Fossil Fuel Finance in New Zealand

Part 1: Government Support
INTRODUCTION

Collectively, we need to significantly reduce the amount of human-made greenhouse gases in the planet’s atmosphere if we are to secure a climate-safe future where people and nature thrive.

Fossil fuel subsidies have received increasing attention in recent years as a key barrier to achieving the necessary reductions in global emissions. Concerns about these subsidies have been acknowledged by both the International Energy Agency (IEA) and the Organization for Economic Cooperation and Development (OECD), and governments have made promises to address financial support for the fossil fuel industry in international meetings like the G20.

This briefing document by WWF-New Zealand sets out what fossil fuel subsidies are, examines how they are being used in New Zealand and then presents the case for reform.
The internationally agreed target of keeping global warming below 2 degrees Celsius will not be achieved unless all countries shift towards 100 per cent renewable energy (electricity, liquid fuels and industry) or as close as possible to it. This requires phasing out burning fossil fuels. It has been calculated that burning all current proven fossil fuel reserves will result in carbon emissions more than four times larger than the safe ‘carbon budget’ that we must stay within to have a reasonable chance of keeping below the 2 degrees threshold for dangerous climate change.

To have a 75 per cent chance of staying below the 2 degrees target, 77 per cent of fossil fuel reserves must remain unburned. To have a 50 per cent chance of staying below 2 degrees, just over 60 per cent must remain unburned. Either way, this requires the phase-out of fossil fuel use and the rapid uptake of clean, renewable energy technologies.

However, subsidies for the production and consumption of fossil fuels are a significant barrier to this transition. According to the New Zealand Ministry of Foreign Affairs and Trade: “Each year, between US$300-$500 billion is spent on production and consumption subsidies for fossil fuel. Production subsidies, such as subsidies for coal production, inhibit innovation and the development of cleaner technologies, and they reduce incentives to produce and use fossil fuels more efficiently. Consumption subsidies, which are often introduced with the intention of lowering the price of fossil fuels to ensure people have access to energy, are seldom effective in assisting the people they are designed to help.”

Although the G20 countries committed in 2009 to: “rationalise and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption”, only sporadic action by a few individual countries has been taken to date.

New Zealand is part of a group of countries called the ‘Friends of Fossil Fuel Subsidy Reform’. Tim Groser, Minister of Trade and Minister of Climate Change, claims to be ‘spearheading’ the international effort to reform fossil fuel subsidies. New Zealand is also participating in the Asia Pacific Economic Cooperation (APEC) fossil fuel subsidy reform voluntary reporting mechanism. This stems from an agreement in 2009 by APEC leaders to: “rationalise and phase out over the medium term fossil fuel subsidies that encourage wasteful consumption, while recognising the importance of providing those in need with essential energy services.”

1 The target, agreed through the United Nations Framework Convention on Climate Change (UNFCCC), is to stop global warming exceeding a 2°C increase in average global temperature above pre-industrial levels.
3 This ‘proven reserves’ figure includes oil, gas and coal that is deemed to have a 90 per cent chance of being extracted. It does not include large as yet untapped and lesser known fossil fuel resources such as the oil under the Arctic and massive potential shale gas deposits around the world. It is estimated these total fossil fuel resources would result in excess of 20,000 Gt CO₂ if burned, more than seven times the proven reserves figure. (Footnotes continued on page 2)
WHAT IS A FOSSIL FUEL SUBSIDY?

Subsidies are usually thought of as direct financial transfers from a government to a company or individual. However, the term subsidy can also encompass indirect forms of financial support.

For example, according to Article 1.1 of the World Trade Organisation (WTO) Agreement on Subsidies and Countervailing Measures (ASCM): “A subsidy shall be deemed to exist if: there is a financial contribution by a government or any public body within the territory of a Member, i.e. where: [amongst other things]… government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits).”

Revenue foregone in the form of tax breaks, for example, is therefore classified as a subsidy. The ASCM is less relevant for fossil fuels in its determination of whether a subsidy is justified or not. Broadly speaking, the test used in the ASCM is whether and to what extent a subsidy affects trade with other nations. While this makes sense for the WTO, where nations are attempting to reduce ‘unfair or unjustified barriers to trade’, it is not the right test for fossil fuel subsidies. The main point of reforming fossil fuel subsidies is to reduce or eliminate government incentives to produce and consume highly polluting forms of energy. These subsidies compound an already massive market failure in the form of either a zero or very low cost for this pollution in most parts of the world.

A fossil fuel subsidy can therefore be thought of as a financial transfer, whether through direct payment or revenue foregone, that creates an incentive for the production and/or consumption of fossil fuels.

---

7 The G20 comprises 19 major economies plus the European Union.
9 This group includes: Costa Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden and Switzerland. See: http://www.mfat.govt.nz/fffsr/
WHAT IS AN ‘INEFFICIENT’ FOSSIL FUEL SUBSIDY?

As mentioned in the introduction, the G20 countries have committed to “rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption.”

These are two important qualifiers: the subsidies to be phased out must be ‘inefficient’ and those that ‘encourage wasteful consumption’. However, it is not clear from the G20 communiqué what ‘inefficient’ or ‘efficient’ subsidies might be. One definition of efficiency is the extent to which the subsidy is achieving its stated objective and the extent to which this represents value for money. For example, if a subsidy is intended to facilitate oil extraction or is intended to improve the affordability of fuel (and thus increase its consumption), and it achieves this goal, then it could be deemed ‘efficient’.

If this definition is used it could conceivably leave untouched subsidies that are highly efficient at facilitating fossil fuel production or consumption. This would, in WWF-New Zealand’s view, be counter to the G20’s primary intention of phasing out fossil fuel subsidies. It is these subsidies that encourage extraction and use of fossil fuels that should be targeted for phase-out.

Another way to measure ‘efficiency’ is whether a subsidy is the most efficient way to spend public money; in other words, are there better or more desirable things on which to spend tax revenue? While such a definition might be a more appropriate way to determine the ‘efficiency’ of fossil fuel subsidies, it is highly subjective and would, in practice, be very difficult to use as a guide to which fossil fuel subsidies to target for phase-out.

Perhaps even more subjective will be defining what the G20 means by ‘wasteful consumption’. As yet, no definition has been created, but presumably this would involve attempting to determine a point at which consumption crosses over from being necessary or justified to being ‘wasteful’. The danger is that both this, and the concept of ‘efficient’ fossil fuel subsidies, could be used to argue for the retention of a range of support measures that continue to encourage the production and consumption of fossil fuels at a time when we need to transition away from fossil fuels as soon as possible.

Overall, these qualifications in the definition create ambiguity and confusion where clarity and certainty are much needed. Ultimately, any subsidy that encourages the consumption or production of fossil fuels should be targeted for phase out, albeit with a great deal of care when it comes to phasing out consumption subsidies intended for, or providing some benefit to, poor or disadvantaged groups of people.

“ULTIMATELY, ANY SUBSIDY THAT ENCOURAGES THE CONSUMPTION OR PRODUCTION OF FOSSIL FUELS SHOULD BE TARGETED FOR PHASE OUT” - WWF
The New Zealand government has a contradictory approach to fossil fuel subsidies. On the international stage New Zealand claims to be ‘spearheading’ efforts to reform fossil fuel subsidies14 and both the Environment Minister and Climate Change Minister have made strong statements regarding the need to phase out these subsidies.

For example, at the 2010 climate summit in Cancun, then Environment Minister Nick Smith said: “It is ironic that while we try and design pricing instruments to recognise the environmental cost of emissions, the world spends hundreds of billions of dollars a year subsidising fossil fuels and pollution. If we are serious about addressing climate change in the most efficient way, we need to be discussing a phase out of such support.”15

At the same conference, Tim Groser, Minister Responsible for Climate Change Negotiations, said: “It is completely incoherent for the world to be tentatively coordinating actions to put a price on carbon, while simultaneously massively subsidizing the consumption of carbon.”16

Despite this, the government has made clear its strong support for further exploitation of New Zealand’s potential fossil fuel resources and is prepared to provide financial incentives to facilitate oil exploration. Former Energy Minister Gerry Brownlee set out this position at a petroleum industry conference in 2010:

“For far too long, New Zealand has not taken advantage of the wealth hidden in our hills, in our oceans, and in the ground...

Almost a year ago I announced the government’s Petroleum Action Plan to unlock the potential of our resources... The first part of the plan is about explicitly positioning the government as pro-active and pro-development of petroleum resources. The government wants to send the message that New Zealand is prospective for hydrocarbons and open for business... We’ve taken a number of actions as a government to support the oil and gas sector. We extended the 183-day tax exemption for seismic vessels and exploration rigs to the end of 2014 to make it easier for explorers to work in New Zealand waters. The government has contributed to increasing our knowledge about our petroleum basins through sizeable investment in a seismic data acquisition programme.”17

16 See: http://www.mfat.govt.nz/fffsr/

“The Government wants to send the message that New Zealand is prospective for hydrocarbons and open for business” – Minister Gerry Brownlee
FOSSIL FUEL SUBSIDIES IN NEW ZEALAND

The New Zealand government does not provide direct cash handouts to oil, gas and coal companies and does not have policies aimed directly at lowering the price of fossil fuels for consumers. The subsidies New Zealand provides are more subtle, in the form of tax breaks.

It can be argued that the various loopholes in New Zealand’s Emissions Trading Scheme also represent revenue foregone and therefore act as a subsidy to polluters. However, due to the difficulty of determining a figure for revenue foregone in the ETS, and the contention over whether or not this is a fossil fuel subsidy, this briefing sticks to examining more conventional forms of support for fossil fuel use.

The New Zealand government could also be said to be further subsidising the fossil fuel industry because it has one of the lowest overall tax takes from the oil industry (46 per cent) compared with other oil producing countries. The world average is closer to 70 per cent. However, defining what is a reasonable tax take below which could be considered an effective ‘subsidy’ is extremely difficult if not impossible, so again is not part of this briefing.

Currently, there is no transparent reporting of fossil fuel subsidies in New Zealand. WWF-New Zealand has compiled data from several sources to present as accurately as possible the status of fossil fuel subsidies in New Zealand and the trend over the past few years.

The data presented in the table over the page indicates a significant increase in fossil fuel subsidies over the past few years, although there has been significant variation in expenditure on ‘acquisition and exploration data’.

18 For example, 90 per cent free allocations of carbon credits to some polluting industries and a ‘buy one get one free’ offer for those purchasing carbon credits
Table 1: Fossil Fuel Subsidies in New Zealand

Figures in millions $NZ

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil rig income tax exemption*</td>
<td>0</td>
<td>2.5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Tax deduction for petroleum mining**</td>
<td>0.2</td>
<td>12</td>
<td>20</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td><strong>General Support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of exploration data</td>
<td>2.93</td>
<td>5.69</td>
<td>12.30</td>
<td>1.84</td>
<td>3.88</td>
</tr>
<tr>
<td>Research and development</td>
<td>2.78</td>
<td>2.41</td>
<td>2.41</td>
<td>2.41e</td>
<td>2.41e</td>
</tr>
<tr>
<td><strong>Sub total: support for oil &amp; gas industry</strong></td>
<td>5.91</td>
<td>22.6</td>
<td>39.71</td>
<td>35.25</td>
<td>46.29</td>
</tr>
<tr>
<td><strong>Consumption support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Spirits excise duty refund***</td>
<td>34.68</td>
<td>32.51</td>
<td>35.64</td>
<td>35.38</td>
<td>38.63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40.59</td>
<td>55.11</td>
<td>75.35</td>
<td>70.63</td>
<td>84.92</td>
</tr>
</tbody>
</table>

Notes:

WWF-New Zealand has not included the cost of maintaining an oil reserve in the above table. Although this may technically be a fossil fuel subsidy, it is relatively small and is not something over which the New Zealand Government has a choice, as it is part of its obligations as a member of the International Energy Agency (IEA).

* The full title for this is the ‘Non-resident drilling rig and seismic ship tax exemption’. This tax exemption is currently due to expire on 31 December 2014.

** The full title for this is ‘Tax deductions for petroleum mining expenditures’.

*** This refund applies to petrol, compressed natural gas (CNG) or liquid natural gas (LNG) use in off-road vehicles such as agricultural vehicles and ‘commercial vessels’. It also applies to the fuel used by the NZ Coastguard and in ‘dedicated rescue vessels’, presumably those used by lifeguards.

The data in the table above comes from three sources:

1) The data on production support comes from a response by the Inland Revenue to an Official Information Act request made by WWF in May 2012.

2) The data on consumption support and the acquisition of exploration data comes from the Treasury budget spreadsheet 2012.20

3) The data on fossil fuel related research and development 2009 – 2011 comes from an OECD report on fossil fuel subsidies, while the 2012 – 2013 figures are WWF estimates based on previous expenditure.
Without a detailed examination of the type of payments or tax breaks involved, it is very difficult to compare countries’ use of fossil fuel subsidies.

New Zealand’s total is obviously small compared to other countries with much larger populations and economies. Looking at it on a per-capita basis, using the data compiled above for New Zealand, annual fossil fuel subsidies amounted to an average of just over NZ$19 per person in 2012/13, with 55 per cent ($10.50) of this paying to support the oil and gas industry and 45 per cent ($8.70) to pay for the off-road vehicles excise duty refund.

Although the OECD has conducted an analysis looking at fossil fuel subsidies in different countries, the intention with this work was not to directly compare countries. This is because of variable data availability and also the difficulty of applying exactly the same criteria to all countries (e.g. in some countries, exemptions from carbon taxes were counted in the report as a subsidy, but exemptions or free allocations in emissions trading schemes like New Zealand’s were not). It is therefore not possible to make accurate country comparisons with the available data. However, the indication at least from this OECD report is that New Zealand’s overall per capita fossil subsidies are likely to be relatively low by international standards.

According to an estimate by the US Natural Resources Defence Council (NRDC) and Oil Change International, the majority of fossil fuel subsidies globally are in the form of artificially lower prices in developing and emerging economies. Although research suggests these consumer subsidies often do not end up benefiting the poor and by their very nature are disproportionately benefiting more wealthy consumers who use more fuel, they are nonetheless very hard to reform. Energy poverty remains a massive problem in many countries, the voting population is likely to support the subsidies and they are often a good deal easier to implement in a developing country than a more comprehensive social security system better targeted at the poor.

Comparatively speaking, tax breaks and other subsidies to the oil, gas and coal industry could be considered the low hanging fruit of fossil fuel subsidy reform. That said, action to reduce or eliminate them will almost certainly run up against opposition from one of the most wealthy, powerful and politically organised industries in the world.

---

EXPANDING OIL EXPLORATION

Oil rigs look set to become more common in New Zealand waters due to the government’s strong support for the oil and gas industry. Subsidies for the sector, in the form of tax breaks, seismic surveys and research funding, are now worth NZ$46 million annually.

Yet New Zealand’s Ministry of Foreign Affairs and Trade has also recognised: “Production subsidies… inhibit innovation and the development of cleaner technologies, and they reduce incentives to produce and use fossil fuels more efficiently.”

WWF-New Zealand believes tax breaks for the oil industry and other fossil fuel producers should be eliminated and the money spent on investing in the uptake of clean energy instead.
Since the G20 and APEC commitments were made in 2009, several governments have taken steps to reduce fossil fuel subsidies, often for budgetary reasons.

For example:
- Mexico has changed its state-controlled price-setting mechanism so that liquid fuel prices gradually increase over time, with the aim of ultimately eliminating the government price-subsidy.24
- In September 2012, India announced that it will reduce subsidies for diesel consumption.25
- Indonesia has reduced subsidies for kerosene and has a commitment to ongoing reductions in subsidies for fuel.26
- In December 2012, the Iranian government announced it would be terminating subsidised petrol prices for cars with engines of 1800cc and above.27 Iran had previously started a fossil fuel subsidy reform process in late 2010.28
- Canada has started to phase out certain tax breaks for the oil, gas and mining sector.29
- In 2011, the US government announced plans to eliminate several tax breaks for coal, oil and gas production.30

Although these initiatives are useful and important, to date such efforts have been fairly piecemeal. There are also several countries taking no action on the grounds that, in their own view, their support for fossil fuel production and consumption is ‘efficient’ and therefore not in need of reform. According to research conducted by the Global Subsidies Initiative, those countries in the G20 claiming not to have any ‘inefficient’ support for fossil fuel production and consumption include China, Australia and Japan.31

In an October 2012 submission to the APEC fossil fuel subsidy reform voluntary reporting mechanism, New Zealand also makes the same claim. While acknowledging that ‘APEC has not yet undertaken any work to define [an] ‘inefficient fossil fuel subsidy that encourages wasteful consumption’”, the government nonetheless states that, “New Zealand does not consider that it currently has any ‘inefficient fossil fuel subsidies that encourage wasteful consumption’.”32

A transition towards low carbon economies requires a transition away from burning fossil fuels.

In addition to there being no price, or a very low price, on the pollution created by using fossil fuels, this transition is being hampered by the use of fossil fuel subsidies which encourage production and either directly or indirectly help make fossil fuels cheaper than low carbon alternatives.

Regarding consumer subsidies, in some cases these are intended to help poor and/or disadvantaged groups, although there is evidence to suggest that they do not necessarily reach their intended target. Care is therefore required when it comes to reforming these subsidies to ensure people living in poverty are not adversely affected.

In contrast, regarding producer subsidies, it is hard to argue that the oil and gas industry is a poor or disadvantaged group. It is also hard to argue that producer subsidies are required to help get a nascent industry off the ground or that these subsidies are required to correct a failure of the market to provide a broader public good. Producer subsidies are in fact compounding a market failure; transferring public money to facilitate the extraction of a product that, when used, creates pollution that is dumped into the atmosphere at little or no financial cost.

---

WWF supports fossil fuel reform. All countries need to look at their own policies and take action accordingly.

The government has so far refused to take such action, offering three arguments for why there is no need to eliminate New Zealand’s support for oil and gas extraction.

First, Minister Groser has argued that: “New Zealand’s view is that it is unlikely that these measures or policies [tax breaks for oil companies] would constitute subsidies as defined in the WTO Agreement on Subsidies and Countervailing Measures.” However, these measures clearly fall within the definition of subsidies in Article 1 of the ASCM. The fact that they are unlikely to be ‘trade distorting’ subsidies and thus fall outside the rest of the Agreement’s provisions is irrelevant. The critical issue is whether they encourage extraction of fossil fuels.

Second, the Minister also points out that: “New Zealand has one of the lowest levels of support for fossil fuels in the OECD” and that: “What is important are the efforts that New Zealand and others are making internationally to encourage reform at the global level covering fossil fuel subsidies in the hundreds of billions of dollars per annum”. The implication is that New Zealand’s NZ$46 million in tax breaks, seismic surveys and research funding for the oil industry is not significant enough to warrant action. Few would suggest that President Obama’s proposed US$4 billion cut in annual federal subsidies to the US oil and gas industry is insignificant; yet it is equivalent to 0.027% of US Gross Domestic Product (GDP) while NZ$46 million is roughly equivalent to 0.024% of New Zealand GDP. Canada has announced plans to reform some of their tax breaks for oil, gas and coal production. It is not clear why New Zealand’s fossil fuel subsidies should remain in place even if they are modest by international comparison.

Third, New Zealand has argued that its fossil fuel subsidies are ‘efficient’ and therefore not in need of reform. Yet the ‘efficiency test’ is spurious in the context of trying to reduce or eliminate incentives to produce and consume polluting fossil fuels which, according to previous Ministerial statements and also the New Zealand led Friends of Fossil Fuel Subsidy Reform, is the primary concern of this government.

Ultimately, the question is whether New Zealand’s tax breaks for the oil industry and tax breaks for fuel consumption are encouraging the extraction or consumption of fossil fuels. If they are, they should receive the same treatment as other fossil fuel subsidies, no matter how large or small the amounts of money concerned. If they are not, and the fossil fuels would be extracted and consumed regardless of whether the tax breaks exist or not, then why have them in the first place?

WWF-New Zealand argues that fossil fuel subsidies, in New Zealand’s case in the form of tax breaks, are not a desirable use of taxpayers’ money. If the $38.6 million per year consumer tax break for off-road vehicles is intended to give a leg-up to farmers or commercial boat operators, is there not a better way to achieve this without encouraging fossil fuel use? And it is hard to see why the oil and gas industry is in need of a $46 million per year leg-up. Ultimately, our government should walk the talk and live up to its rhetoric on fossil fuel subsidies, eliminate these tax breaks, particularly for the oil industry, and spend the money on facilitating the uptake of clean energy instead.

---

33 Personal communication, 13 September 2012.
34 Personal communication, 13 September 2012.
35 See table 1 for how figures for support for oil & gas industry are calculated.
37 See table 1 for how figures for support for oil & gas industry are calculated.
38 One caveat to this is that there may be a reasonable argument to retain the excise duty exemption for the coast guard and for search and rescue vessels (e.g. used by lifeguards) if there is no alternative way to keep costs low for these public services.
Eliminating government support for oil and gas exploration would, on the face of it, free-up NZ$46 million per year of expenditure and revenue currently foregone.

However, WWF-New Zealand is not in a position to make an accurate prediction of the impact on government finances. Exploration and extraction effort may remain similar or it may be reduced, and if so this could lead to a lower tax take and possibly lower government royalties in future. What follows is therefore a look at what could be achieved with $46 million per year and also with a lower figure of $30 million to give an indication of how money could be directed at more environmentally and socially beneficial outcomes rather than as support for fossil fuel extraction.

This money could, for example, pay for a multi-year programme to install grid-connected solar panels onto the roofs of Housing New Zealand’s 70,000 homes. At an estimated average cost of $10,000 per household, a 1.5kW to 3 kW system (depending on the house) could be installed on 4,600 homes per year with $46 million or 3,000 homes per year with $30 million. A twenty year programme could see most if not all of these houses fitted with solar PV, helping to reduce the cost of power for those who need it most, helping to reduce electricity transmission losses and helping to enhance the resilience of New Zealand’s electricity system. Given the ongoing decline in the price of solar panels and potential economies of scale with a major installation programme, it is possible that the cost could be lower and therefore the number of installations per year greater.

A different mechanism for expanding solar PV to even more houses would be to pay for installation but then lease the system to the householder. In the US, more than 70 per cent of household solar systems are leased. The cost of the lease would need to be lower than the cost of the grid electricity saved so as to still ensure a net benefit for the householder.

The critical point is to achieve both an expansion of renewable electricity and to reduce power costs for some of New Zealand’s poorest families. According to the Housing and Health Research Programme, the lowest-income decile households were spending 13.1 per cent of their income on energy in 2010, compared with 7.6 per cent in 1989. Average electricity prices have increased by 84 per cent over the past decade. Alternatively, the money could be used to install insulation for those most in need. The average cost of insulating a home in Wellington is around $3,100. Although this may be slightly higher than in some other parts of New Zealand due to the peculiarities of geography and housing stock, if this figure is taken as a rough proxy for an average across the country, almost 15,000 homes per year could be insulated with $46 million and almost 9,700 homes per year could be insulated with $30 million. A multi-year insulation programme could achieve a great deal in improving the energy efficiency of New Zealand’s rental housing stock. The recent assessment of the Warm Homes scheme suggests that such a subsidy would have broader public benefits, such as improved health and thus reduced healthcare costs.

WWF-New Zealand believes that one of these measures, or some combination of them, would represent a far more socially and environmentally beneficial use of tax payers money than further public investment in fossil fuels.

---

39 This $30 million figure is illustrative of a reduction (by approximately one third) of government income from royalties.
40 This estimate has been provided to WWF-New Zealand by SolarCity based on the company’s assessment of the likely panel and installation costs for a large installation programme.
41 Personal Communication with Andrew Booth of SolarCity New Zealand. 15 April 2013.
44 Personal Communication with Phil Squire of the Sustainability Trust, January 2013.
CONCLUSION

All countries need to kick-start the transition towards low carbon economies, and this requires a shift away from extracting and burning fossil fuels. Yet many countries, including New Zealand, continue to support fossil fuels through various forms of subsidy.

Despite international promises to phase out ‘inefficient fossil fuel subsidies that encourage wasteful consumption’, efforts to date have been somewhat sporadic with some governments undertaking reforms, largely for budgetary reasons, while others claim that their fossil fuel subsidies are ‘efficient’ so don’t fall within the scope of the reform commitment.

Although New Zealand has positioned itself as a leader on global fossil fuel subsidy reform, our government is not walking the talk when it comes to eliminating New Zealand’s fossil fuel subsidies; in particular its $46 million of support, in the form of tax breaks and seismic research, for oil and gas extraction. This support has more than doubled over the past few years. Our government is using several excuses to avoid taking action, however, as this report has demonstrated, their reasoning does not stand up to scrutiny.

While care is certainly needed by countries seeking to reform consumer subsidies that, to varying extents, assist poor and disadvantaged groups, this is not the case with New Zealand’s support for the oil industry. Instead of using tax payers’ money to provide incentives for a well established industry to extract fossil fuels leading to more pollution, the government could, for example, initiate a multi-year programme to install solar panels on social housing, providing help to those most in need.

While oil and gas will certainly play a part in New Zealand’s energy mix for some time to come, the critical issue here is how we start the low carbon transition and how we use public money. WWF urges the government to re-think its support for the oil and gas industry and invest in a clean energy future for New Zealand.

<table>
<thead>
<tr>
<th>Year</th>
<th>Support for Oil &amp; Gas (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$6</td>
</tr>
<tr>
<td>2010</td>
<td>$23</td>
</tr>
<tr>
<td>2011</td>
<td>$40</td>
</tr>
<tr>
<td>2012</td>
<td>$35</td>
</tr>
<tr>
<td>2013</td>
<td>$46</td>
</tr>
</tbody>
</table>
Why we are here
To stop the degradation of the planet’s natural environment and to build a future in which people live in harmony with nature.
wwf.org.nz