

WHERE TO FOR NEW ZEALAND'S ENERGY REQUIREMENTS IN THE YEARS POST 2005?

Ross Robertson MP
Labour Energy Spokesperson

I welcome the opportunity to address the 1991 New Zealand Oil Exploration Conference and to pose the question: 'Where to for New Zealand's energy requirements in the years post 2005?'

If we are to maintain our current level of energy self-sufficiency we need more exploration. We need more investment. We need each other.

I have been chosen for the energy portfolio, and admittedly I am still coming to terms with many of the more complex issues. What I do know is that it is people like yourselves—the explorers, the risk takers—that continually show the way and help build an economy. Your industry has an important part to play in New Zealand's future.

As Labour's spokesperson on energy, you have asked me to put forward the Opposition's view on the New Zealand investment environment relating to the petroleum exploration and mining industry. I welcome the opportunity to outline current Labour thinking in regard to energy policy, but I also welcome the opportunity to meet with you and listen to your concerns.

Last week I visited the McKee and Waihapa fields in the energy hub of New Zealand—an experience that I found extremely valuable. I appreciate the opportunity to gain a working knowledge of your industry. I would like to thank PEANZ and Petrocorp for the hospitality shown to me on my visit. For me, one of the most striking features of the trip was the skill base we have in our energy sector.

While the New Zealand oil exploration and mining industry is very small on a world scale, it has become increasingly important within the New Zealand economy. Indigenous gas supplies nearly 30 per cent of the country's energy needs, and indigenous oil nearly 10 per cent. If synthetic petrol and CNG and LPG supplies are added to this, between 55 and 50 per cent of New Zealand's oil and transport fuel needs are currently being met by the petroleum industry. This is all to the benefit of the New Zealand economy, although some of this self-sufficiency was achieved at great cost.

In Government, Labour took a holistic view of the New Zealand economy. That is, we looked at your industry in relation to the economy as a whole. At the heart of the Labour Government's economic policy was the liberalisation or 'freeing up' of the New Zealand economy. Deregulation and sectoral reform were major policy themes. Because it is so central to wider economic performance, reform of the energy sector was seen as crucial. The Government's aim in promoting deregulation and reform was to improve resource use and investment decisions. This was done by encouraging independent, commercially oriented investment decisions.

Government involvement in the petroleum exploration industry has been considerable. From 1979 to 1985 the

Government had financed approximately 40 per cent of the investment in the industry. In contrast, Labour sought to foster initiative and enterprise by allowing the marketplace to determine where people saw the most profitable investment and returns.

The Government has a key role to play in shaping the overall business environment. An environment that allows the investor to get an acceptable return on his or her investment dollar is essential. The higher the estimated return, the more attractive the investment regime. The rules should be clear, and provide certainty.

Consistent with this policy is our belief that the taxation regime should not drive investment decisions. The taxation regime that was put in place in the early 1980s included considerable incentives to promote petroleum exploration. We sought to tax investment in petroleum mining more neutrally, relative to investment in other sectors of the economy.

It is still our belief that New Zealand was not well served by a taxation regime that favoured particular activities or sectors of the economy. The experience of the kiwifruit industry offers a salient reminder. However, it was never the intention of the Labour Government to introduce legislation that deliberately penalised any industry or acted as a block to investment. I appreciate your view that New Zealand's tax legislation needs to be considered in light of New Zealand prospectivity.

I accept that there is a need for us to sit down and re-examine the taxation issue. The submission by your industry on the Taxation Reform No. 4 Act provides a useful framework with which to measure the appropriateness of the current taxation regime. In that submission you stated that the industry does not seek special favours or concessions, but does seek:

- certainty;
- tax neutral treatment consistent with other industry sectors;
- an adequate balance for fiscal purposes between cost, risk and reward; and
- to have numerous disincentives in the draft legislation removed.

These factors must all be carefully considered.

Possibly the industry's strongest argument is that we need to ensure that a certain level of petroleum production is achieved in this country. It is true that unless new discoveries are made, our degree of self-sufficiency will fall dramatically over the next 10 years. My view is that we should encourage the greatest possible level of economically efficient self-sufficiency.

What that means is that we should neither particularly encourage nor discourage petroleum exploration and development through the provisions of the Income Tax Act.

The biggest incentive must be provided from the ability to make a profit from running an efficient business - in a word, greater productivity.

Tax law doesn't stand on its own. We need to take into account all costs that are imposed on industry by government.

Another factor that affects investment in the petroleum industry is the type of royalty regime imposed. The objective of a royalty is to obtain a fair return to the Crown from its resources, with the Crown being paid some of the economic rent gained with the exploration of the resource.

There is a need to review the current regime. As the Ministry of Energy pointed out in 1989: "there is disagreement between the Government and companies about the nature of the costs, the point at which valuation should take place, and the appropriate discount rate."

In a high risk industry such as yours, certainty is the key to any investment decision. In Government, we looked at alternative mechanisms for the Crown to obtain economic rent, the objective being a pricing mechanism that would best meet the objectives of the Resource Management Law Reform legislation.

Discussion papers were released by the then Ministry of Energy, with PEANZ and various member bodies of PEANZ making submissions. I commend this type of approach of involving the interested parties and I look forward to meeting with you for further discussions on this issue. I have found from personal experience that where people are involved in decisions affecting them, the process of change and reform is far more workable.

Resource management law reform was driven by the desire of the Labour Government to have efficient and accountable administration processes. By integrating some 54 pieces of legislation, we sought to bring certainty and consistency in approaches to resource management decisions. The advantages of this in attracting new investors, particularly for your industry, are obvious.

As Labour energy spokesperson the Act was a challenge, for I believe mining has its place in the development of our country, provided it meets sound environmental standards. That does not mean that mining should proceed without regard for others, but that each case should be determined on its merits under the rules developed in the Resource Management Act.

It was the intention of the Labour Government to bring together in one statute all the consent requirements needed to proceed with resource use. I believe that removing the allocation of minerals from the Act was a backward step. A step that in essence defeats the purpose of introducing such legislation. It was always our intention that the Resource Management Act should be an umbrella Act. Splitting

minerals from the Act diminishes this aim. I appreciate that the issue of sustainability is a difficult one, but by having a separate statute it only avoids the issue. In government, Labour will be reviewing the operation of the Resource Management Act and the Crown Minerals Act.

There has been considerable growth in the New Zealand petroleum industry over the last decade. That growth, however, has been confined to two fields; Maui and McKee. If New Zealand is to maintain its current level of energy self-sufficiency, further investment in the petroleum industry will be essential.

The prospects for the development of additional fields depend on the world price of crude oil, the tax and royalty regime in place, and the ability of companies to accumulate investment capital. New Zealand's petroleum exploration and development regime must remain competitive if we are to get this investment.

As I have stated already in my address, there are areas of concern that need to be revisited. I hope this process can begin now.

Before I conclude, I would like to outline where Labour is at, in regard to the development of our 1993 energy policy. As you may be aware, we have just recently held our Annual Conference. This Conference was important, because it marked a fundamental change in the way Labour develops policy. This Conference signalled the completion of the first phase of that policy development. That is, we have focused on our aims and values as a political party.

The next step is for Labour's spokespeople to make contact with representatives of all the major sector groups. Following these discussions, and in conjunction with the relevant Parliamentary Caucus Committee and the Party Policy Committee, Labour's 1993 energy policy will be forged. We are working toward developing an integrated economic and environment policy. Energy policy will be at the centre of this debate.

We need to ask ourselves why our energy usage is still increasing, when energy usage for all other OECD countries has fallen—particularly so when this growth is considered in the context of a contracting economy.

I believe that our energy policy will recognise the fact that the government does have a role in determining a long-term energy strategy. As a nation we must be positive about our future. In regard to petroleum exploration, New Zealand is still a virgin country. My challenge to you is to invest in New Zealand's future—we are still a young country.

I thank you for the opportunity you have given me and look forward to your contribution to our policy process. I wish you a very successful conference.

Author

ROSS ROBERTSON, prior to entering Parliament in 1987, was an industrial engineer for 15 years specialising in workplace reform, productivity and payment by results. He has a deep interest in management/union co-operation, productivity/quality, worker involvement in decision making in industry, and has promoted a private member's bill, the Productivity Council Bill to implement these ideas.

He worked in a large multinational company for 8 years, and then 10 years for the Auckland & Tomoana Freezing Workers Union as a consultant, a position which is unique in New Zealand.

He holds Diplomas in Management and in Business Administration, and is an Associate Fellow of the New Zealand Institute of Management Services and an Associate of the Institute of Industrial Engineers. He is a graduate of the NZ Institute of Management Staff Course at Waikato University, and has a number of units towards the Chartered Institute of Secretaries and Administrators qualifications. He has also qualified as an MTM (methods time measurement) practitioner.

CONSERVATION AND DEVELOPMENT— AN OLD CHALLENGE

P G Purcell
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Abstract

A basic conflict between conservation and development is generally seen as a contemporary phenomenon. This is not the case. Throughout history the city and the wilderness have been both idea and environment for urban man. The conflict between them is expressed in the earliest mythology and has recurred constantly. The industrialization of recent centuries, and particularly of recent decades, has sharpened the debate but it is ancient nonetheless.

That conflict is misdirected: conservation and development are interdependent. They are the same process on different time scales. Development is the use and management of the biosphere to provide for the present. Conservation is the use and management of the biosphere to provide for the future.

The widespread concern about the environment in industrialised, developed nations today combines scientific and emotional components. The scientific component is a new and valuable appreciation of, and commitment to, the global ecology. The emotional component is more an anti-technology mood, and is an historically cyclic phenomenon of complex origins.

Modern environmentalism is a complex amalgamation of those ecological concerns with wide-ranging socio-economic and political reforms. Those reforms generally involve the concept of restricted economic growth, especially in Western economies, and derive from a pessimistic world view historically common among intellectuals. The ideology directing the environmental agenda today is known as deep ecology. It accords all nature, including inanimate elements, equal rights with man, and rejects the notion of resources because it defines nature in terms of value to man. Conservation is denounced as controlled exploitation.

It is environmentalism, not conservationism, which is in conflict with development. A balanced reconciliation of conservation and development is proposed in the concept of sustainable development. That balance and reconciliation are imperative but are not part of the programme of most environmentalists, either privately or in government. Their pessimism about man, technology and the future must be challenged. There is no solution in a return to the forest, literally or metaphorically.

Introduction

About ten thousand years ago, when men began to turn from hunting to farming, they had first to cut down the trees. It was a painful task. The spirits of the trees had long been kith and kin. The cleared fields gave back harvest. The hamlets clustered into villages; the villages circled into cities. From those first cities would come the written word, the beginnings of mathematics and science, new gods, new technologies.

Far beyond the city walls, that first urban man could see the forests of his origins, and he looked on them now with both fear and longing. Those dark woods hid plundering hordes that ever threatened to overrun him. At the same time, he had inherited what the poet T.S. Eliot (1940) would later call "an insoluble memory of something lost in the forest". Perhaps it was a sense of unity with nature. Or some nostalgic memory of the freedom of the wild. Whatever the reasons, he was torn between the city and the forest. He still is.

That painful passage from forest dweller to urban man was first told in the Epic of Gilgamesh, dating from about 2000 years before Christ. Gilgamesh was the king of the

Sumerian city of Uruk, and the epic recounts his struggle, and his reconciliation, with the forces of nature and civilization.

This is not simply historical trivia. The Epic of Gilgamesh is one of the oldest written myths of Western civilization. Four thousand years ago, when men first sat down to write about what troubled them, they wrote about the conflict they felt between the city and the forest, not only as environment but as idea.

The first lesson of history, then, is that current feelings and fears about nature and civilization are not simply recent phenomena. They may be in modern guise, with modern causes and components appended, but there are ancient ideas and emotions involved. This paper is about those ideas and emotions, about their ancient origins, their influence in recent centuries, and their modern expression.

The historical perspective allows a view of the present against the patterns of the past. That is especially important today when so much of the environmental debate is focused on the perceived needs and preferences of future generations. We disagree with previous generations on matters of science

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