PEPANZ
PETROLEUM EXPLORATION & PRODUCTION ASSOCIATION OF NEW ZEALAND

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PO Box 25259, Featherston Street, Wellington 6146
pepanz.com / energymix.co.nz / petroleumconference.nz

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Submission on the National Party's Discussion Document on the Economy
Submitted via email to Liam.Kernaghan@parliament.govt.nz

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Introduction

1. The Petroleum Exploration and Production Association of New Zealand ("PEPANZ") represents private sector companies holding petroleum exploration and mining permits, and service companies and individuals working in the industry.
2. This document constitutes PEPANZ's submission on the National Party's *The Economy Discussion Document*, which can be found at: https://www.national.org.nz/economy.
3. Note that we previously submitted on the National Party's *Our Environment Discussion Document*. Our submission can be found online at: https://www.pepanz.com/dmsdocument/119.
4. PEPANZ recently released its policy platform, which can be found at https://www.pepanz.com/dmsdocument/120. Given many of these points relate to the economy, we cite the executive summary of our policy platform below:
    a. Recognise the role of natural gas as a key tool in transitioning to a lower emissions world by enabling renewable electricity and displacing coal.
    b. Allow new exploration permits beyond just onshore Taranaki. New developments could generate tens of billions in revenue for New Zealand and help the world lower emissions.
    c. Create a dedicated sovereign wealth fund to invest the proceeds from new petroleum developments.
    d. A comprehensive, globally connected Emissions Trading Scheme ("ETS") should be the Government's main policy tool for reducing emissions.
    e. Avoid policies that shift economic activity overseas to jurisdictions with less strict environmental policies. This leads to worse economic and environmental outcomes for New Zealand.
    f. Update legislation to specifically allow Carbon Capture and Storage ("CCS") technology to be used in New Zealand.
    g. Update standards and legislation around decommissioning and offshore financial assurance to ensure workability.
    h. Create a clear and logical policy framework for creating new marine protected areas.

Oil and gas exploration policy

5. We support National's proposal to reverse the Government's ban on new offshore oil and gas exploration permits, and are pleased this is proposed as a 'First 100 Day Commitment'.
6. Discoveries from new exploration could bring enormous benefits to New Zealand and the world. A single new discovery could be worth many billions in Government revenue, create thousands of new jobs and help the world lower emissions by displacing coal with natural gas.
7. Since the Government announced an end to new exploration permits beyond onshore Taranaki, a number of new factors have arisen that warrant reconsideration of that decision:
    a. Official data shows there are just 11 years of natural gas reserves left (at current levels of demand)[1].

[1] Ministry of Business, Innovation and Employment. Petroleum Reserves 2019

b. The NZIER has modelled the economic cost of the decision at $28 billion with minimal impact on emissions[2].

c. Official advice from the Ministry of Business, Innovation and Employment has stated it is more than likely to increase emissions[3].

d. The Interim Climate Change Committee has recommended against a target of 100% renewable electricity because of the cost of replacing natural gas, which in turn is counter-productive for lowering emissions by raising the price of electricity.

e. A proposal from the private company 8 Rivers to use carbon capture and storage technology in a major project in Taranaki shows natural gas can be used with zero emissions. Because of these factors, the decision should be reversed so that new exploration beyond onshore Taranaki can proceed.

f. 1/3rd of exploration acreage available in April 2018 has already been dropped in on and offshore New Zealand

Carbon capture and storage

8. We support National's proposal to enable carbon capture and storage. We note that the current proposal specifically refers to "rewrit[ing] the Resource Management Act (RMA) and look to advance Exclusive Economic Zone (EEZ) reform" to achieve this, but the literature on this matter suggests that further changes are needed (such as to the ETS) and that special legislation may be the best regulatory option.

9. Nonetheless, we strongly support the sentiment and have advocated for a regime to enable CCS, based on its importance to lowering emissions and to proposed projects such as 8 Rivers (the company proposes to use produce electricity, fertiliser and hydrogen from natural gas using CCS). We note that in its response to the Productivity Commission's Low Emissions Economy report, the Government said "a decision will be made in 2020 on whether and how to assess the legislative framework for CCS..." so it would be pleasing to see bipartisan agreement reached on the importance of such a framework.

10. Two recent reports identified regulatory barriers and make the following summary remarks.

- In *Carbon Capture and Storage: Designing the Legal and Regulatory Framework for New Zealand*[4] Barry Barton of Waikato University states CCS "is probably not actually possible at all under the existing law".
- The Productivity Commission's *Low Emissions Economy*[5] report considers that the current law "*is not set up to deal with the complexities of CCS, and acts as a barrier to the uptake of these technologies*" (page 449).

11. Appendix One highlights other key findings from these two reports.

Overseas investment legislation and recruitment of capital

12. National opposes restrictive overseas investment rules and the signalled greater ministerial discretion in investment decisions. We support the National Party's position on these matters, and consider that regulatory stability is critical to ensuring New Zealand is seen as a sound investment destination. PEPANZ has previously expressed concern about increased Ministerial discretion on OIO applications. To avoid further detriment to New Zealand as an investment destination in the resources sectors politicisation of regulatory decision-making should be strongly avoided. Increased Ministerial discretion would increase regulatory uncertainty, likely decrease investment, and potentially increase the cost of capital to account for the higher risk.

13. We strongly agree with the statement that "Firms are more likely to invest in New Zealand when the political and regulatory environment is stable and predictable. They are frightened by left-field, unexpected decisions like the decision to ban new oil and gas exploration."

14. Multinational companies play an important role in the New Zealand petroleum sector, both in exploring for new petroleum resources and producing oil and natural gas. This activity contributes to economic well-being and energy security at both the regional and national level. Foreign direct investment has played an important role in developing these resources and we note that all domestic fields in the offshore environment are operated by overseas companies, and in the absence of international capital New Zealand would have less development and energy security than is the case.

15. We note the Fraser Institute's Global Petroleum Survey 2018[6], which shows that New Zealand's ranking in its Policy Perception Index fell to 46th out of 80 in 2018, from 14th out of 97 in 2017. The Fraser Institute cites poorer

[2] New Zealand Institute of Economic Research (NZIER) Economic impact of ending new oil and gas exploration permits outside onshore Taranaki: A regional CGE analysis (2019).
[3] Ministry of Business, Innovation and Employment: "Regulatory Impact Assessment: Proposed changes to the Crown Minerals Act 1991" .https://treasury.govt.nz/publications/risa/regulatory-impact-assessment-proposed-changes-crown-minerals-act-1991
[4] https://www.waikato.ac.nz/__data/assets/pdf_file/0011/179570/University-of-Waikato-CCS-Report-2013-web.pdf
[5] https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission_Low-emissions%20economy_Final%20Report_FINAL_2.pdf
[6] https://www.fraserinstitute.org/sites/default/files/global-petroleum-survey-2018.pdf

political stability as a factor in that fall, and the collapse in status takes into account the way the decision of 12 April 2018 to ban new oil and gas exploration permits outside of onshore Taranaki appears to have been made, and the resulting political and sovereign risk.

Importance of natural gas in promoting affordable electricity and efficient industry

16. The discussion document rightly states on page 5 that "reducing costs is another way to improve our standard of living. We agree with this, and note that electricity as required at the residential, commercial and industrial level. Higher electricity costs often are a pure impost which reduce profitability, or mean less production so as to manage costs. Natural gas helps to ensure that electricity prices remain in check, by providing an affordable and reliable backup to intermittent renewables. We note the New Zealand Initiative's finding that removing hydrocarbons from the electricity generation mix in New Zealand would cost $800 million per year.
17. From an emissions perspective, affordable electricity is also important as it promotes electrification of transport.
18. Natural gas is used throughout North Island industry as a fuel to generate process heat (e.g. in the manufacture of dairy products, steel, refinery products and pulp and paper) more cost effectively than electricity and with lower emissions than coal.
19. Gas is both a fuel and a feedstock to the petrochemical industry (Urea and Methanol), which contributes to New Zealand's balance of payments each year through exports (methanol) and avoidance of imports (urea). New Zealand's gas-based petrochemical industry likely offsets production from higher CO^2 emission sources elsewhere in the world[7].

[7] October 2018 IEA Publication "The Future of Petrochemicals: Towards more sustainable plastics and fertilisers" indicates that 25% of the reduction emissions out to 2050 will result from "Shifting to natural gas from process routes dependent on coal".

Appendix One: Regulation of carbon capture and storage

Although carbon capture and storage is not specifically prohibited in New Zealand, there is no legislation that sets out a CCS regime or specific consenting process. This uncertain and ill-defined framework means that CCS operators could theoretically apply for consents, but detailed reports advise that the Resource Management Act is not equipped to deal with the nuances of CCS (even if "called-in" by the Minister for the Environment). The two key reports are listed below and reach the stated conclusions.

- In *Carbon Capture and Storage: Designing the Legal and Regulatory Framework for New Zealand*[8] Barry Barton of Waikato University states CCS "is probably not actually possible at all under the existing law".
- The Productivity Commission's *Low Emissions Economy*[9] report considers that the current law "*is not set up to deal with the complexities of CCS, and acts as a barrier to the uptake of these technologies*" (page 449).

The Productivity Commission's *Low Emissions Economy* report and the Waikato University paper both recommend a bespoke CCS Act.

The Waikato University paper states "*A close analysis of the RMA, the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 (EEZ Act), and the Crown Minerals Act 1991 produces the conclusion that* ***none of those Acts is capable****, either in its detail or its general architecture,* ***of delivering the legal framework that is required for CCS***" [emphasis added].

The main comments of the Commission and University include the following.

1. CCS is a 'removal activity' under the Climate Change Response Act ("ETS Act"). That means the removing entity (i.e. an operator of a suitable geological formation) could receive 1 ETS credit for every tonne of CO2 removed and stored (s64(1), CCRA).
2. However, that only applies where the capture and storage is related to a given operator's activities. So, if an operator were to store carbon on behalf of a third party, then that operator could not currently claim ETS credits.
3. One of the Commission's recommendations (R14.7) is to change the ETS Act so that an entity performing CCS (including capture) can receive ETS credits, regardless of whether or not that entity was the source of the CO2.
4. Like the Commission's R14.7 recommendation, the University paper recommends that the definition of 'removal activity' be wider than currently stated for CCS, i.e. that CCS be a removal activity "*whether or not the CO2 is from an activity that is required to surrender units*".
5. The Commission considers that the combined effect of the RMA, EEZ Act and Crown Minerals Act is not capable of delivering the legal framework required for CCS. In particular, the RMA was singled out for not being fit-for-purpose for CCS. For example, the RMA is not equipped to deal with the long-term liability required for CCS operations.
6. The University paper aligns with the Commission's findings on the RMA, stating "*The overall consequence appears to be that the positive effect of CCS on climate change cannot be taken into account (it is not a renewable energy project), but its possible negative effects on the environment more broadly can be. This could make it practically impossible to get consent for a CCS project…*"
7. To deal with this issue, the Commission recommends (R14.6) that a whole new piece of legislation, a CCS Act, be drafted to regulate CCS.
8. The University paper also considers that a new CCS Act is the preferred option. To clarify the interplay between any new CCS Act and current regimes like the RMA and EEZ Acts, the paper states (emphasis added) "*We conclude that new legislation should be enacted that specifically regulates the injection of CO2 for permanent sequestration, any subsequent leakage or migration, and exploration for storage formations.* ***We propose that those matters will be removed from control under the RMA and EEZ Act, and will not require permits under them***" (Executive summary, page vii) [emphasis added].
9. The University paper (page 57) recommends any new CCS Act apply only to the injection and storage aspects of CCS operations, but other CCS activities will likely still be covered by the RMA.
10. The University paper (page 49) concludes that permits for CCS cannot be issued under the Crown Minerals Act, as CCS is outside the definition of 'mining'. The University notes that the CMA does not prohibit CCS.

[8] https://www.waikato.ac.nz/__data/assets/pdf_file/0011/179570/University-of-Waikato-CCS-Report-2013-web.pdf
[9] https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission_Low-emissions%20economy_Final%20Report_FINAL_2.pdf