

The Sustainable Production and Use of Liquid Biofuels in New Zealand – Advantages to the New Zealand Economy and a Proposed Tax Incentive to Facilitate Market Growth

Position Statement by the Liquid Biofuels Interest Group of the Bioenergy Association of New Zealand (BANZ)

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1. Introduction

This paper sets out the views of the Liquid Biofuel Interest Group (a sub-group of the Bioenergy Association of New Zealand [BANZ]) on the recent legislative changes around liquid biofuels and the proposed new tax incentive to support liquid biofuels.

The Liquid Biofuels Interest Group fully supports the Government's proposal to implement a tax incentive scheme to support the use of liquid biofuels in New Zealand. This approach is, in our view, more equitable (relative to the now repealed Biofuels Sales Obligation) and we believe that the proposed scheme will facilitate the deployment of biofuels where the impact/benefit will be the greatest by virtue of the element of consumer choice introduced by the new policy. Moreover, the proposed scheme should in principal result in an improved net tax balance in comparison to the original mandatory policy which would have resulted in an ultimate tax burden of \$ 80 million pa.

Our aim is to work with the Government to implement a new and effective tax regime that supports equitably the use of all sustainably produced liquid biofuels in New Zealand.

Our concern is the current lack of momentum and activity to ensure that the full potential that New Zealand's sustainably grown liquid biofuels presents. We have called on the Government to act quickly to avoid a 'policy vacuum' within the emerging biofuels industry in New Zealand.

Our proposal is for the introduction of a common tax incentive of 42.5 c per litre for biodiesel and bioethanol that would be applied consistently at the producer level. It is our estimate that the net dollar impact calculated as a tax equivalent on diesel would be an order of magnitude 0.08 to 0.4 c per litre during the formative years and rising to a moderate 1.7c per litre after 5 years. This adjustment is similar in nature to that made during the introduction of Ultra Low Sulphur Diesel, which proved to be a non-event.

This document presents the following details:

- The BANZ Liquid Biofuel Interest Group
- Current situation in New Zealand liquid biofuels
- Sustainability and New Zealand liquid biofuels.
- Liquid biofuels – the New Zealand advantage
- Supporting biofuels – our proposal

We are requesting a meeting with Government at the earliest opportunity, to discuss our recommendation, given our demonstrated support for, and commitment to, a local biofuels manufacturing industry in New Zealand.

2. The BANZ Liquid Biofuel Interest Group

The Bioenergy Association of New Zealand (BANZ) has been established to promote and coordinate the development of a bioenergy industry in New Zealand. BANZ provides a central focus point for liaison with Government agencies, the dissemination of information amongst the industry and long-term positioning of bioenergy into New Zealand's energy strategy

Members include anyone with a commercial interest in bioenergy - sawmillers, wood processors, energy suppliers, energy researchers, consultants, manufacturers and investors.

More specifically, the **BANZ Liquid Biofuel Interest Group** is one of 4 Interest Groups established by BANZ. This Group focuses specifically on the interests and activities of those engaged in the production, sale or research in liquid biofuels.

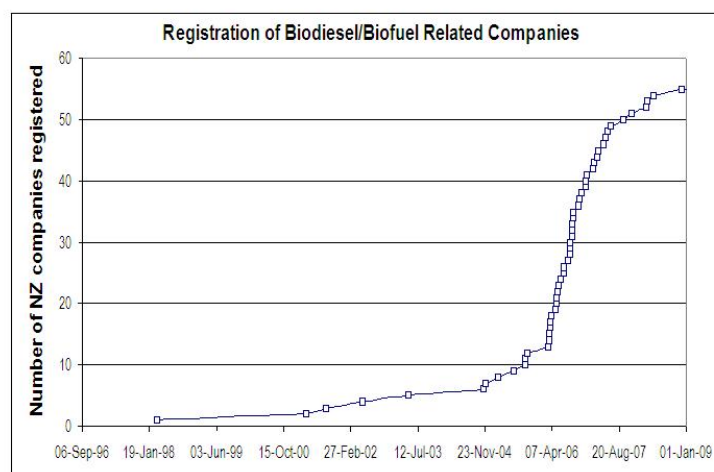
Our Members represent a cross section of key players in the New Zealand liquid fuels market with a commercial interest in liquid biofuels. They include research and development organizations, academic institutions, biofuel producers and manufacturers, biofuel retailers, consultants, equipment manufacturers, biofuel investors & entrepreneurs and organisations with an interest in biofuel resources (for example, tallow producers in the Renderers Group of the Meat Industry Association).

The Liquid Biofuels Interest Group was strengthened in November 2008 by merging with the New Zealand Biofuel Manufacturers Association (NZBMA). The Interest Group has a Committee and a Convener. The Group Convener sits on the BANZ Board.

We promote liquid biofuels in New Zealand and provide information and resources on biofuels for our Members, for the general public in New Zealand and for potential overseas investors through our web-pages (http://www.bioenergy.org.nz/liquid_biofuels_home.asp).

3. Liquid Biofuels – Current situation in New Zealand

The fledgling New Zealand biofuels industry has taken the initiative to rise to the challenge of New Zealand utilising indigenous transport fuels and is steadily gaining momentum. In order for that momentum to be sustained certainty and confidence is essential.



Analysis of the number of companies registered in New Zealand as having an interest in liquid biofuels – biodiesel - provided the associated graph.

Clearly the lead up to the introduction of the Biofuels Sales Obligation stimulated the registration of number of new companies.

While we believe that at best the previous Biofuels Sales Obligation mandate would have literally provided an

average solution, a replacement policy is needed quickly if this fledgling industry is to survive in tough economic times and if investors are to have renewed confidence that liquid biofuels are a future risk worth taking.

4. Sustainability and New Zealand Liquid Biofuels

The requirement for 'sustainability standards' for biofuels is fully supported by the Liquid Biofuels Interest Group. It is well known and proven that the existing resources available in New Zealand such as tallow, used cooking oil, rotational oil seed crops and whey are indeed sustainable and moreover, are amongst the best performers in terms of net green house gas emission reductions. Longer term other sustainable feedstocks such as cellulose and algae will be utilised as technological developments evolve.

There is significant potential here for New Zealand to position itself as a leading producer and user of sustainably produced fuels. New Zealand has the unique opportunity to develop a biofuel industry that utilises existing resources that are available on a sustainable basis. By this we mean biodiesel from either tallow (rendered form of beef or mutton fat), used cooking oil and fats, vegetable oil from rotational crops, ethanol from whey, ethanol from cellulose, algae oil options, etc.

These resources have a very favourable net reduction in Greenhouse gas emissions, they do not compete with food production nor do they threaten conservation areas. Rather they have the potential to reduce waste to landfill and give some value to otherwise low-value land. This is a 'win-win' situation.

It is likely that agreement of a definition of 'sustainable' can be agreed for New Zealand and while work is progressing on this it should not be allowed to restrict growth and investment in the industry. To some extent there would be an element of self regulation as it is highly unlikely that any one of the oil companies would knowingly import fuel derived from the destruction of rain forest. Their brand reputation would not tolerate this. New Zealand can only benefit from a sustainability mandate.

5. Liquid biofuels – the New Zealand advantage

On the back of the previous Government's Biofuels Sales Obligation several fledgling industry companies have invested several millions dollars in good faith and in the belief that they had a sound future. Without doubt the change in approach has not suited all in the industry but one thing is clear, the present uncertainty will make it increasingly impossible for them to produce and/or market biofuels simply because the requirements are not clear. What this industry needs is a clear policy from Government so that business plans can be progressed.

The benefits of using liquid biofuels are many and more than justify a Government stimulus package to facilitate the growth of a New Zealand biofuels industry/market. The advantages to the New Zealand economy are two fold: internal to New Zealand and on an international scale.

Within New Zealand the advantages are economic in nature – enhanced security of fuel supply; the reduction of raw materials sent off shore for processing; the securing of so-called 'green-collar' jobs; and the value maximisation of otherwise poor quality land). Furthermore, the advantages are environmental in nature –the reduction of CO₂ emissions from transport, heating and stationary equipment applications will assist towards meeting our Kyoto commitments as well as making a tangible difference to the environment in which we live & breathe). Finally, the advantages

have a health impact too – reduced transport emissions will have a positive effect on respiratory health). This aspect is pertinent to our major cities, were the rise in PM₁₀ emission levels is of concern.

- **Enhanced security of fuel supply** – indigenous supply of fuel - security of supply especially for New Zealand essential services in times of need.
- **Value added New Zealand raw materials that are currently exported** – the processing of these resources on New Zealand soil brings economic growth advantages by reducing our reliance on imports and providing a increased local taxation base
- **Employment "green collar" jobs** – the job creation potential is both direct and indirect via multiplier effect.
- **Value maximisation of land** - improved utilization of land and value creation within rural communities eg. rotational oilseeds, salix based cellulose to ethanol. Some biofuel crops may well also utilize otherwise poor quality and low value land thus providing increased value for land owners.
- **Reduction of 'wastes' to landfill** – many current bio-waste going to landfill are indeed bio-resources - dairy industry waste lipid streams, grease trap waste and some forestry waste is currently land-filled and yet could be converted into good quality biofuels
- **Mitigating Kyoto agreement liability due to reduced net GHG emissions from transport** - Reduced CO₂ emissions by direct displacement of fossil fuels
- **Positive health impact** - grass roots improvements in workplace health, biofuels produce far less emissions and don't contain carcinogens and harmful polyaromatic cyclic hydrocarbons (true for both biodiesel and bioethanol). One only needs to refer to the Brazilian experience from using bioethanol and how it has helped to clean up the air in their cities.

From an international perspective, the advantages that investment in liquid biofuels offers to New Zealand are also economic in nature – international investment opportunities), and they are reputational (evidence to support the '*clean green*' image New Zealand likes to portray abroad').

- **Investment in R&D and biofuel manufacturing** - developing an industry platform for the eventual deployment of 3rd generation technologies, i.e. establish a proven track record of capability that would provide for future investor confidence, growth of a strong knowledge base and enhanced skill set e.g. ITO Biofuels, stimulate R&D, promote market acceptance and familiarity with the use & handling of biofuels (This is a very important aspect and one should not underestimate the learning curve required for successful implementation), capability to harness is less discerning indigenous feedstocks e.g. Waste lipid streams.
- **Tourism growth by reinforcing the NZ "Clean & Green" image** – In this respect several New Zealand tourism focussed companies are already leading the way (Air New Zealand for example). The potential to actively promote New Zealand as an eco-tourism destination (eg. Great Barrier

Island) is significant as interest in so-called eco-tourism is seen around the globe. New Zealand’s ‘clean – green’ image is often overplayed. The use of sustainably produced New Zealand sourced biofuels would further enhance this reputation.

6. Supporting biofuels – our proposal

The Liquid Biofuels Interest Group has indicated its strong support for the Government’s proposed tax incentive to support sustainably produced liquid biofuels. Our view is that approach is likely to be more equitable than some other options that could be considered..

A comparison of various biofuel tax incentives is presented in Table 1 following. The current New Zealand tax incentive for bioethanol is on a par with those available in other countries.

Our Proposal:

Considering the experience base of these nations the Liquid Biofuels Interest Group pragmatically recommends that:

The Bioethanol tax incentive of 42.5c per litre (“cpl”) be maintained, and that A Biodiesel tax incentive of 42.5 c per litre be implemented.

Table 1. Comparison of Biofuel Tax Incentives

	Government Biofuel Tax Incentive		
	Local currency	NZ cents per litre	Fx
Australia	38 c per litre	48.1	0.79
US	1 \$ per gallon	52.8	0.5
United Kingdom	15 p per litre	42.3	0.355
NZ Ethanol	42 c per litre	42.5	1
NZ Biodiesel (Proposed)		42.5	

It is proposed the Government legislates/regulates for, and implements, a direct subsidy of 42.5 cpl for biodiesel for local manufacturers or importers of biodiesel:

- a) which is manufactured from environmentally sustainable feedstock as determined by internationally accepted standards; and
- b) which reduces greenhouse gases (“GHG”) by at least 50% versus petroleum based diesel measured by internationally accepted standards.

The Justification:

It is proposed that the subsidy on biodiesel will be the same as the excise exemption for ethanol, i.e. 42.5 cpl. The BSO was calculated on an energy value basis, which recognised the higher energy value of biodiesel compared to ethanol. With biodiesel

having approximately 50% more energy value per litre than ethanol, a case could be made for an energy equivalent subsidy basis, which would make the biodiesel subsidy 63.6 cpl as set out in the table below. However, it is accepted that, while an energy equivalent subsidy can be justified, this would be too complicated to sell to the public, and so a volume equivalent subsidy is, instead, proposed.

Energy Content Values outlined in Government Discussion Document September 2006	
	Megajoules/litre
Premium Petrol	35.3
Regular Petrol	34.9
Diesel	37.9
Ethanol	23.4
Biodiesel	35

	cpl	Energy Content MJ/l
Ethanol Excise Exemption	42.5	23.4
Biodiesel Energy Equivalent	63.6	35

An efficient local biodiesel manufacturer should be viable on the volume equivalent subsidy of 42.5 cpl. However, local biodiesel manufacturers will need to offer oil companies a price for biodiesel which will be well below the cost of imported auto diesel, in order to compensate the oil companies for additional storage and blending costs associated with biodiesel. Otherwise oil companies will have no reason to voluntarily buy biodiesel in the absence of the BSO. Thus, the proposed subsidy will not go entirely to local biodiesel manufacturers, as a significant part of the subsidy will have to be effectively passed on to the oil companies, to ensure they purchase biodiesel for blending with auto diesel at the expected level of 5% for "B5" retail product.

7. Summary

The Liquid Biofuel Interest Group is an Industry Association representing key players in the New Zealand liquid biofuels sector. We have expressed our support for the Government's proposed new tax incentive to replace the now repealed Biofuels Sales Obligation. We believe that this is an equitable approach which supports all biofuels.

New Zealand has a unique advantage in the biofuels market as its source materials are sustainably produced. The advantages presented to the New Zealand economy

from the growth of the liquid biofuels market in New Zealand are many including improved security of fuel supply (especially for our essential services in time of need), reduced reliance on imports, creation of an additional manufacturing sector which provides for an increased taxation base, and job availability, developing a Biofuels capability to attract investment and promote improving the nation's skill set, minimizing CO₂ emissions with associated benefits of mitigating our Kyoto agreement liability and improving our environment for healthier living and last but not least – an enhanced global perception that New Zealand is the eco-tourism destination.

While we have indicated our support for the Government's proposed introduction of a tax incentive to support the fledgling biofuels industry in New Zealand we have also expressed our concern at the current lack of activity and the absence of any details about the new tax incentive proposed.

The Liquid Biofuels Interest Group seeks an opportunity to work with the Government to develop the details of the proposed tax incentive.

Our proposal is for the introduction of a common tax incentive of 42.5 cpl for biodiesel and bioethanol that would be applied consistently at the producer level. The subsidy is not directly related to, or dependent on, the proposed review of the previous government's Emissions Trading Scheme ("ETS"), or alternatives to the ETS. The proposed level of subsidy is in line with the subsidy paid to biodiesel producers in Australia and the USA.

Our preliminary calculations indicate that a positive tax incentive scheme, driven by market forces, would result in less of a tax burden than the previously proposed mandated system. It is our estimate that the net dollar impact calculated as a tax equivalent on diesel would be an order of magnitude 0.08 to 0.4 c per litre during the formative years and rising to a moderate 1.7c per litre after 5 years. This adjustment is similar in nature to that made during the introduction of Ultra Low Sulphur Diesel, which proved to be a non-event.

8. Next Steps

The Liquid Biofuels Interest Group is offering to work with Government to develop the practical steps for implementing the recommended biodiesel subsidy by mid-late 2009. For many of our Members, the future growth of their business, and for many, their very survival depends on a subsidy being in place by September at the latest this year.

We are requesting a meeting with Government at the earliest opportunity, to discuss our recommendation, given our demonstrated support for, and commitment to, a local biofuels manufacturing industry in New Zealand.

In view of the many positives associated with the manufacture and sale of sustainably grown New Zealand biofuels, our industry has a potentially significant contribution to make to the New Zealand economy, to 'green' employment and to a 'clean green' reputation that money cannot buy.

Appendix – Liquid Biofuel Press Releases

11 December 2008

MEDIA STATEMENT

Proposed biofuel law change will slow New Zealand's achievement of self sufficiency in transport fuel and increase Kyoto costs.

New Zealand's ability to seize the opportunity to become self-sufficient in liquid biofuels for transport will be slowed if the biofuels obligation in the current legislation is removed under legislation introduced in Parliament by the Government today.

The biofuels obligation had given investors the confidence to invest in biofuels manufacturing plant, responding to the challenge of providing locally produced biofuels at the lowest cost.

The current legislation sets out a minimum obligation for biofuel sales, as part of the overall fuel mix, and it has provided the liquid biofuels industry the certainty it needs to invest.

The removal of the obligation will also result in an increase the country's carbon emissions and therefore Kyoto costs as a significant opportunity to produce green fuels is slowed.

"Investor confidence is key," Bioenergy Association Executive Officer Brian Cox says. "New Zealand is rich in liquid biofuel opportunities but all options require significant investment in processing plant and distribution infrastructure. For this investment to be committed potential investors need confidence that there is a long-term market for their product."

"The biofuel obligation encourages biofuel producers to manufacture locally produced biofuel (ethanol and biodiesel) in high volume and at the lowest cost because of economies of scale. It has also provided an incentive for a number of parties to enter the market with the result that competition will keep prices low".

"Gull have already proven that biofuel blends can be supplied to the public at competitive prices. New Zealand has the opportunity to extend the volume of current sales of biofuel blended transport fuel " Brian Cox said "This opportunity for an early increase in biofuel sales will be lost without the obligation".

"The industry has supported the requirements that qualifying biofuels must be both sustainable and make a real contribution to greenhouse gas reduction. That achievement will now be delayed if the propose legislation is passed by Parliament."

Fonterra produces ethanol from whey and there are a range of producers of biodiesel using tallow or used cooking oils. Biodiesel will also be available next year from locally grown crops. A number of other organisations are researching production of second-generation liquid biofuels, from sources as diverse as sewage pond algae and wood, both from existing forests and purpose-grown crops.

“Our opportunity to use more of these local resources is currently constrained by economics and economies of scale. Confidence that new biofuels will have a market will encourage greater investment from biofuel producers. Over time, we can expect that to lead to reductions in the price of production and to New Zealand becoming more insulated from international energy price hikes.”

Mr Cox said that “the industry does however support the proposal that tax considerations should be equitable across all forms of biofuel whether bioethanol or biodiesel.”

Investor confidence is crucial in developing these promising technologies for New Zealand. “The biofuels sales obligation presents a significant opportunity to provide that confidence,” Mr Cox says.

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17 December 2008

MEDIA STATEMENT

Biofuel law change needs swift action to avoid ‘vacuum’

The Bioenergy Association of New Zealand (BANZ) welcomes the proposed changes in the biofuels legislation that will provide opportunities for the industry to move ahead. However with the loss of a guaranteed market the industry urges the new Government to act quickly, establish new proposals and give the fledgling industry the confidence it needs to grow.

Speaking today, Andre Hamman, Convener of the Bioenergy Association’s Liquid Biofuels Interest Group said that the changes were understandable and the majority of the industry accepted them. Mr Hamman added that New Zealand’s ability to seize the opportunity and become self-sufficient in sustainable ‘home-grown’ liquid biofuels for transport will be slowed unless the repeal of the biofuels sales obligation is replaced promptly. The Bioenergy Association of New Zealand (BANZ) has called on the Minister to act quickly to avoid a ‘policy vacuum’ within the emerging biofuels industry in New Zealand.

Mr Hamman noted that the success of the proposed alternative is predicated on a firm Government directive and defined standards. He said “*We need to make sure that this gap is filled and filled promptly if the significant investment and effort that*

has occurred to date is to bear fruit. The industry is ready and would welcome any opportunities to discuss with the Government alternative policies that will provide investor confidence.”

Mr Hamman highlighted the ‘**even-handed approach**’ that the government has signalled with the proposed introduction of a positive incentive system that would provide a separate tax credit for bioethanol, biodiesel and other renewable energy. Mr Hamman said, “*The equalisation of tax treatment between biodiesel and bioethanol creates a level playing field for the industry’s development – something lacking in the previous legislation. Fixing it won’t be straightforward though with diesel part of the Road User Charge regime and ethanol/petrol being on a sales tax system. We are keen to work with the Government to develop a solution.*”

Mr Hamman noted, “*This even handed approach proposed by the Government is being viewed very favourably by the industry as is the introduction of well defined sustainability criteria for biofuels. As an Association, we are keen to support the move and encourage the Minister to cement the changes into place as soon as possible.*”

New Zealand biofuel producers have proactively responded to the Government commitment to introduce sustainable Biofuels to New Zealand. To this end, significant investment has occurred over the past 2 to 3 years in R&D, business establishment and capital equipment in preparation for the introduction of the Biofuels Sales Obligation on 1st October, 2008 which is now repealed.

Mr Hamman commented also on the idea of ‘sustainability standards’ for biofuels, adding that whilst there is full support for the development and use of sustainability standards, there is the risk that this process may become a protracted exercise. However it is well known and proven that the existing resources available in New Zealand such as tallow, used cooking oil, rotational oil seed crops and whey are indeed sustainable and moreover, are amongst the best performers in terms of net green house gas emission reductions. Mr Hamman said, “*I’d like to think that we are setting the sustainability standard by default here in New Zealand. Looking at the feed stocks we are using, sustainability is a given*”.

“*The fledgling New Zealand biofuels industry has taken the initiative to rise to the challenge of New Zealand utilising indigenous transport fuels and is steadily gaining momentum. In order for that momentum to be sustained certainty and confidence is essential.*” Mr Hamman said, “*As an Industry Association, we would welcome the opportunity to work with the Minister to ensure that the opportunity presented by a New Zealand grown, sustainably produced biofuel will indeed create employment and value-add local resources. Early signs are encouraging and we welcome that*”.

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9 January 2009

MEDIA STATEMENT

BANZ congratulates Air NZ on biofuels flight and urges others to follow their lead

The Bioenergy Association of New Zealand (BANZ) has congratulated Air New Zealand on its recent biofuels test flight and urges other transport fuel users to follow their lead. However BANZ says they should seek out supplies of sustainably grown fuels that are readily available in New Zealand. BANZ says that the high profile use of biofuels by the national airline is a great boost to the sector and gives credibility to the 'clean green' image that New Zealand sells overseas.

Speaking today, Brian Cox, Executive Officer of BANZ said that as the national airline Air New Zealand is leading the charge for New Zealand's transport services to use sustainably grown liquid biofuels. Mr Cox said, *"This test flight confirms that it's indeed possible to fly a plane using biofuels. This is good news for the biofuels sector in New Zealand and a good look for Air New Zealand at a time when being green could just be the point of difference between them and their competitors. It's an opportunity in the making. However for many transport operators New Zealand has quality biofuel resources on its own doorstep – there's no need to import them."*

He said that *"While the quantity of fuel needed by Air New Zealand for use in its jets is not yet able to be supplied locally, there are adequate supplies of domestically produced biofuel already available that meet quality standards and could be used by Air NZ in its ground operations at airports nationwide and for that matter by a host of other large transport operators. This is a great opportunity for New Zealand companies to buy 'New Zealand made'"*.

Following on from the recent legislative change where the government has removed the mandatory requirement for biofuels. Mr Cox said *"If high profile companies like Air New Zealand can commit to using biofuels then the future for sustainably grown New Zealand biofuels could be secured"*. Mr Cox said that the advantages to 'New Zealand Inc' were significant. *"Millions of tourists who believe the 'clean green image' that New Zealand portrays to the world will see the evidence of it as they arrive to New Zealand in a plane fuelled with biofuels, leave the airport in a biodiesel fuelled bus, or hire a bioethanol fuelled car. This is exactly the evidence that backs up the image"*.

Mr Cox said, *"Our key advantage as a country is the wide range of existing resources for making biofuels available in New Zealand such as tallow, used cooking oil, rotational oil seed crops, whey and a growing jatropha resource. These resources*

are sustainable and moreover, are amongst the best performers in terms of net green house gas emission reductions. Add to that the 'win-win' potential.

Mr Cox added, the recent change in legislation has removed the 'mandatory' biofuel requirements. These requirements would have meant that biofuels would have had to make up 0.5% of oil companies' annual sales in New Zealand and that threshold would increase annually to reach 2.5% by 2012. When the National led Government repealed the Biofuels Bill in December it also signalled proposals for introduction of a positive incentive system that would provide a separate tax credit for bioethanol, biodiesel and other renewable energy. Mr Cox said, "*The repeal of the biofuels obligation is significantly affecting our Members who are well advanced in developing production facilities and consequently BANZ is keen to work with the Government to ensure that alternative policies are put in place as soon as possible – we need them to support current suppliers and to provide confidence for new investors. It's down to the industry to make this work and that will be our focus going forward.*"

Mr Cox went on to add "*Current biofuel suppliers have shown that even without a sales mandate the biofuels industry in New Zealand has a distinct advantage with its range of biofuel sources in niche applications. Along with this what Air New Zealand has done is a great first step and a great good news story for biofuels. But the opportunity for New Zealand will arise from making increased use of our own sustainably grown biofuels.*"

Mr Cox also noted the opportunity for other players in the New Zealand tourist sector to use biofuels and so cement the 'green' image. He also highlighted the opportunity for New Zealand's key food exporters saying that biofuels offered these exporters an advantage in terms of being able to reduce their 'carbon footprint'. The issue of so called 'food miles' received considerable coverage in the press some months ago. Sustainably grown New Zealand biofuels present a carbon free fuel solution for both of these groups.

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