

30 August 2019

PEPANZ Oral Submission: Climate Change Response (Zero Carbon) Amendment Bill

Introduction

Tena koe – greetings

At PEPANZ we represent the upstream oil and natural gas industry in New Zealand: those who explore for and produce this energy which is so important to our quality of life.

To give you a quick bit of context: natural gas and oil provide over half of New Zealand's total energy. They create around 11,000 jobs and add around \$2.5 billion to the economy each year. The Government also earns around \$500 million per year in taxes and royalties from the sector.

Around 400,000 New Zealand homes, schools, hospitals and businesses rely on natural gas. It provides energy for cooking, heating and hot showers and powers many of our most important industries.

I'd like to start with some positive comments on the Bill. It's very pleasing to see meaningful consultation and careful consideration of evidence, which should lead to good policy outcomes.

In a nutshell, we support the intent of the Bill to lower emissions but want to ensure this is done in the most efficient way that minimises the cost to New Zealanders, because the potential costs are enormous.

Emissions

Reducing emissions is something our industry is committed to. Natural gas in particular has a major role to play in both the transition to, and as part of a lower carbon world.

It has half the emissions of coal, and as a result switching to natural gas around the world is helping cut emissions. This is a major reason why the US and the UK have reduced their emissions in recent years.

This is a big reason why global demand for natural gas is booming. It's seen as a fuel of the future with demand expected to increase 45% by 2040.

Trade competitiveness

One of our main recommendations with this Bill is that emissions reduction policies should be comparable with our trade competitors.

If we move too fast and far ahead, then many industries could simply leave New Zealand and produce elsewhere. In many cases they could well use coal instead, which would mean an increase in global emissions and a major economic blow to New Zealand.

So it's imperative the Climate Change Commission has the flexibility and expertise to consider this issue and avoid such a lose-lose outcome, given we are a trade exposed and export dependent nation.

Therefore we recommend that understanding the impacts of emission reductions policy on business competitiveness should be a key statutory factor for both the Commission and Minister.

The Commission should have the flexibility to take into account actions by our trading partners, and other new developments such as new technologies.

The Commission should also be required to consider the impact of decisions on energy security and supply for New Zealanders.

International credits

We disagree with the Bill's arbitrary presumption against international credits, with the explanatory note stating they should be a "last resort".

We think quality international credits can be a very important tool.

For example, if Australia could reduce emissions for a lower cost than New Zealand, it would make sense for New Zealand to purchase emissions reductions made by them rather than trying to reduce our own domestic emissions by the equivalent amount at a higher cost.

Economic modelling commissioned for the Ministry for the Environment shows access to these credits could dramatically reduce the cost of lowering emissions for New Zealand by as much as \$15 billion by 2050.ⁱ

Carbon Capture and Storage

We'd like to see the Bill's definition of net emissions include carbon capture and storage (CCS), which involves capturing emissions and storing them underground.

According to the IPCC, CCS is essential to reducing net emissions and the world cannot meet its Paris emission targets without it.ⁱⁱ

It is a present and affordable technology today. Around the world there 21 large-scale active projects including the Gorgon project in Western Australia, and a project has been proposed for New Zealand.

However New Zealand has no legislation to specifically enable CCS which creates uncertainty and disincentive to invest. We note the Productivity Commission recommended this be addressed in their report into a *Low emissions economy* last year, and the Government has committed to consider this next year.

We welcome this commitment from the Government.

Multilateral support

We want to note the importance of broad political support for this Bill, because without it the long-term goals will not be achieved.

We hope the committee and political parties can establish a regime which has broad political support, with support from both major parties being especially crucial.

Without this, certainty and stability will not be achieved and businesses may lack the confidence to invest.

We support the Commission being advisory only and politicians making the final decisions given they are publicly accountable.

Title of Bill

Finally, we respectfully query the accuracy and appropriateness of the title of the Bill - the Climate Change Response (Zero Carbon) Amendment Bill.

The aim of the Bill is actually to achieve NET zero emissions, not zero carbon which would be impossible given all life on earth is carbon based. The targets also relate to other emissions such as methane and not just carbon.

In light of that, we suggest the Committee consider whether a more accurate name can be selected.

Thank you and happy to take any questions.

ⁱ [*Economic impact analysis of 2050 emissions targets: A dynamic computable general equilibrium analysis*](#), NZIER (2019) page xvi

ⁱⁱ IPCC Special Report: Global Warming of 1.5C Chapter 2: 2.6.3 Carbon Dioxide Removal (CDR) “Most 1.5°C and 2°C pathways are heavily reliant on CDR at a speculatively large scale before mid-century” p158.