



Submission on MBIE's August 2023 document entitled

**Measures for Transition to an Expanded and Highly Renewable Electricity System
(MTEHRES)**

The New Zealand Manufacturing Alliance (MA) is a collective of seven manufacturing industry organisations representing a wide spectrum of industries. Our interest in energy reform and energy strategy reflects the views and interests of New Zealand's manufacturing sector. The sector is currently contributing 12% of NZ's GDP, directly employs more than 240,000 people and accounts for over half of our total exports. Beyond that, manufacturing supports a much larger proportion of the domestic and export economy through locally-appropriate and 'resilient' goods manufacture. NZ manufacturers provide the domestic base from which innovation, and exports arise and will be a key contributor to Government's desired transformation to a low waste and emissions-reduced economy.

Key Messages:

In a recent report¹, KPMG have summarised the results of their survey of 30 energy industry experts whose views are generally in accord with MA members' concerns and recommendations in respect of NZ's electricity network and are commended for your attention. More specifically, we support and emphasise the notion that New Zealand needs a clear and consistent strategy for the energy sector, rather than additional policy aspirations.

In extension of KPMG's recommendations for a clear energy strategy, we suggest that better coordination across all the areas of regulation affecting manufacturing investment is required. Promulgating policies and regulations in isolation of other areas of Government / public interest and, at times, in apparent disregard of contradictory statute and regulation creates confusion and mis- or dis-investment.

As an overriding concern, we contend that it is wrong to define some uses of electricity as more meritorious than others based on a short term and siloed understanding of "the public interest." – whether that is to ensure NZ's "resilience" in the face of disaster, secure the country's economic capacity and export receipts, or any other matter viewed in isolation.

¹ <https://kpmg.com/nz/en/home/insights/2023/10/30-voices-on-2030.html>

ANOTHER ONE FROM NICK RELATED TO HIGH HEAT / GAS USERS?

Up-front considerations:

- As we can observe in Europe vs. the USA right now, for example, apart from the level of subsidies and tariff protection provided, reliable access long-term to energy at competitive prices is a key driver of investment decisions for manufacturing operations.
- Apart from process heat for primary manufacturers (metals; dairy, wood processing), electricity is the primary source of energy for most of New Zealand's manufacturing operations, and the former are (encouraged by means such as the Climate Change Response Act / ETS) converting to using electricity as well. While the high share of renewable electricity works in favour of our manufacturers when competing in markets where carbon footprint matters, the situation is different when it comes to cost. In Australia, a major market for and competitor with NZ manufactured products under CER, energy prices are often lower, and in the USA, July 2023 average prices for industry were about 1/10th of New Zealand prices at NZD 0.15 /kWh.
- The Manufacturing Alliance acknowledges that MBIE is also consulting on the Natural Gas transition and while we (MA) are not submitting specifically on Gas Transitions, it is critically important for key manufacturers who rely on high temperature heat that in transitioning to a smaller gas market New Zealand needs to ensure stable pricing and security of supply. Our aluminium extruders (and recyclers), for example, rely on high quality, high temperature heat provided by natural gas.
- Investment in manufacturing facilities and operations is - of necessity – long term (15 year+). A reliable supply of energy at a price that enables manufacturers to remain globally competitive will be a key consideration when contemplating making the investment decisions required if manufacturers in New Zealand are to achieve "circular", "extended responsibility" and "net zero emissions" aspirations.
- If the Government is committed to NZ's electricity grid being reliable and affordable above all else, such that outcomes need to be clearly prescribed as a first priority. If, as an alternative, the country is committed to achieving its NDC² as a first priority, then this needs to be stated and an explicit recognition made that affordability and or reliability are second-order considerations.
- The Manufacturing Alliance is opposed to energy policy being developed ahead or outside of a framework of clear priorities and strategies for maintaining and growing valued employment, facilitating innovation, decarbonising and in other ways 'circularising' the NZ economy in a rapidly changing global trading environment.
- Successive New Zealand governments have a track record of un-coordinated, 'on-the-spot' decisions that have had a negative impact on manufacturers ability to make long term investments. Piecemeal decisions are often justified on a case-by-case basis by officials as being 'in the interest of the public' in apparent ignorance of or disregard for policies and legislation with conflicting objectives. Regulatory impositions on domestic manufacturers (e.g. "extended producer responsibility" obligations), justified as in the 'public interest', can and have been applied inconsistently to imports of competing products on the basis that applying the 'countervailing measures' provided for in the

² New Zealand's Nationally Determined Contribution (to greenhouse gas emissions) under the *Paris Agreement*

Trade Act does not align with the 'public interest'. In such cases "the public interest" is defined in very narrow terms pertaining to adherence to trade agreements, notwithstanding the understanding of that term as capable of more encompassing interpretation.

- Another example of a government initiative that is serving its stated aim in name only, rather than being part of an overall plan, is the GIDI fund, where large sums of money are provided to corporates for investments they need to and are able to make anyway in order to stay (globally) competitive.
- Likewise, the reallocation of the cost of NZ's Greenhouse Gas [GHG] emissions from agriculture to other parts of the economy is based on the importance of agriculture to our economy. NZ's domestic (non)regulation of agricultural emissions may be correct when viewed superficially and over the short term. From a broader perspective, however, it can be seen as a self-fulfilling subsidy acting to discourage alternative (more sustainable) investment in businesses weighed down by the cost of another sector's GHG emissions.
- The inconsistent and 'siloed' approach to public policy and related interventions are an impediment to increasing the 'renewability' of New Zealand's electricity grid - and to advances in innovative and "circular" manufacturing.

Our Submission:

Commentary on the submissions process on page 4 of MTEHRES requests submissions on any or all of the issues arising in respect of NZ's energy use. It includes the request that "where possible, reasons for answers, examples and independent evidence be provided and included in submissions." Efforts have been made to comply with this request to the extent that the 'overview' and 'siloed' nature of the commentary provided in the discussion documents allow. More importantly, the absence of apparent quantification or context for many of the areas of discussion is a core concern for the Manufacturing Alliance **and is arguably identified as such in Part 5 and Section 11 (pages 110 & 111) of the document.**

Clear government prioritisation of measures, coordination of long-term planning, and balancing government policy objectives are explicitly identified as "challenges". NZ's "Energy Strategy" is under development but won't be available until the end of 2024. The absence of these presumably critical frameworks, including Government's long-term objectives and strategy, are problematic for those wanting or expected to invest in energy-dependent industry and employment. Such problems are compounded where the 'whole-of-system challenge' posed by lack of clear government prioritisation appears to be relegated to something described as "further possible measures to consider" (page 110).

An overarching objective and therefore a framework for this submission is the Minister's statement that "the Government has committed to reaching net zero for all greenhouse gas emissions (excluding biogenic methane) by 2050." The Minister's statements with respect to GHG reductions mirror other related policy statements related to 'zero waste to landfill', increased economic 'circularity' including recycling, and greater internalisation of the environmental externalities of production such that the health of NZ's aquatic and marine environments improves over time. In the case of the latter commitment, legislative change including to the RMA and statutory commitments such as the Waikato Settlement Act serve to limit the time frame for achievement of Government commit-

ments. The reported inclusion of commitments to reducing NZ's emissions profile within NZ's international trading relationships provides another tangible clarification that genuine changes to NZ's energy mix and consequential changes in pricing need to be factored in by investors, industry, and consumers.

As NZ-domiciled investors, manufacturers, and exporters we can confirm that customers and consumers are increasingly expressing a preference for goods and services associated with demonstrably lower emissions and improved environmental profiles. The long-term investments being made by NZ's largest exporters and the many NZ manufacturers supplying them goods and services (e.g. construction & packaging materials and recycling services) are increasingly being influenced by (consumer) demands from other countries. Tangible pressure for 'change' is coming in the form of importing country 'border entry' requirements, including Carbon-Border Adjustments [CBA] as well as 'market demand' for environmental certifications, declarations of recycled content, and the disclosure of embodied energy costs.

In light of the above, and the high proportion of New Zealand-manufactured goods being exported, it could be argued that the achievement of the Government's commitment to 'net zero for all GHG emissions' will occur irrespective of Government-prescribed transition plans and statements of aspiration. That said, the pace of change internationally and the investment risk confronting New Zealand's private sector investors in manufacturing and therefore employment is in part dependent on the clarity, certainty and consistency of Government's electricity and related energy "market". Currently, the subjective, siloed, and at time contradictory variable approach of Government agencies is an impediment to longer term and integrated investment. To the extent that "whole-of-system considerations" go unresolved, they will continue to act as an impediment to investment and innovation within the NZ economy.

The above criticism should be of little surprise to MBIE or Ministers. As acknowledged at para361 of the MTEHRES document, "...NZ is a small country". "Government agencies must (therefore) prioritise across competing ambitions." It is further acknowledged at para 362 that NZ's "...electricity system relies on a multitude of different parties each making their own investment and operations decisions based on their own assessments of costs and benefits...". Problematically, "...there is no active system architect, as such, to guide or coordinate the fragmented decisions of individual actors in a manner that best promotes system-level objectives." We suggest the lack of an 'architect promoting system-level objectives' is compounded by the lack of any certainty with respect to the "system-level objectives" requiring promotion.

The efforts of New Zealand's major manufacturing and export industries to invest in response to cost and commercial demand can be assumed. How much such investments will contribute to the Government's commitment to net zero GHG by 2050 (and other aspirations declared to be in the interest of the public, such as zero waste to landfill, clean water, and a circular economy) will depend primarily on the demand for such attributes from markets and consumers. Whether that demand can be any greater than that driven by regulated carbon pricing in New Zealand and offshore is unknown but not considered likely. This does not reflect an 'unwillingness to contribute' by industry. Rather it underscores the uncertainty arising from poorly aligned siloed and disjointed Government policy and absence of any solid strategy.

In the MTEHRES document there is an acknowledgement of the importance of "whole-of-system considerations", presumably limited to the 'electricity', or perhaps the wider 'energy' market.

The Manufacturing Alliance suggests that an even broader approach is required, explicitly resolving and defining the following issues:

- 1. What is understood by and constitutes an acceptable trade-off between "increased renewable energy" and "providing affordability and reliability"?*
- 2. Is "affordability and reliability" defined in similar terms for manufacturing industry, regionally or seasonally critical employers (such as NZAS³), public services such as hospitals or community water service providers?*
- 3. On what basis would the supply of electricity to industry NOT be afforded the same priority as any other user, given that secure employment and the supply of bridge construction materials, water treatment chemicals, and aerial transport infrastructure have all at times been considered vital?*

³ The New Zealand Aluminium Smelter at Tiwai Point