



8 June 2018

Steven Bailey
Inquiry Director
New Zealand Productivity Commission
PO Box 8036, WELLINGTON 6143

Via email: info@productivity.govt.nz

Dear Steven

Re: 'Low-emissions economy' Draft Report

Refining NZ appreciates the opportunity to make this submission to the Productivity Commission on your 'Low-emission economy' draft report dated April 2018.

As an energy intensive organisation with a record of using new technology to reduce carbon emissions, we believe we can play an important role in helping New Zealand to meet its climate change obligations while remaining economically competitive.

By way of example, our recent \$365 million investment in a new petrol making unit (Te Mahi Hou), has lifted production while reducing CO₂ emissions by around 10% a year. This is a gain equivalent to taking 60,000 Toyota Corolla-sized cars off our roads (based on New Zealand Transport Agency data) or the New Zealand public spending \$4.6 billion on Tesla electric vehicles.

We are also excited about the opportunity to apply our capabilities, equipment and refining knowledge to produce biofuels, and are now scoping the opportunity for a domestic biofuels industry with a view to producing bio jet and bio diesel at our Marsden Point refinery.

Developing this opportunity would mark a significant contribution to New Zealand's carbon emissions targets while also continuing to contribute to the national economy and Northland's regional economic development.

We were pleased to be able to submit to the Commission's issues paper in November 2017, and have since welcomed the Commission's views that:

- carbon leakage is a problem, but that it would not exist with a uniform global emissions price,
- there is a need to reduce political uncertainty in NZ ETS policy settings,
- trade exposure is an ongoing issue,
- there is significant uncertainty on the likelihood of liquid fossil fuel phase-out rates due to technology and infrastructure uncertainties, especially for heavy vehicles, aviation and shipping.

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In providing these further comments, we want to restate our shared commitment to climate change action and our belief that there are three factors key to maximising the opportunity to achieve these for New Zealand.

1. Retaining optionality to draw on multiple fuels and technologies – biofuel and hydrogen.
2. More dialogue in defining the economic impact of ambitious decarbonisation.
3. Defining stretch targets that are achievable.

1. Retaining optionality to draw on multiple fuels and technologies – biofuel and hydrogen

“The Commission’s modelling shows that a rapid uptake of EVs will likely be critical for achieving a low emissions economy (Chapter 3)”.

- Refining NZ endorses the benefits from wider uptake of EVs. But we believe other technologies will also play a key role specifically, biofuels and hydrogen technology, and there is a risk in underplaying the role of conventional fuels in our energy future. The transition and future of transport will require a mix of energy options to meet energy needs.
- Electric and hybrid vehicles offer a transition to lower carbon transport, but biofuel and hydrogen technology may prove to be equally viable future pathways.
- New Zealand’s longer term carbon emission pathway will need a biofuel and a hydrogen component. Refining NZ can play a vital role by leveraging existing capabilities, equipment, knowledge and experience to produce biofuels and hydrogen at our Marsden Point refinery (we are already a major hydrogen manufacturer).
- We are available to discuss our biofuels and hydrogen potential in further detail with the Commission and facilitate a site visit to show first-hand how what we are doing today can transfer to assisting New Zealand’s transition to a low-emissions economy.
- We agree with the Commission’s view that biofuels are better placed to reduce emissions in the heavy trucking and aviation fleets. To that end, we are working with the aviation industry and others on scoping the opportunity for a domestic biofuels industry.
- Progress and success of a New Zealand domestic biofuels industry will require government support until it becomes economically viable.

2. More dialogue in defining the economic impact of ambitious decarbonisation

- We encourage more political dialogue about an appropriate rate of carbon emissions reduction for New Zealand and the economic risks that aggressive carbon emissions targets – out of step with other parties to the Paris agreement – are likely to pose for the country.
- New Zealand has an emissions reduction target for 2050 to reduce net emissions to 50% below 1990 gross levels. This is more aggressive than the currently Nationally Declared

Commitment (NDC) under the Paris agreement of achieving an 11% reduction by 2030.

- We believe New Zealand's targets need to align with those of other jurisdictions (e.g. the EU) to prevent unaffordable cost or erosion of New Zealand's social wellbeing. We believe the Commission should model less aggressive targets or undertake a more detailed examination of the impact of more aggressive targets on New Zealand's Energy Intensive Trade Exposed (EITE) industry and other productive industries, as well as the nation's economic and general wellbeing.
- Equally we believe the phase out of allocation under the Emissions Trading Scheme has to be aligned internationally.
 - Whether New Zealand opts for a fast rate (3% from 2020 to 2030, 5% thereafter) or a slower rate of withdrawal of assistance (1% from 2020 to 2030, 3% thereafter) policy makers should be mindful of the negative impact that the phase out of assistance may have for our EITE industries.
 - There is a real risk that targets that put New Zealand too far outside those of our trading partners and rivals would result in the closure of companies like Refining NZ. This would bring the unintended consequence of moving the production of New Zealand's fuel offshore to less energy efficient, more carbon intensive refineries together with increased carbon emissions in longer shipping supply chains. Closure of Refining NZ would paradoxically increase GHG emissions globally (the outcome known as carbon leakage).
 - The European Commission's preliminary decision on industrial allocation for the period 2021 -2030 sets out a gradual phase out allocation through a tightening of benchmarks by between 0.2% and 1.3% each year.
 - The need to remain internationally aligned to protect domestic EITE industry was the rationale behind the 70% of competitors test in the Australian Clean Energy Act 2011, which means the cost is only applied to EITE industry once it is also faced by 70% of international competitors. We believe this provision, which also includes a role for the Commission's Australian counterpart in applying the competitors test, is good policy and worthy of serious consideration for introduction in New Zealand.
- Finally, meeting ambitious climate change targets has the potential to stunt the development of a viable domestic biofuels industry. Maintaining a net zero or +25 MtCO₂e target would, for example, reduce the availability of wood fibre for a domestic biodiesel industry by switching to non-harvested (permanent) forests.

3. Defining stretch targets that are achievable

- As can also often be seen in business practice, we believe setting targets that cannot be achieved would bring a risk of the targets themselves being rejected and also becoming socially and politically unacceptable.



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- New technology will take a substantial amount of investment and time to come through to implementation, posing a risk that relying on its arrival comes to be seen as wishful thinking and exacerbates a social disconnect with the targets.
- Of necessity, meeting ambitious climate change targets will rely heavily on new technology from overseas but if those jurisdictions are not working to the same targets there will be less incentive for it to be developed.

Once again, thank you for the opportunity to provide this input. We are committed to contributing to New Zealand's climate change targets while remaining competitive and believe we bring considerable resource to helping this happen.

As mentioned above we are available and would welcome the opportunity for more detailed discussion on this submission with the Commission, as well as facilitating a site visit of Refining NZ to see first-hand the potential we have to be a part of the solution.

For Refining NZ

Sjoerd Post
Chief Executive Officer