

3 February 2010

Peter Crabtree
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Ministry for Economic Development
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via e-mail: petroleum-strategy@med.govt.nz

Dear Peter

Maximising New Zealand's Petroleum Potential

Business New Zealand is pleased to have the opportunity to provide a submission to the Ministry for Economic Development on the Government's Action Plan released in October 2009.¹

Introductory Comments

Business New Zealand welcomes the renewed vigour with which the Government and the Ministry for Economic Development is approaching the potential role for New Zealand's petroleum resources to play in fostering economic growth. For too long, the potential contribution of these resources has been undervalued.

The work completed to date, and the seven actions listed are an extremely positive contribution to the renewed efforts being made. However, our enthusiasm is tempered somewhat. While action is clearly happening, the nature of the action or at least its specific shape is less clear. Business New Zealand has used this submission to provide the Ministry of Economic Development with its feedback on how to rectify this.

A Plan to Get a Plan?

Business New Zealand appreciates that it takes time for policy 'reorientation' to bite, and that in terms of policy development it is still early days. We are also pleased that the background reports have been released.

¹ Background information on Business New Zealand is attached in Appendix One.

It is clear that the Ministry of Economic Development wishes to demonstrate a sense of urgency, that progress is being made, and it is clear from the suite of documents it has commissioned, and the seven point plan of action, that progress is indeed being made. However, given what the Ministry of Economic Development has published (essentially a section of its Minister's speech and a raft of consultants reports), Business New Zealand wonders what - other than to demonstrate that progress is being made - it is consulting on.

There is a substantial amount of valuable material contained in the consultant's reports. But the all encompassing (and therefore, unfocused) nature of the request for feedback "on the plan and on the five supporting expert reports commissioned by the Ministry" leaves Business New Zealand ruing an opportunity missed by the Ministry of Economic Development to engage more broadly with the business community with a real sense of action and direction. Instead, there is a plan that talks of "positioning", "developing", "improving" and "reviewing".

The description of Action 6 is a case in point:

"Specific actions *could* include clarifying....." (emphasis added)

It is hard from this statement (and others) to get a good sense of the degree to which the Ministry for Economic Development has a clear view of the specific problems it wants to address in this area. It is also difficult, in a practical policy sense, to get a good feel for the extent of the match between the Ministry of Economic Development's view of the policy objective, the problems, and the proposals in the reports.

The reports are dated from mid-last year, or earlier. The action plan was released mid-November. More could have been made of this consultation opportunity.

What's Needed?

In Business New Zealand's view, there are two important elements missing that if present, would have better informed submitters (leading to more informed, insightful responses) and in turn provided officials a richer vein of information. These are:

1. a better sense of the strategic. In other words, a better sense of what the strategic objective means more practically. Such an objective must be common to every country with petroleum resources, so a better sense of what the Ministry of Economic Development thinks the New Zealand petroleum sector should look like in 30 or 40 years time is important. Put simply, if you can't articulate this then there is little chance of knowing what is needed in terms of policy changes to get there, or knowing whether what you have done to policy has made a

difference. Policy 'drift' of the last decade is a testament to the absence of a clear strategic focus; and

2. a better sense of the actual direction the action plan. For example, action 5, is "reviewing our regulatory, royalty and taxation arrangements for petroleum".² The by-line description signals that there will be refinements that will retain a fair and equitable share of value for the Crown and that the refinements will be based on the AUPEC report. This is appropriate. But the AUPEC report is nothing if not comprehensive (albeit not always accurate). But rather than leave it to submitters to review the reports and pull out what they think is important, a more specific indication from the Ministry for Economic Development as to what is 'on-the-table' and what is not, and where the policy trade-offs are likely to be made would have been helpful to give 'shape' to the conversation. For example, is the Government actively looking at Crown investment in the sector, or willing to take lower royalties on the prospect of a higher, enduring tax take. Doing this flows on from point one above.

The importance of doing these should not be under-estimated. Incrementalism and policy under-ambition is likely to otherwise prevail at a time when a step change from past practices is needed.

But Business New Zealand would be most surprised if the Ministry of Economic Development has not developed a strategic view of the nature of the sector going forward, nor drawn policy boundaries since it received the reports. In the context of this consultation, businesses with a current (or prospective) interest in the petroleum sector would have benefited from a short contextual document that pulled these strands together in a way that gave them a better sense of overall strategic coherence of the actions listed. At a minimum, these issues will have been covered in the Terms of Reference for each point of the action plan.

Business New Zealand suggests that once the Ministry of Economic Development has a better overall sense of the specific problems it is going to address, and the overall direction of the reforms, that it re-engage with the business community.

Some More Specific Comments

Business New Zealand has some particular points that it considers warrant specific mention. These are:

1. the Government is now pushing ahead aggressively an agenda of reform across its entire resource estate (i.e. both minerals and petroleum). While Crown capability and resourcing is being addressed as a part of the action plan, it should encompass a wider assessment

² As an aside, Business New Zealand wonders what the difference is between action points 5 and 6 as one would expect changes to the legislative framework to fall out of a review of the regulatory arrangements.

including departmental, CRI *and* university capacity and capability and the degree of co-ordination occurring between them that will be required to deliver on the agenda. The timing of this aspect of the action plan needs to dovetail with the outcomes from action points 5 and 6;

2. previous experience among the business community of government reforms suggests that one arm of government creates skill demands in the private sector (e.g. through increased spending or by freeing up regulations) that are not adequately supported by the other arm through allocations to industry training (or the wider education and training system) or immigration policy. The quality of education and training provision has been, and continues to be, an ongoing concern for business. Care must be taken to ensure that skills provision is focused on quality (e.g. education and training that produces value for business and employees) and well-directed to deliver on the agenda;
3. in a highly mobile industry, securing the marginal investment dollar for New Zealand is important. The changes need to err on the ambitious rather than simply seeking to match, or keep pace with the regimes in other jurisdictions. Subject to certain constraints, New Zealand's particular circumstances (most notably those of distance and costs) mean that, if serious about extracting the highest value from our petroleum resources, its regime needs to be better than other jurisdictions. Matching other jurisdictions would not seem sufficient to deliver the bold and decisive action needed to deliver on the Government's high growth aspirations for the sector; and
4. it is important not to lose sight of the linkages to other aspects of the Government's economic agenda. While government action in the form of specific regulatory changes is vital to the achievement of the strategy, consideration should also be given to such aspects as the supporting physical infrastructure (such as gas pipelines) that would also be required if the plan was successfully implemented. Links to the development of the National Infrastructure Plan will be important, as will ensuring that New Zealand maximises the downstream economic benefits from the processing of petroleum into high value-added products.

Summary

Business New Zealand welcomes the Government's renewed ambition for the petroleum sector. Its leadership is the most important aspect of the plan.

New Zealand's petroleum resources are potentially significant. Commercialisation of even a small proportion of these could make a substantial contribution to New Zealand's international competitiveness and raise the quality and standard of living of all New Zealanders. Business recognises the important contribution that the petroleum sector can make to

the New Zealand economy, and wishes to actively participate in the on-going conversation as to how to make this a reality.

To be able to do this, the Ministry of Economic Development needs to engage with business on a more meaningful level about its strategic intentions and how, more specifically, it intends to meet the challenge of creating an investment climate that both encourages greater exploration and maximises the benefits to New Zealand. Publishing several hundred pages of reports some months after their receipt and requesting submitters give the Ministry for Economic Development their view of what from these reports is important does not advance the conversation as far as it could otherwise have been.

Business New Zealand looks forward to working closely with the Ministry of Economic Development as the work programme unfolds.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Carnegie', with a stylized, cursive script.

John A Carnegie
Manager, Energy, Environment and Infrastructure
Business New Zealand

APPENDIX ONE: ABOUT BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand 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 on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.