EnergyResources Aotearoa
POWERING A BETTER NEW ZEALAND TOGETHER

energyresources.org.nz
energyskills.org.nz
energymix.co.nz
PO Box 25259, Wellington 6140

21 June 2024

Petitions Select Committee

By email: Parliamentary.Petitions@parliament.govt.nz

Submission on Petition from Degrowth Aotearoa's Dr Deirdre Kent to investigate Tradable Energy Quotas

Introduction

1. Energy Resources Aotearoa is New Zealand's peak energy sector advocacy organisation. We represent participants from right across the energy system, providing a strategic sector perspective on energy issues and their adjacent portfolios. Our purpose is to enable constructive collaboration to bring coherence across the energy sector through and beyond New Zealand's journey to net zero carbon emissions by 2050.

2. This document constitutes our submission on the petition from Dr Deirdre Kent on behalf of Degrowth Aotearoa New Zealand (DANZ) to investigate rationing fossil fuel use with Tradable Energy Quotas (TEQs).

3. We strongly oppose the ideas that sit behind the petition. We welcome the opportunity to present our submission to the Committee.

Overarching comments

4. The TEQ scheme proposed in this petition aims to ration the use of fossil fuels. This is a radical idea from a radical organisation (DANZ), founded in a fringe global movement that favours Marxist ideals over democracy and has failed over decades to make traction in any other jurisdiction.[1]

5. New Zealand does not need a rationing system for fossil fuels. New Zealand has the Emissions Trading Scheme (ETS) and the Climate Change Response Act 2002. New Zealand especially does not need a system such as the TEQs that ignores basic orthodox economic principles.

[1] The degrowth movement wants the global economy to shrink. The movement is underpinned by radical activism based on virtuous judgments on how people should live their lives. It does not have a wide following and at best can be described as a fringe movement that dictates rather than offers choices. The idea of degrowth is flawed and impractical.

6. New Zealand needs stable, well considered policies designed by policy practitioners, not destabilising policy designed by radical, academic idealism.

7. With regards to energy production and consumption, the degrowth movement fails to recognise the reality of growth in demand for energy and the role of the economy in our quality of life and the ability to lift people out of poverty. Indeed the very idea of rationing a ubiquitous fuel out of a modern well-functioning economy and society at the very time New Zealand faces a massive energy shortage is both counterintuitive and counterproductive.

8. What New Zealand needs is a secure, diverse energy supply that meets demand. Natural gas (and other fossil fuels) have a vital role to play in this future.

Economic growth is the best response for climate challenges

9. DANZ is advocating for shrinking the economy using heavy-handed supply-side interventions. These tend to ignore the economics of alternatives, and in their absence, inevitably result in unintended consequences. The failed experiment of the ban of new exploration permits for natural gas has visibly demonstrated this, resulting in energy shortages and energy and economic system instability.

10. Economic growth is the only long-term remedy. Without it, New Zealanders will all face hardship and further inequities as the size of the pie diminishes and tends to lock in the privileges of those who currently enjoy them. It is the same for the rest of the world.

11. 'Green growth' is the only practical and feasible way forward, with smart, sensible policies that recognise the realities we face with a looming energy supply shortage. This must be coupled with continued investment in fossil fuels to meet growing demand for energy while the world transitions to a low emissions future.

The problem with TEQs as a solution to climate change in New Zealand

12. TEQs are an imagined electronic system for 'fairly reducing consumption of carbon-intensive energy, at the national scale', and have been proposed to meet two key objectives:

    a) 'maintaining a fair distribution of fuel and electricity during challenging times'; and

    b) 'providing a method to guarantee achieving national carbon reduction targets'.

13. TEQs are said to be 'ahead of their time' – perhaps so far ahead that they belong in a science fiction future.

14. There are a host of reasons why TEQs are a flawed policy response to energy security and climate change challenges. To name a few, TEQs:

    a) were considered in the UK in 2008, but failed to make traction there and have not been part of government policy there at any time. Nor in any other part of the world;

    b) would contradict the purpose and efficacy of the ETS;

    c) fail to recognise economic incentives, how pricing works, and why pricing is the most effective tool;

    d) create additional complexity, costs and administrative burden, at the individual citizen level and across the economy;

    e) could entrench a new black-market for energy consumption and produce unintended consequences, such as exacerbating the current sluggish innovation and investment in much needed thermal energy generation, leaving New Zealand more vulnerable to blackouts when reliable alternatives are not yet available;

    f) would create new inequalities and market distortions;

    g) seek to duplicate, albeit in an inferior and ill-informed way, existing legislated mechanisms for managing externalities and incentivising lower carbon products, i.e., the ETS and the emissions budgets; and

    h) destabilise the economy at a time when stability is desperately needed, particularly for carbon pricing.

The reality about emissions reductions in New Zealand

15. New Zealand's net emissions are coming down. The recently published annual Greenhouse Gas Inventory 1990-2022 revealed New Zealand's Greenhouse Gas ('GHG') emissions had fallen by 4 per cent and were at the lowest level since 1999.

16. The energy sector had the largest reductions, in part because of the closure of the refinery at Marsden Point, and lower emissions from road transport which has been attributed to the uptake of electric vehicles.

17. With GHG reductions being achieved earlier than anticipated by the Commission, we see there is an opportunity to reimagine and collectively curate the optimal pathway towards net zero by 2050, and beyond. The pathway should be economy-wide, least cost to New Zealand, and encouraging of innovation.

18. Earlier than anticipated emissions reductions are nice to have if they can be achieved at least cost, but it is vital that the government can hold true to its

coalition agreement statement to "ensure that climate change policies are aligned and do not undermine national energy security".

New Zealand needs to maintain a firm focus on global net zero emissions by 2050

19. Energy policy of recent years disincentivised investment in natural gas and has made New Zealand's energy system more reliant on coal imports, vulnerable to price volatility and extreme weather events, and these will only increase with climate warming. More exploration and investment in indigenous, 'home-grown' natural gas is preferable to inferior imports, such as coal and LNG, and supports a diverse, affordable and secure energy system that underpins the achievement of our climate goals while keeping the lights on and the economy running.

20. Rationing the use of fossil fuels is a naïve goal when massive growth is required in electricity generation to meet the growth in demand for energy. Fossil fuels will be critical in securing the electricity sector over the coming decades. With current demand already going unmet the next ten years will be the most critical, but risks will continue into the future as the system becomes more volatile.

21. To get there, the best approach is to continue the steady and practical approach that has already been laid out in legislation with bipartisan support for the Climate Change Response Act 2002 to produce the needed outcomes for all New Zealanders, and the planet.

Carbon Capture and Storage and net emissions reductions

22. We disagree with the assertion from DANZ that the core problem with climate change is the extraction and use of fossil fuels, such as natural gas. The core problem is with the accumulation of emissions in the atmosphere, which causes global warming. DANZ appears to misunderstand the concept of **net** emissions reductions.

23. CCS is an abatement technology that eliminates emissions before they enter the atmosphere. It has recently been incorrectly labelled by the Climate Change Commission as a 'carbon dioxide removals' technology. CCS ***is not*** an offset or removal, it can prevent emissions from entering the atmosphere in the first place.

24. In its 2023 New Zealand country report, the IEA expressly noted the application of carbon capture, utilisation, and storage for major gas users would be consistent with the government's climate policy.[2] Further, it was recommended the government could investigate the coupling of CCS technology with gas fired generation to provide grid flexibility, particularly in the dry-year scenario.

---

[2] See page 140 of the IEA New Zealand 2023 Energy Policy Review, available at: https://www.iea.org/reports/new-zealand-2023

25. The view formed in the country report by the IEA echoes growing international recognition of the need for CCS to support decarbonisation efforts. This view is demonstrated (for example) in the commitments from the British and Australian governments.[3]

Concluding comments

26. The proposals for investigating a new electronic national system for rationing fossil fuel use in New Zealand with TEQs make no sense. New Zealand has a legislated pathway to reduce emissions to net zero by 2050. TEQs are unnecessary and would be destabilising to the economy.

27. This idea does not warrant any further political or other attention.

28. We would like to thank the Committee for the opportunity to submit our views on this topic.

[3] Statements from the British and Australian governments on the necessity of CCUS to achieve their decarbonisation commitments are available here and here respectively.