commercial gap**

SAF is critical on Air New Zealand and New Zealand's pathway to net zero carbon emissions. Initially made from waste materials such as used cooking oils, forestry residues or landfill waste, SAF has the potential to reduce carbon emissions by more than 80 percent compared with traditional jet fuel and must play a significant role in decarbonising the New Zealand transport sector, as well as the tourism and export economy.

Currently, there is no SAF supply in New Zealand, and there is a global SAF shortage – less than 1 percent of aviation fuel supplied in the world is SAF. Where it is available, the high capital cost of establishing SAF production, coupled with the ongoing cost of sourcing suitable feedstocks, means that SAF commands a price premium compared to traditional fossil derived jet fuel. SAF is significantly more expensive than fossil jet fuel – typically around 2-5 times.

With the right policy and investment settings, domestic SAF production could be made viable, and the commercial gap with fossil fuels can be narrowed, as demonstrated in California where State and Federal policy measures have reduced the gap to under two times the price of fossil fuel.

Closing the commercial gap will require a suite of measures, of which reduced compliance obligations under the ETS is just one. However, recognising SAF use under the ETS is arguably the lowest cost option for the Government as well as the easiest to administer for the private sector.

## **Observations and recommendations**

### ***a) Chain of custody approach to replace the current molecule-based approach***

Currently the Regulations and resulting ETS compliance obligations for opt-in obligation fuel participants follow the SAF molecules which is inconsistent with other international emissions trading schemes and global carbon accounting frameworks. In the event Air New Zealand (as the sole opt-in obligation fuel participant in the ETS) was to purchase SAF for use in New Zealand, it would do so under contract with an obligation fuel participant. As no SAF is currently produced in New Zealand, the obligation fuel participant would need to import SAF to meet the needs of its customer and Air New Zealand would pay the obligation fuel participant a premium for this SAF. Once in New Zealand, the SAF molecules would be blended into the New Zealand fuel infrastructure and shared equally amongst all participants that access jet fuel. Globally, fuel infrastructure is designed to cater for all users and does not allow bespoke fuelling.

The EU ETS was at the forefront of recognising this issue and adopted a mass balancing, chain of custody approach to the treatment of biofuels and SAF in the EU ETS. This sensible approach reflects commercial reality, recognises the ETS as a tool to drive gross emissions reductions and has been adopted by other emission trading schemes globally as well as the Greenhouse Gas Protocol (where SAF is credited to the purchaser of the biofuel).

A chain of custody approach allows the environmental attributions of SAF to be claimed by the organisation that pays for them. The net outcome is the same under the ETS, but the reduced compliance obligations are attributed solely to the organisation that can demonstrate "custody" of those attributes evidenced by SAF purchase records. This is the principle reflected in option 2. Air New Zealand supports this principle and notes its alignment with the principles outlined in *Te hau mārohi ki anamata | Transitioning to a low-emissions and climate-resilient future*:

*Have your say and shape the emissions reduction plan (the **Draft Emissions Reduction Plan**).*

The perception of “accuracy” relating to option 2 in Table 5 of the consultation document is misleading. Option 2 accurately describes the chain of custody model, the common approach globally for measuring and reporting greenhouse gas emission reductions from biofuels and nets out accurately at the sector level.

### ***b) Supply realities***

The consultation document suggests that Air New Zealand (and potentially other opt-in participants in the future) will be the supplier of biofuels. Over the short term at least, Air New Zealand will not be a “supplier” of SAF. Air New Zealand will procure SAF from an obligation fuel participant and will pay a premium for the SAF. The obligation fuel participant will remain the supplier and Air New Zealand will remain a customer. Under this contractual relationship, Air New Zealand will elect to purchase defined volumes of SAF to replace an equivalent amount of traditional fossil derived jet fuel to decarbonise its operation (noting that SAF commands a price premium of 2 – 5 times the price of traditional fossil derived jet fuel).

Over the longer term, new SAF operators may emerge, and new supply chains may be established. However, it is unclear how these supply dynamics will evolve. Revised regulations should include flexibility to attract emerging SAF producers and suppliers to New Zealand.

### ***c) Allocation of domestic and international fuel***

It is important that Air New Zealand can claim emissions benefits (from SAF funded into the New Zealand fuel system) under CORSIA or the ETS, whilst ensuring the emissions reductions are only counted once.

Where Air New Zealand pays for SAF in the New Zealand fuel system, it requires the flexibility to allocate that SAF to either its international and/or domestic fuel requirements in order to manage its breadth of compliance obligations. This information could be disclosed in its information collection obligations in the Regulations.

Flexibility is enabled under a chain of custody approach and could integrate with New Zealand’s obligations under CORSIA.

CORSIA has adopted a chain of custody approach. Air New Zealand can allocate SAF purchased anywhere in the world, including New Zealand, to its international network thereby reducing the amount of carbon dioxide New Zealand contributes to global emissions generated by international aviation. This reporting is done via an annual Verified Emissions Report that Air New Zealand submits to the New Zealand Ministry of Transport. Thereafter, New Zealand reports separately to ICAO. The Verified Emissions Report allows CORSIA Eligible Fuels to be disclosed to reduce CORSIA compliance obligations and requires an airline to confirm the *“claimed batches of CORSIA eligible fuels have not also been claimed by the aeroplane operator under any other voluntary or mandatory schemes it has participated in (where the emissions reductions from CORSIA eligible fuels may be claimed) during the current compliance period, as well as the compliance period immediately preceding it”*.

***d) Misperception of efficiency and administrative complexity***

The consultation document suggests option 2 would require additional information sharing and administrative adjustments for participants (both obligation fuel participants and opt-in obligation fuel participants).

Air New Zealand does not view this as introducing additional complexity – rather it would simply include detailing the volume of SAF provided in respective information collecting obligations (Clauses 5 and 7 of the Regulations). This process already involves dialogue between Air New Zealand (as an opt-in obligation fuel participant) and the fuel suppliers (as obligation fuel participants).

Under the current system, Air New Zealand has contracts for fuel supply for international and domestic fuel at New Zealand ports with fuel suppliers. Supplied volumes are reconciled between Air New Zealand (as an opt-in obligation fuel participant) and the fuel suppliers (as obligation fuel participants) on an annual basis to inform collection requirement in the Regulations. Domestic volumes are submitted to inform compliance obligations under the ETS. Disclosure of SAF volumes would become part of this already ongoing process.

***e) Biofuel use cases to be reflected in Regulations***

Option 2 will require a distinction to be made between biofuel that has a chain of custody demonstrated by an obligation fuel participant (for example by procuring mandated volumes of biofuel or separate batches of biofuels on behalf of third parties) and biofuel (in the form of SAF) where the opt-in obligation fuel participant can demonstrate chain of custody through fuel purchase documents.

Emission reductions generated by the first form of biofuels, being the biofuels attributed to a particular obligation fuel participant under a chain of custody model, would be shared equally between users of the fuels as a result of the diluted portion of liquid fossil fuels in the overall fuel supply.

Emission reductions generated by the second form of biofuels, being biofuels (in the form of SAF) purchased by the opt-in obligation fuel participant, would be passed on solely to the opt-in obligation fuel participant (rather than reducing the ETS pass through costs of other fuel users).

***f) Emerging practices – book and claim recognition***

Currently, there is no SAF supply in New Zealand, and there is a global SAF shortage – less than 1 percent of aviation fuel supplied in the world is SAF. Scaling SAF supply globally will help to decarbonise the aviation, trade and tourism industries and will help close the commercial price gap.

Emerging “Book and Claim”<sup>1</sup> systems and programs like the World Economic Forum’s SAF Certificate (**SAFc**) pilot offer potential solutions to this challenge.

---

<sup>1</sup> Book & Claim is a chain-of-custody model in which the administrative record flow does not necessarily connect to the physical flow of material or product throughout the supply chain. A book and claim solution allows customers to access SAF carbon reductions without being physically connected to the supply site. The SAF supplier delivers the SAF into the supply chain at one airport location and ‘books’ the carbon reduction associated with it into a registry. Then the customer at another global location can ‘claim’ those carbon reductions by purchasing their traditional jet fuel along with the benefit of the lifecycle carbon reductions that have been registered in that registry.

SAFc is a novel accounting instrument that utilises “book and claim” to decouple SAF fuel from its emissions reduction benefits so that the actual fuel can be delivered to the airport nearest to the production facility and the climate benefits can be claimed by the SAFc buyer. Airlines and organisations can purchase SAFc, which provides a market-based mechanism for managing aviation-related emissions and enables recognition of mitigation efforts. By covering SAF’s price premium, the purchase of SAFc also addresses the aviation industry’s supply-and-demand impasse over scaling SAF.

Integration of emissions reductions purchased via SAFc or book and claim systems need to be recognised within the ETS and approved carbon accounting standards in New Zealand. Air New Zealand will continue to work with the Ministry for the Environment to support the recognition of book and claim systems in New Zealand.

### **Conclusion**

Air New Zealand along with Z Energy and BP (and potentially other participants) are willing to join a workshop with officials to test proposed amendments to the Regulations. Undertaking a worked example in a collaborative forum would allow issues to be identified and solved.

We welcome further discussion on the content of this document and look forward to working constructively with the Ministry as it works to support New Zealand’s transition to a low emissions economy.

Should you require any further advice on this submission, please contact Jenny Sullivan, Sustainability Manager, at [Jenny.Sullivan@airnz.co.nz](mailto:Jenny.Sullivan@airnz.co.nz).



**David Morgan**  
Chief Operational Integrity and Safety Officer  
Air New Zealand