ASPECTS OF LABOUR'S ENERGY POLICY

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It is a pleasure to speak today.

I should start by offering my congratulations to those who decided upon the theme for this conference — the post Maui Challenge. It is an apt and timely theme.

For me there is a sense of deja vu which I would like to share. Today is the first day of March. Fifteen years ago this month I began research for a policy paper on our nation's energy options. The words "Think Big" had not entered New Zealand's political vocabulary at that time. They were still some months off. However, it was clear that our nation had to decide how to best use the Maui resource, and my views on that turned out to be very different from those of the Liquid Fuels Trust Board and the National Government. The paper was finally printed, about six months later, and contributed significantly to Labour's 1981 energy policy.

Reading it again recently, for the first time in many years, I discovered that a recurring theme was what I called the post-Maui era. It seemed to me that the energy pathway the Government was proposing would effectively squander Maui. Moreover, we had to give thought to dovetailing replacement energy sources when Maui ran out. Accordingly the paper argued for a partial transition towards methane and propane as significant components of transport fuels. In general it argued for the more direct use of the various components of natural gas. "Think Big" did not represent that pathway, except to a very modest degree.

History records that Labour opposed "Think Big," but that it proceeded nonetheless. That gas is now through the gate and no amount of re-litigation will bring it back. But the issue of dovetailing our energy needs into the forthcoming decline in Maui gas remains in front of us. The post-Maui era and, therefore, the post-Maui challenge are significant issues.

They are not overwhelming issues. Public opinion on Maui, whilst not particularly focused just yet, includes a view that the demise of Maui is a huge problem. It is not a view I subscribe to. It is a significant problem, but it is also a significant chance for us to handle our finite resources in a very different way in the future.

What, therefore, is the appropriate contribution that Labour might make to this debate on the post-Maui challenge?

I have elected to use this opportunity to outline some aspects of our energy policy. I shall dwell first on energy efficiency, then briefly on more immediate issues facing your industry.

The starting point for Labour on all matters to do with energy policy is energy efficiency. New Zealand is almost the least efficient user of energy in the western world.

The measurement I am using in that assertion is the internationally accepted one — the ratio of primary energy use to gross domestic product. I am sure that most delegates are well aware that most western nations moved to disengage their energy growth from their GDP growth in the mid- and late seventies. New Zealand did the opposite. Our nation, almost alone in the western world, became a more intensive energy user, not a less intensive one.

Accordingly, we are now 25% less efficient than the supposedly profligate United States, 30% less efficient than Britain and its smokestacks, and 55% less efficient than highly industrialised Japan. This awkward reality is often rebutted with the argument that our energy consumption is high because of the make up of our industry. After all, it is said, we are in the business of adding energy, and thus value, to primary products. We export energy in our meat and dairy products, not to mention forestry, steel and aluminium.

That argument doesn't stand up to the facts. If the consumption of energy for meat processing, dairy processing, forestry processing, steel production and aluminium smelting is totalled, it comes to 22% of all our consumption of energy. Thus if we could somehow reduce that consumption to zero, with no associated reduction in production whatever, we would still be less efficient than the three nations mentioned earlier.

As an argument it will not do by itself. It is part of the reason for our high energy intensity, but alongside must be listed "Think Big," as well as our sparse population, a history of cheap electricity, geographical factors, building standards, our propensity to do a lot of private motoring, the embryonic nature of our energy efficiency industry and a wide range of social and attitudinal factors.

Labour views an improvement in energy efficiency not as a necessary evil but as a significant opportunity. There are three reasons.

The first is economic. Energy is a $5 billion industry. The fact that we use it inefficiently is scandalous. It is an essential component of every other economic activity. Excepting domestic consumption, as well as methanol, condensate and coal exports, energy is not an end in itself. It is only an input to other ends. Accordingly, it deserves the same attention as has been focused on other inputs, such as land transport, port reform and public administration. Our success in becoming more energy efficient will be measured in our ability to delay the construction of new electricity generation, or on our level of self-sufficiency in liquid fuels compared with what might otherwise be. There is enough demand side management that is cheaper than new or existing production. It makes good sense to get on with it. There is money to be made.

The second reason is environmental. As the debate on global warming progresses; New Zealand can, and should, deliver its contribution to the international effort by increased energy efficiency. New generation from renewables should not be overlooked in this regard, but increased efficiency is the single largest component of our potential ability to reduce greenhouse gas emissions. (I am defining efficiency as including both consumption and production — end-use efficiency as well as fuel switching.)

Efficiency has a major role to play.

How major? The literature is highly variable on the potential for energy efficiency gains in western democracies. However, nearly all such research is carried out in nations which are already well ahead of us. It is easier to become the most improved player if you start off in last place. To use another analogy, most other nations have already picked the low fruit. We have not. At a conference on the subject last week, hard-headed practitioners were talking about savings of 20% to 50% for the non-transport sector.

Efficiency measures will be delivered at differing speeds. Some gains can be made rapidly. Other gains are potentially rapid, but will be at least partly delayed for either contractual or technological reasons. Other gains still will be made over a generation, rather than over a year or a decade.

The third reason that energy efficiency is at the heart of Labour's energy policy is employment. Here the data is more difficult to ascertain. It can generally be asserted that greater energy efficiency leads to higher levels of employment. How much higher is harder to discern, though we are talking thousands of jobs, not hundreds. In short, energy production or generation tends to be capital intensive, whereas energy efficiency tends to be labour intensive.

The barriers which prevent us using our energy efficiently are both numerous and substantial.

Some of the barriers are to do with pricing. They are market barriers. These include, for example, all the electricity pricing "puzzles" that are presently exercising the collective mind of the Wholesale Electricity Market Development Group. The outcome of those deliberations will have a direct bearing on the reticulated gas market as you will be aware. They will also have a large impact on the size and importance of the emerging energy efficiency industry.

Some of the barriers are technical. For example, the direct use of gas in purpose-built CNG vehicles does not occur in New Zealand because the world does not yet produce suitable vehicles for our market. The hope is that that barrier may soon be overcome. By contrast, some of the new technologies such as fuel cells are still some time away, despite spectacular progress in the last two years.

There are plenty of other barriers too, that are much less obvious and come under less defined headings such as social, cultural, attitudinal or financial. A classic example is the huge rate of return that people expect on energy efficiency investments, compared with other investments that reduce input costs.

If the causes are numerous, and complex, then inevitably so must be the solutions.

What is a Labour response to these issues? In essence, we will deal with them one by one. If the various reforms of recent years settle into a market that allows efficiency to compete equally, and fuel switching decisions to be made appropriately, then we will be happy. If they do not, and to at least some extent that is the more likely prospect, then we will regulate. We will regulate as much as necessary, and as little as possible.

That is our view on all aspects of energy efficiency. If building codes need tightening, if education or pilot programmes are appropriate, if standards for motor vehicle fuel consumption, or for compact fluorescent bulbs need to be set, if rolling funds need to be established, then we will do all of those things. They are detailed in our pre-election policy and I shall not dwell on them further here.

I will, however, spend a moment on the issue of carbon taxation, lest you find its omission ominous.

Firstly, I should say that the response of one prominent energy user, the Road Transport Association, to a recent research project on the issue, simply will not do. Labelling the findings of that research as disgraceful propaganda is not an adequate response to an unsurprising set of findings. That particular experiment, conducted on behalf of the Ministry for the Environment, used the same computer model as the Tasman Institute and the Fletcher Challenge experiments. It generated different results because it asked different questions.

Taxation is one of several economic instruments available to achieving environmental outcomes. We like economic instruments. In government we used a tax differential to reduce the use of leaded petrol, and we deployed trading rights to deal with both ozone-depleting substances and the move towards sustainable fisheries.

Economic instruments do not always work, and they rarely work if unaccompanied by some regulatory framework. Their main attributes are that they can reduce the cost of change and that they can reduce the need for regulatory enforcement.

As for a carbon tax, we are well aware of the benefits and pitfalls. We know that a major reduction in carbon dioxide emissions can be achieved by various forms of energy efficiency. In so far as a carbon tax is another tool, we do not intend to dismiss it. However, it is clear that the evidence is mixed and variable and it is clear that a carbon tax will only ever be part of the solution. It is also clear that even a modest carbon tax may have a deleterious effect on the economy if not fiscally neutral, and it may have a range of good and bad effects if it is fiscally neutral.

In our view the debate should continue, and so should the research.

As to the carbon dioxide debate itself, I am aware of a body of opinion that it is an inconclusive debate. Just like the assertions of the Club of Rome a quarter of a century ago, it is argued by some that this debate may turn out to be a non-event. My response could be to point out that the vast bulk of qualitative evidence is strongly the other way, even if quantitative evidence of the effects is still hazy and likely to remain so for another decade.

However, that is not my argument. My argument is that we have a $5 billion industry that is inefficient and that should be more efficient. There are excellent economic reasons to deal with energy efficiency, and therefore the global warming debate need not intrude on our determination to make progress. The global warming debate is far from irrelevant, and we certainly have international obligations. However, it is not a debate that we need to definitively resolve. Irrespective of one's viewpoint on global warming, the case for energy efficiency remains strong.

To use energy efficiently one must have some to use in the first place. That is why this conference is being held.

It is clear that New Zealand will have a need for petroleum products in the foreseeable future. Beyond that the only certainty is that we are dealing with a finite resource. Not as immediately finite as some commentators would have us

believe when I was at secondary school so that now the issue of sinks, not sources, may well transpire to be the more immediate limiting factor.

It is equally clear that these resources will need to be husbanded a good deal more carefully in the future than they have in the past. That is why I have devoted the bulk of this speech to energy efficiency, including fuel switching issues.

Labour is keenly aware that the indigenous petroleum industry is a larger contributor to our GDP, for example, than is our wool industry. We are aware that the post-Maui challenge is not only to use future resources more carefully, but that the issue of the appropriate level of petroleum self-sufficiency is again before us. It is a fact that we have reached the high tide mark in that respect.

It is appropriate that I touch on issues such as royalties, environmental law, research and development and dialogue.

With regard to royalties, I have been assured that a detailed understanding of the modelling that has led to the proposed reduction in ad valorem royalties and the proposed introduction of accounting profit royalties will not necessarily make me a much more rounded person. I am aware of the aims of the proposed new regime and I am aware of some of the viewpoint of industry. Our response is to say that we will await the outcome and see how it operates in practice.

In respect of environmental law I guess we are all waiting for case law and familiarity to give the Resource Management Act more definition. Labour does not see the case for a further round of substantive amendments. In the absence of new and pivotal evidence, we will resist any such initiatives. Rather, we believe the Act should be given time to become embedded. I commend those in your industry who have decided to act as if the law reaches beyond the 12 mile limit, and I commend those calling for the establishment of an environmental code for the industry.

On the issue of research and development, Labour began the re-organisation of New Zealand science and we publicly supported the present Government's contribution to that re-organisation in the formation of Crown Research Institutes. In the research spectrum the Institute for Nuclear and Geological Sciences is best described as sitting between fundamental geological research and the prospecting activities of private sector companies. The company structure of the Institute allows it to move closer to industry. I suspect it already has.

The next phase of science reform in New Zealand has yet to gather momentum. It is to improve the level of funding of R&D from the private sector. Across all scientific endeavours this is amongst the lowest in the western world.

The Government needs to speed up this issue, gearing up private sector input by increasing public sector investment in a series of joint venture programmes, and by a variety of other policies which I shall simply call technology policy.

And finally to dialogue. Labour is aware of past, current and predicted levels of exploration and production. We are aware of the Petroconsultants Australasia report of a year or two ago which modelled a comparison with the taxation and royalty regimes of other nations in this part of the world and determined that the then regime was internationally competitive. However, we are aware also of the overriding importance of the prospectivity of one nation versus another.

The arguments in respect of the international nature of your industry, of national security, of future consumption predictions are all understood.

So is the inherently risky nature of the industry. I guess people in the industry thrive on risk, yet there is little point in adding political uncertainty to the physical risks you must already deal with.

In conclusion I would like to make it very clear that your industry will always receive a fair hearing from us. In my view that has been the case in opposition and we intend that it should persist in Government.

Cordial relationships are important in your trade, and in mine. Let us maintain dialogue. The door is open.

Author

PETE HODGSON gained a BVSc from Massey University in 1973. He has worked in many occupations as a veterinarian, a teacher, a shop manager, a meat worker, and on farms.

He joined the Labour Party in 1976 in Dunedin. Since then he has been actively involved in the Labour Party.

Pete was overseas for 2 years, working as a vet in North England. On returning he became Staff Representative of the Executive of NZ Council, a member of the Boundaries Committee, NZLP, a member of the Marginal Seats Committee, NZLP, and is currently a member of the Electorate Management Committee, NZLP.

He was elected Member of Parliament for Dunedin North in 1990. He is Opposition Spokesperson for the Environment, Opposition Spokesperson for Research, Science and Technology, Associate Opposition Spokesperson for Energy, and Campaign Spokesperson.

He is also on the Select Committee for Planning and Development, Electoral Law Reform, and Science and Education (part).