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Dear Sarah

Submission on 'Responsibly Delivering Value'

The BusinessNZ Energy Council (the 'BEC') is pleased to have the opportunity to provide a submission to the Ministry of Business, Innovation and Employment ('MBIE') on its draft consultation document entitled 'Responsibly Delivering Value: A Minerals and Petroleum Resource Strategy for Aotearoa New Zealand: 2019 – 2029'.¹

Introduction

The purpose of a strategy is to help shape an eventual set of actions. Its purpose is to act as a touch-stone against which subsequent actions can be prioritised. It acts as a tool to guide the allocation of resources to highest value use. This then gives meaning to one of its other key roles – that is, to act as an accountability mechanism to ensure that the highest value outputs (as inferred by the strategy) are being delivered.

As a broad, generally accepted characterisation of the purpose and role of a strategy, we are left somewhat confused by 'Responsibly Delivering Value: A Minerals and Petroleum Resources Strategy for Aotearoa New Zealand: 2019 -2029'. We are quite simply unsure what to make of this 'strategy' – both in terms of how to understand its meaning and therefore impact, and what action to recommend to our members to take as a result of it.

¹ Background information on the BusinessNZ Energy Council is attached in Appendix One.

Comments

It is generally accepted that the purpose of setting an objective or goal (or in this case, a 'vision') is to clearly articulate what it is that is sought from a subsequent policy intervention. This enables proposed policy interventions to be assessed in terms of their expected effectiveness in delivering on the objective and monitored in terms of their actual delivery.

Fundamentally, for a strategy to be effective, it needs to have a context. In the case of this 'strategy', this needs to be an overarching economic one. The key missing question is what is the role of our natural resource endowment in a low emissions future? And further, what is it that New Zealand will be selling to the rest of the world in say 2040, or beyond, that will retain and grow our economic prosperity and wellbeing? This is important as it will give context to the likelihood or not of New Zealand's lithium potential ever being realised.²

The implication of the omission of an overarching economic strategy is that rather than being couched as open-ended and exploratory in terms of resource and technology choices that allow for private sector innovation and investment in its pursuit, the strategy reads like an implicit narrowing of the sector. The outcomes feel pre-determined. The evident expectation or intent is for there to be less fossil fuel resource development and more climate friendly development. It would be far clearer if this is what the 'strategy' said. Similarly, if the Crown no longer wishes to maximise its returns, then it should simply say so.

This view has been recently, and succinctly outlined by Enerlytica as follows:

"the direction of travel signalled in the initial burst of CMA release material will serve in our view only to deter the investment that is required to stabilise the market. The exploration ban has already inflicted major collateral damage to NZ's international reputation among investors and in our view the signalling from the Resources Strategy in its proposed form would only add to this sentiment. The read-through for NZ Inc is of reduced self-sufficiency in domestic energy and a much greater risk of ongoing energy shortages."

This narrowing of focus seems inconsistent with what we understand of the Government's economic strategy. At a pre-budget speech to the Craigs Investors Conference on 23 May 2019, the Minister of Finance outlined his thinking as follows:

"In short our Government's vision is for a modern economy that is productive, sustainable and inclusive. What do I mean by that?

- Productive means doing more with what we have, moving our products up the value chain, and producing things in new and innovative ways.
- Sustainable means meeting the needs of the present without compromising our ability to do so in the future, both in an environmental sense, and in an economic and fiscal sense.
- Inclusive means ensuring that all New Zealanders get a fair go, have a chance to contribute to our economy, and get to share in the benefits of growth."

² For example, there is nothing in the strategy that gives any indication that the minerals necessary to build low emissions technology such as batteries and wind turbines will most economically be explored for in New Zealand. Or if so, whether then there will be manufacturing capability developed here to utilise it, or if the minerals will not be processed here but exported? And why this would be likely to happen here in New Zealand and not in other countries?

This characterisation of an open and engaging society and economy would appear to at least be open to the possibility of growing demand for natural gas, and stable demand for oil, and their role in delivering economic benefits. We note the Australian National Resources Statement has a positive view of natural gas and the economic benefits from production in Australia.³

Government positioning statements in the 'strategy' imply major institutional change ahead for the New Zealand extractive and energy sectors. It is hard to imagine this document being taken by senior executives into their Boards with anything other than indications of growing unpredictability surrounding the regulatory framework within which they operate and heightened risk. The growing unpredictability from such positioning is reinforced:

- in the specific use of language in the 'strategy'. For example, under Action Area 2, 'what we aim to achieve' is stated:

"Make sure we have access to secure and affordable supply of resources, *such as aggregate* (emphasis added)

- by the principles that "should help guide action that will occur in the sector ...". By any simple explanation, these principles are intended to be the rules, or 'touchstones' against which we will be able to assess how the Government gets the sector it wants. To be blunt, we have no idea how the 16 principles will be operationalised or importantly, how the trade-offs between them will be managed. As drafted, they could be used to 'count-in', or indeed 'count-out' anything; and
- by the detail in the Phase 2 terms of reference. For example, here are just two (ostensibly two of the more minor) examples of how uncertainty is now being hard-wired into the system:

"18 **Land access arrangements** – Land access arrangements will be reviewed, in light of the overall objectives and outcomes of the review. Options resulting from the 'No New Mines On Conservation Land' policy work stream will also be addressed by Tranche Two. 19.

19 **Non-interference provisions** – Provisions were introduced into the CMA in 2013 to prevent interference with vessels undertaking activities under an offshore CMA permit. I intend to evaluate whether the current provisions unnecessarily restrict free protest, and whether the CMA is the most appropriate Act for these provisions."⁴

Investors are likely to interpret these proposals as a probable derogation of their ability to help maximise the value of the resources they extract for the Crown.

³ See <https://www.industry.gov.au/data-and-publications/australias-national-resources-statement>.

⁴ Undated Cabinet paper from the Office of the Minister of Energy and Resources to the Chair, Cabinet Economic Development Committee, entitled 'Crown Minerals Act 1991 Review Tranche Two – Terms of Reference', page 3.

In light of the above, we think that the diagram on page 9 entitled 'Overview of the Strategy' needs to be recast as follows:



This simplifies the core of the document, and in doing so:

- orientates the strategy towards the nature of the economy that the Government seeks (or put another way, helps nests the sector into such an economy). In doing so it empowers the sector to engage in a constructive conversation about how it can play a role in both the new future economy and help facilitate its emergence;
- puts the vision and objectives at the centre (between the economy and the actions to deliver it) and inserts the missing two legs of the energy trilemma (affordability and security). This seems like an unusual omission when as recently as 16 July 2019, the Minister of Energy and Resources outlined how”

“We can have an ambitious goal while also being pragmatic. We will be conducting five-yearly assessments to ensure the energy trilemma of affordability, sustainability and security is well managed.”
- details the strategy or the ‘how’- of a sector that delivers on the vision in certain ways (the three attributes listed in the centre panel);
- places the actions into a ‘tone’ that doesn’t automatically presume that there is a problem. In this configuration it also allows for the possibility that there may be other actions that could be developed to deliver on the vision and objectives; and
- removes duplication and importantly, the principles. With respect to the principles we pose a (hopefully) simple test to officials: put yourself into the shoes of a business and ask yourself “what tangible actions would I take with confidence in response to the guiding principles?”

In the absence of such changes, the following exhortation on page 5 of the 'strategy':

"To meet these challenges (of a transforming energy system), the minerals and petroleum sector *needs to plan now*, in order to build a more productive, sustainable, and inclusive economy." (emphasis added)

especially without any detail about what "a more productive, sustainable and inclusive economy" might look like - sounds hollow, and cannot be acted on.⁵ To move with confidence, sector participants need to understand the rules of the game – the shape of the regulatory framework within which they will operate and make decisions - and they now also need to understand that the rules will not change halfway through the game, as they did in 2018. Existing investors will be particularly attuned to this risk.

Summary

On the one hand resource sector participants could legitimately say that the vision, objectives and principles describe the sector and its actions now and that it would be judged well against it. But this is clearly not its intent. Rather it appears that its intent is to lift the bar for the resources sector in ways not yet revealed.

We recommend that the MBIE abandon the 'strategy' and focus on good public policy development in the action areas, or as a second best alternative, go back to the drawing board to try to make the 'strategy' more coherent and useful.

Yours sincerely



John Carnegie
Executive Director
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⁵ Indeed in a recent note from Enerlytica, under a heading of '**Confused, disparate, unbalanced public policy and process**', the following was outlined: "The terms of reference for the review signal an intention to replace the CMA's current emphasis on economic development with as-yet undefined principles of sustainability, fairness and wellbeing. The narrative suggests not so much a tilting of emphasis away from the CMA's existing purpose of maximising the economic benefits to the Crown as owner of the resource as inferring a jettisoning of it."

Further to the proposed addition of security and affordability into the vision statement, Enerlytica also notes "In our view the strategy document lacks balance by ignoring almost entirely two of the three fundamental dimensions that the sector typically looks to in framing its planning. The focus on Sustainability is absolute, while consideration of Security and Affordability is almost entirely absent."

APPENDIX ONE: ABOUT THE BUSINESSNZ ENERGY COUNCIL

The BusinessNZ Energy Council (BEC) is a group of New Zealand's peak energy sector organisations taking a leading role in creating a sustainable energy future. BEC is a division of BusinessNZ, New Zealand's largest business advocacy group. BEC is a member of the World Energy Council (WEC). BEC members are a cross-section of leading energy sector businesses, government and research organisations. Together with its members BEC is shaping the energy agenda for New Zealand.

Our vision is to support New Zealand's economic wellbeing through the active promotion of the sustainable development and use of energy, domestically and globally. With that goal in mind, BEC is shaping the debate through leadership, influence and advocacy.

BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).



www.businessnz.org.nz