



# ***Biodiesel Grants Scheme***

## **Scheme Description**

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## Purpose

This document sets out the principles, rules, requirements, and operational framework for the Biodiesel Grants Scheme (Scheme).

This document governs participation and involvement in the Scheme. Direct participants and other parties must adhere to all of the relevant criteria and other obligations in order for a grant to be paid.

The document is set out in sections so that key information can be grouped in one place. While not all sections are directly relevant to all parties in the Scheme, EECA recommends that you read and consider the document as a whole to ensure you understand how the Scheme works and that you are aware of all parties' roles and responsibilities.

## Overview

The grants will assist the production and adoption of environmentally responsible fuels which reduce greenhouse gas emissions and provide a similar advantage for biodiesel to that currently available to ethanol.

Under the Scheme, the Crown will provide a grant of up to 42.5 cents per litre for biodiesel or biodiesel content of a biodiesel blend meeting specified criteria and dependent on an annual cap (see Appendix 2) and where a monthly threshold is exceeded the grant is spread evenly (at a lower rate) across the total sales claimed for that month.

The grant is payable monthly in arrears to the Producer whose product sales amount to or are in excess of 10,000 litres per month.

## Section 1: Terminology

For the purposes of the Scheme, this document uses the following terms and meanings:

**Biodiesel** means a fuel principally comprising fatty acid methyl ester (FAME) manufactured from plant oils, used cooking oils, animal fats or algae and meets the requirements of Schedule 3 of the Engine Fuel Specifications Regulations 2008. Biodiesel is also known as B100 (100% biodiesel).

**Biodiesel blend** means a blend of biodiesel with diesel by volume. Examples are B5 (5% biodiesel with 95% diesel), B20 (20% biodiesel with 80% diesel).

**Blend up to B20** means a blend of up to and including but not exceeding 20% biodiesel by volume in diesel and meeting the requirements of the Engine Fuel Specifications Regulations.

**Manufacture** means the transesterification process that results in biodiesel, but excludes reprocessing of biodiesel.

**Funding Agreement** means the contract between EECA and the Producer that formalises participation in the Scheme and sets out the agreed obligations for participation and payment of the grant.

**End-user** means the party that uses the biodiesel in a blend up to B20.

Other terms used in this document; eg Producer, Receiver, EECA, have the meanings given to them as definitions in the relevant sections below.

## **Section 2: Timeframes**

The Scheme will commence on 1 July 2009.

Funding has been secured for three years, concluding on 30 June 2012.

The future of the Scheme beyond 2012 will be reviewed in 2010.

## **Section 3: Roles**

Participation in the Scheme is limited to:

- Producers
- EECA

Participation is formalised by a legally binding contract (Funding Agreement) between the Producer and EECA.

Definitions and roles of the participants are set out in the following table:

<b>Producer</b>	
<b>Definition</b>	<b>Role in Scheme</b>
<ul style="list-style-type: none"><li>▪ The party that manufactures biodiesel in New Zealand for the purposes of the Scheme.</li></ul>	<ul style="list-style-type: none"><li>▪ Accountable for production and sale of biodiesel or a biodiesel blend to any Receiver</li><li>▪ Responsible for meeting all obligations in the Funding Agreement</li><li>▪ Is the direct link to the Receiver and has responsibility for obtaining the requisite end-use information through the Producer/Receiver relationship.<sup>1</sup></li></ul>

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<sup>1</sup> It is suggested that Producers may need to have contracts in place with Receivers to ensure that both of those parties can meet their obligations

<b>EECA</b>	
<b>Definition</b>	<b>Role in Scheme</b>
<ul style="list-style-type: none"> <li>▪ The government agency responsible for administering the Scheme.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Receives Scheme applications from Producers and approves or declines their participation</li> <li>▪ Receives and processes monthly sales returns</li> <li>▪ Calculates monthly rate and makes grant payments to Producers</li> <li>▪ Monitors and reviews Scheme's progress</li> <li>▪ Conducts or arranges quality checks of biodiesel from Producer plants and/or audits of paperwork.</li> </ul>

**Note 1:**

*EECA's role **does not include** involvement in any contractual arrangements or warranty matters involving Producers, Receivers, and End-users. These parties need to ensure that they obtain their own independent legal or other advice in relation to their contractual arrangements.*

Also involved in the Scheme as third parties are Receivers:

<b>Receivers</b>	
<b>Definition</b>	<b>Role in Scheme</b>
<ul style="list-style-type: none"> <li>▪ Any party who first purchases biodiesel or a biodiesel blend from a Producer <b>and then:</b></li> <li>▪ Uses, and/or arranges for that biodiesel or biodiesel blend to be used in the New Zealand market as a blend up to B20. End use may be across a range of applications.</li> </ul>	<p>Provides to the Producer:</p> <ul style="list-style-type: none"> <li>▪ Verification of the volume of biodiesel or biodiesel blend purchased, biodiesel content and intended use of the same; and</li> <li>▪ Acceptance that the quality of the biodiesel or biodiesel blend purchased meets the requirements of the <i>Engine Fuel Specifications Regulations 2008</i>; for the purposes of the grant claim.</li> </ul>

**Note 2:**

*Receivers involved in the Scheme will:*

- *Not be classified as participants in the Scheme;*

- *Have no direct relationship with EECA;*
- *Need to be managed by and accountable to a Producer for the purposes of the Scheme.*

#### **Section 4: Biodiesel criteria**

For the purposes of the Scheme, biodiesel will only be eligible for the grant if it meets all of the following criteria:

- Regardless of end use, is biodiesel (B100) that meets the requirements of Schedule 3 of the *Engine Fuel Specifications Regulations 2008*, and is intended for use as a fuel in compression ignition internal combustion engines;
- Is manufactured in New Zealand - that is the transesterification process takes place in New Zealand;
- Is regardless of end use first sold by the Producer for the purpose of blending by the Receiver with diesel in a blend up to B20 **or** is first sold in a blend with diesel such that the final fuel sold to End-users is a blend up to B20 and meets the requirements of the *Engine Fuel Specifications Regulations 2008*;
- Is not exported;
- Is only eligible to be claimed under the Scheme if first sold in a month for which the grant is available/payable and the Producer's total sales for the month amount to or exceed 10,000 litres B100 content;
- Is claimed in the month when it is first sold (rather than at time of manufacture).

**Note 3:** *Biodiesel is limited to that sold for use in blends up to B20 so that this provides opportunities for biodiesel to be used in a wide range of applications.*

**Note 4:** *If biodiesel is blended with non-eligible biodiesel to create a mixed biodiesel, then only the eligible biodiesel can be claimed under the Scheme. In addition, the mixed biodiesel must be used in a blend up to B20.*

#### **Section 5: Exclusions**

The following are excluded from the Scheme:

- Biodiesel which is exported
- Biodiesel which is not manufactured in New Zealand
- Biodiesel which is sold to End-users as B100 or in blends higher than B20
- Biodiesel which is not first sold by a Producer
- Biodiesel which is first sold by a Producer in a month other than the month for which a claim is made, or in a month for which the grant is not payable.

## **Section 6: Scheme Applications**

Applications by Producers to participate in the Scheme:

- Open on 29 June 2009;
- Must be made by Producers whose manufacturing plant for undertaking the transesterification process is in New Zealand;
- Must be submitted on the form provided for this purpose which will be available on EECA's website [www.biofuels.govt.nz](http://www.biofuels.govt.nz); and
- May be submitted to EECA at any time until 30 April 2012.

The Application Form will require Producers to confirm, amongst other things, that they are a legal entity resident in New Zealand and to provide the physical address of their biodiesel manufacturing plant in New Zealand.

If the application is approved, then in the Funding Agreement, the Producer must make a declaration confirming that they will comply with the contents of this document, and any administrative procedures agreed after the publication of this document.

EECA will notify each applicant whether or not its application is approved. Once approved, successful applicants will be provided with a Funding Agreement for signing. A sample Funding Agreement will be available on EECA's website [www.biofuels.govt.nz](http://www.biofuels.govt.nz) by 15 June 2009.

### **Note 5:**

*Producers are approved as participants in the Scheme on the basis of the information provided to EECA at the time of application.*

*Biodiesel is eligible for the purposes of the Scheme on the basis of information provided to EECA by the Producer.*

*Accordingly, EECA does not endorse or accredit either Producers or their biodiesel, or in any way guarantee or warrant the biodiesel or its quality or its sustainability.*

## **Section 7: End-use requirements for biodiesel**

Receivers must be able to provide verification to the Producer, and when required, to EECA or EECA's appointed auditors of:

- The volume(s) of biodiesel or biodiesel blend, and where relevant the biodiesel content of the blend purchased from the Producer (volume to be reported as at 15°C);
- The date(s) of purchase of the biodiesel or biodiesel blends from the Producer;
- Their satisfaction with the quality of the biodiesel or biodiesel blend and confirmation that it meets the requirements of the *Engine Fuel Specification Regulations 2008* as a minimum;

- Their own use and/or an arrangement for that biodiesel's use or that biodiesel blend's use in the New Zealand market as a blend up to B20. End use may be across a range of applications; and
- Their confirmation that the biodiesel or biodiesel blend has not been exported.

### **Section 8: Record-keeping and reporting**

Producers and Receivers must keep records that will be used to verify production and sales transactions of biodiesel manufactured and sold under the Scheme. The records will be used to validate grant claims.

Producers will be required to submit a monthly return to EECA that shows the total volume of biodiesel first sold to a Receiver. The monthly return form will be available on EECA's website and only this form will be accepted for the purposes of grant payments under the Scheme.

The monthly return is the Biodiesel Sales Return (Return), which must be received at EECA no later than the 15<sup>th</sup> day of the month, following the month the reported biodiesel relates to.

*For example: biodiesel manufactured in September 2009 and first sold to a Receiver in October 2009 must be reported on the October 2009 Return and received at EECA by 15 November 2009.*

The Return records each month's sales under the Scheme for the Producer and also acts as the invoice mechanism for the grant. Consequently and for the avoidance of doubt, Producers may submit a "nil" Return where applicable to confirm no sales for a month.

Returns can be submitted by email or post or fax, but the 15<sup>th</sup> of the relevant month is an absolute deadline for receipt so as to allow the timely calculation and payment of the grant. Please note that regardless of what day of the week the 15<sup>th</sup> falls on, the Return is due on the 15<sup>th</sup> of the month. The Producer has the responsibility for meeting that deadline and must make arrangements in advance for Returns that are sent by post.

The Return will only be accepted and processed if it is received by the due date and is accompanied by appropriate Receiver statements that verify the volumes purchased, the quality and the end-use. A sample Receiver statement will be available on EECA's website.

Where EECA receives a Return by the due date but the Return is incorrect, the Producer will be notified of a brief extension of time to correct and resubmit the Return in order to qualify for the month's calculation and payment of the grant.

If EECA does not receive any Return from a Producer by the due date, or a corrected Return by the extension date notified by EECA, then EECA will enter a zero quantity for the Producer for that month.

Biodiesel is only eligible to be claimed under the Scheme if the sale occurs in the month for which a grant is available, and the Producer's total sales for the month amount to or exceed 10,000 litres.

Producers can submit a Return under the Scheme only after they have been notified by EECA that they are approved as participating Producers in the Scheme and have signed the Funding Agreement with EECA.

### **Section 9: Rate of grant to Producers**

The total amount of grant funding available under the Scheme for each of the three years is set out in Appendix 2 and is paid out on a monthly basis in arrears on all eligible biodiesel at a maximum rate of 42.5 cents per litre.

There is no ability to transfer funding between months. Therefore, if the volume of eligible biodiesel sold in any one month exceeds the volume funded for that month at the maximum rate, the grant funding rate for each litre sold that month is reduced accordingly.

### **Section 10: Grant payment criteria**

Under the Scheme, EECA will make grant payments directly to the Producer via electronic banking.

The grant payments will be made monthly only when **all** of the following criteria are met:

- The Producer has submitted and EECA has received the prescribed Return by the 15<sup>th</sup> of the month following the month the Return relates to; and
- The Return is complete and correct upon receipt **or** it is subsequently received completed and corrected by the notified extension date; and
- EECA accepts the validity of the information provided on the Return.

EECA will make payment on the last business day of each month beginning in August 2009 for biodiesel recorded on Returns for July 2009.

**Note 6:** *It is critical that a correct and fully completed Return, along with all required supporting documentation, is received by EECA on or before the 15<sup>th</sup> of the following month, as the rate of grant payment per litre of biodiesel is dependent on the total volume of eligible biodiesel reported by all Producers in that month. For example, the Return for biodiesel first sold by a Producer to a Receiver in October 2009 **must** be received by 15 November 2009. Late Returns cannot be carried forward into the following month, as the first sold transactions of the biodiesel must occur in the month of the claim.*

### **Section 11: Publication**

EECA will publish information about the Scheme primarily on its website ([www.biofuels.govt.nz](http://www.biofuels.govt.nz)) and elsewhere as decided from time to time. The information to be published may include:

- A description of how the Scheme works;

- Grant criteria for Producers;
- The names and contact details of Producers;
- Aggregate information about monthly volumes of production, rate of grant payment in cents per litre for previous months and grant uptake; and
- Links to Industry Associations, and other relevant organisations.

## **Section 12: Promotion of the Grants Scheme**

EECA will, at its discretion, promote the Scheme and consumer information on biodiesel and biodiesel blends.

Producers and Receivers may promote their participation and involvement in the Scheme; however, their promotional material must not imply or state that EECA is providing the biodiesel, or that EECA endorses the biodiesel, or its quality, or endorses the Producer and/or any Receiver or endorses the biodiesel's sustainability.

Producers and Receivers must not use the EECA or ENERGYWISE™ logos except by arrangement.

In any promotion, Producers must separately identify biodiesel available for end-use under the Scheme from other biodiesel.

Producers must identify that they are participating in the Scheme only for the biodiesel that is identified as being reported under the Scheme.

## **Section 13: Purpose of audits**

Audits of production and sales records are undertaken at EECA's discretion but by arrangement with the Producer, Receiver and/or End-user, to ensure that:

- (i) Producers have correctly recorded volumes sold, biodiesel has been manufactured and sold in New Zealand, and regardless of end-use the biodiesel has been used in blends up to B20, and the Petroleum or Engine Fuel Monitoring Levy has been paid; and
- (ii) The reported biodiesel and Scheme documentation has been exchanged between Producers and Receivers; and
- (iii) Adequate records have been kept by the Producer and Receiver; and
- (iv) Receivers have correctly recorded volumes purchased, biodiesel has been sold in New Zealand, and biodiesel has been used in blends up to B20.

## Appendix One: Timetable for monthly grant payment

The following table sets out the key dates and events for payment of the monthly grant:

Date	Event
1 <sup>st</sup> – 14 <sup>th</sup>	Producers gather and collate records and documentation for previous month's sales, prepare and send Return in time to reach EECA on 15 <sup>th</sup> of month
15 <sup>th</sup>	Due date for EECA to receive monthly Return from Producer for sales under the Scheme in the previous month
15 <sup>th</sup> – 25 <sup>th</sup>	EECA processes Returns and calculates grant payments
28 <sup>th</sup> – 31 <sup>st</sup>	Grant payment on last business day of the month
30 <sup>th</sup> or 31 <sup>st</sup> (28/29 Feb)	EECA publishes statistics and grant payment rate for previous month
30 <sup>th</sup> or 31 <sup>st</sup> (28/29 Feb)	Cut off date of Producer current month's sales for Return due 15 <sup>th</sup> of next month

## Appendix Two: Annual Funding

1 July 2009 – 30 June 2010: \$ 9 million equalling \$750,000 per month or 1,764,705 litres per month at the maximum rate of 42.5 cents per litre ("c/l").

1 July 2010 – 30 June 2011: \$ 12 million equalling \$1,000,000 per month or 2,352,941 litres per month at the maximum rate of 42.5 c/l.

1 July 2011 – 30 June 2012: \$ 15 million equalling \$1,250,000 per month or 2,941,176 litres per month at the maximum rate of 42.5 c/l.

- If monthly volume in litres is less than the monthly volume specified above, then grant rate is **42.5 c/l**.
- If monthly volume is greater than the monthly volume specified above, then grant rate is **less than** 42.5 c/l and calculated as follows:

$$\frac{\text{Specified monthly volume}}{\text{Monthly volume in litres}} \times 42.5 = \text{monthly grant rate in c/l}$$

Example 1: In the month 1-30 June 2010 the total volume of eligible biodiesel from all Producers is 2 million litres, then the rate of grant funding for that month is as follows:

$$\frac{1,764,705}{2,000,000} \times 42.5 = \mathbf{37.50 \text{ c/l}}$$

Example 2: In the month 1-31 July 2010 the total volume of eligible biodiesel from all Producers is 2.5 million litres, then the rate of grant funding for that month is as follows:

$$\frac{2,352,941}{2,500,000} \times 42.5 = \mathbf{40.00 \text{ c/l}}$$