

26 March 2021

Rod Carr, Chairman  
Jo Hendy, CEO  
**Climate Change Commission**

Tēnā kōrua

### **15-year carbon budgets for Aotearoa**

Thank you for the opportunity to provide feedback and input as the Commission performs its crucial role advising the New Zealand Government on its first 15-year carbon budgets.

Refining NZ is regarded as one of the safest and most reliable refineries in the region. Based at Marsden Point in Northland, we are the only oil refinery in Aotearoa. We supply transport fuel around the country and to the Auckland region through the Refinery to Auckland Pipeline (RAP).

As a Northland business we are strongly committed to our people, our community, our environment and our economy.

As a critical part of our country's energy infrastructure, Refining NZ supplies:

- most of New Zealand's jet fuel
- more than half the country's diesel and petrol
- fuel oil for ships
- sulphur for farm fertiliser
- CO<sub>2</sub> for the foods and drinks industry.

A little under half of the fuel we produce today is delivered via the RAP, which is the most efficient and lowest-carbon supply route for fuel to Auckland.

We recognise that Refining NZ's infrastructure has an important part to play in helping Aotearoa reduce direct emissions and decarbonise our economy over the next 30 years.

Refining NZ supports the Climate Change Commission's role and its vision of a fair and equitable transition to a low carbon economy. We, too, want to see a thriving and climate-resilient Aotearoa for current and future generations.

**But to make this vision a reality, we need to take a strategic, considered approach.**

New Zealand is leading the world in decarbonising our economy. This aspiration has been very clearly defined in the Climate Change Response (Zero Carbon) Amendment Act 2019.

But without a strong economic plan to deliver on our goals, we are at risk of becoming a high-cost, low-wage economy, where New Zealanders' standard of living declines compared to the rest of the world.

We do not yet have all the answers for the many challenges we will face along the path to decarbonisation.

#### **Refining NZ**

Port Marsden Highway, Ruakaka, Northland 0171, Private Bag 9024, Whangarei 0148, New Zealand  
Telephone: +64 9 432 5100 Email: [corporate@refiningnz.com](mailto:corporate@refiningnz.com) [www.refiningnz.com](http://www.refiningnz.com)

It is critical for Government and business to work collaboratively to assess the options and create incentives for business to help find the best solutions. Together we can move at a pace where our aspiration is matched with our plans for delivery.

### **1. The lowest-cost pathway to decarbonisation requires a strong economic plan.**

We know that economic considerations are the most challenging aspect of decarbonisation. Fossil fuels have played a central role in our energy mix for more than a century because they are energy rich, low-cost to produce and easy to transport.

As we move away from fossil fuels, we need to find economically feasible alternatives. Kiwis should be able to continue to enjoy their current quality of life while also significantly reducing our emissions impact.

The Commission advises that New Zealand must pursue all feasible emission reduction opportunities to achieve the set 2030 targets. But an 'at any cost' approach to carbon budgets is potentially dangerous, with unintended consequences that could stop us delivering on our aspiration.

Our Government's decisions must be informed by robust economic analysis – particularly when it comes to New Zealand jobs and economic activity. Long-term decisions involved in infrastructure and energy investments must be based on the highest quality data.

A rigorous abatement cost-curve covering the full carbon economy is crucial. This would encourage greater competition between sectors, identifying the lowest-cost carbon abatement opportunities economy-wide and allowing them to be appropriately incentivised. It would also allow Aotearoa to benchmark ourselves globally, so we can ensure our costs stay in line with the rest of the world, keeping our economy competitive.

### **2. Affordable electricity is the foundation of the carbon budgets, but not a reality today.**

The Commission's draft carbon budgets place electrification at the centre of the next 15 years of emissions reduction. They rely on affordable electricity.

But electricity costs in Aotearoa today are globally uncompetitive and unaffordable.

The Commission's assumed \$70/MWhr electricity cost is a fraction of today's spot prices, which this year in Northland have averaged \$200/MWhr.

Refining NZ is currently unable to purchase the natural gas required to optimally run the refinery at the lowest carbon intensity. Gas shortages are driving unsustainable increases in the cost of both electricity and gas. New Zealand's gas production is in decline and the outlook for supply is highly uncertain, with the 2030 renewable electricity target placing a sunset date on gas producers' investment horizon.

Our electricity and gas markets are functioning ineffectively. Current regulation and industry structure are not incentivising market participants to deliver the affordable, reliable and lower carbon energy that Aotearoa needs.

Transmission and distribution costs are increasing significantly, and the model of socialising these costs does not incentivise providers to drive the costs down. The total cost of delivered electricity means large users face an unaffordable cost burden and over time this is likely to force their exit. Such business closures or large users becoming self-reliant and exiting the grid will only spread the increased costs across a smaller base of remaining users.

#### **Refining NZ**

Port Marsden Highway, Ruakaka, Northland 0171, Private Bag 9024, Whangarei 0148, New Zealand

Telephone: +64 9 432 5100 Email: [corporate@refiningnz.com](mailto:corporate@refiningnz.com) [www.refiningnz.com](http://www.refiningnz.com)

**Refining NZ supports the Commission’s recommendation that Aotearoa needs an Energy Strategy.**

This Energy Strategy must address today’s challenges and those that will emerge in the future. These include:

- Market mechanisms and industry structure that supports the most efficient pricing and supply of variable renewable energy and firming capacity, through dispatchable supply and storage.
- Incentivising the development of the best electricity storage options to address both today’s dry year challenge and tomorrow’s need to firm an increasingly renewable supply.
- Matching the timing and investment horizons for phasing out of existing gas firming capacity with new storage solutions.
- Consideration of options such as carbon capture and sequestration and LNG imports as part of the transition pathway.
- The infrastructure requirements to support cost and carbon efficient energy and fuel supply, storage, transmission and distribution.
- A whole of Government response, which ensures other legislative reforms align with the Energy Strategy.

**3. Local fuels manufacturing capability must be maintained for New Zealand’s future.**

We must consider New Zealand’s own capability as part of the carbon budgets. Aotearoa needs to maintain the skills that will be required in the future and maximise our capacity to locally produce our fuel requirements.

Refining NZ is today challenged by high costs of doing business in New Zealand, including energy, shipping and other costs, as well as low margins resulting from structural oversupply in Asian refining markets. Our customers have expressed a preference to shift to an import model, which would involve closure of the Marsden Point refinery and the conversion of Marsden Point facilities to an import terminal.

Negotiations are currently ongoing to determine whether this change will happen.

A closure of the refinery would reduce the number and type of roles required at Marsden Point, including the highly skilled roles required for operating the refinery.

If these skills are lost to New Zealand, it is likely to impact our country’s ability to locally produce alternate fuels such as biofuels and hydrogen in the future.

Our economy is reliant on both exports and imports. Kiwi standards of living and our Northland economy depend on our ability to locally produce goods and services, and ‘value add’ when it comes to our natural resources and primary produce.

Setting carbon budgets, without a carbon border and without addressing the carbon emissions of imported products, will make imported products cheaper than locally manufactured ones. If Aotearoa imports all its future fuel requirements, it will likely be at a higher cost than today’s fuels – with little or no local economic benefit or jobs for New Zealanders.

Biofuels and hydrogen are significantly costlier than fossil fuels and not economically feasible to produce at scale currently. Countries around the world are already competing to develop their capability to source or produce these fuels in the future. An example is California’s Low Carbon Fuel Standard Credit, which has led to New Zealand tallow being exported to Singapore for biodiesel production for supply into California.

**Refining NZ**

Port Marsden Highway, Ruakaka, Northland 0171, Private Bag 9024, Whangarei 0148, New Zealand

Telephone: +64 9 432 5100 Email: [corporate@refiningnz.com](mailto:corporate@refiningnz.com) [www.refiningnz.com](http://www.refiningnz.com)

Global competition will no doubt continue to evolve with increasing competition for low-carbon energy and fuels and their feedstock. New Zealand needs both a local and global view of where and how we can compete in the new low-carbon economy.

For Aotearoa to have the option to produce these future fuels locally, we will need:

- Affordable, globally competitive renewable electricity.
- A skilled workforce.
- Access to low-cost feedstock at scale.
- Globally competitive economic incentives, for local value-adding supply.

Government investment is crucial. Refining NZ encourages the Government to collaborate with business to consider options for economically feasible future fuels and the support needed to produce them locally at scale.

#### **4. A planned approach will enable a fair transition for the regions.**

The Commission's report recognises that the carbon transition will disproportionately impact certain parts of our economy, in particular the regions. In Northland, the Marsden Point refinery supports many highly skilled jobs and provides base business to several local businesses. It also makes a significant contribution to the regional economy.

Without action, places like Northland will be adversely impacted. They will unfairly bear the cost of carbon transition, losing economic activity and jobs in their region.

Transition plans must be consistent with the "Just Transition" concept, to ensure all regional impacts are identified and mitigated. We need to find new opportunities to attract skilled jobs and economic activity to the regions, to replace those that will be lost through the carbon transition.

The Marsden Point site has considerable repurposing potential for future fuel and energy requirements. It has a highly skilled workforce, long-term consents, import, export and storage capacity, major electricity and gas connections and proximity to the largest population base in New Zealand. We are keen to explore both near-term and longer-term opportunities to utilise these capabilities as part of the carbon solution.

#### **We can do this, together.**

Refining NZ agrees with Climate Change Commission Chair Dr Rod Carr that as a country we need "transformational and lasting change to meet our targets and ensure a thriving Aotearoa for future generations".

But this must be done in a strategic, considered way.

We need Energy, Skills and Transition Plans that match our aspirations. That way we can both protect New Zealanders' standard of living and significantly reduce our emissions impact – now and into the future.

**Nāku noa, nā**



**Naomi James**  
**Chief Executive Officer**

#### **Refining NZ**

Port Marsden Highway, Ruakaka, Northland 0171, Private Bag 9024, Whangarei 0148, New Zealand  
Telephone: +64 9 432 5100 Email: [corporate@refiningnz.com](mailto:corporate@refiningnz.com) [www.refiningnz.com](http://www.refiningnz.com)