



The Sustainable Energy Forum Inc
PO Box 11-152
Wellington
New Zealand
Phone 04 586 2003
Fax 04 586 2004
info@sef.org.nz
<http://www.sef.org.nz>

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Oil Security Report Comments
Resources and Networks Branch
Ministry of Economic Development
PO Box 1473
Wellington

By email to: oilsecurity@med.govt.nz

Comments on Oil Security Final Report released on 14 December 2004

Comments from:

The Sustainable Energy Forum Inc (SEF)
PO Box 11-152
WELLINGTON
Phone: 04 586 2003
Fax: 04 586 2004
Email: info@sef.org.nz
Contact: John Blakeley, Convenor.

In accordance with SEF's submission policy, we declare that this submission has been prepared and peer-reviewed by members of the SEF Executive Committee. It has not been circulated to all SEF members for approval, but is believed to have widespread support within our organisation.

Background on the Sustainable Energy Forum Inc.

The objective of The Sustainable Energy Forum Inc. is to facilitate the transition to sustainable energy. The Forum has about 130 individual and corporate members, including business people, academics and interested individuals.

Our Comments

The Sustainable Energy Forum Inc. notes the general direction of the report, and its conclusion that an increased level of oil security is strongly warranted, and that steps should be taken to achieve this.

However, SEF is concerned that a major threat to the security of oil supply has not been addressed in the report. As outlined in the Government's discussion paper *Sustainable Energy: Creating a Sustainable Energy System for New Zealand* (p. 40), world oil production is expected to peak within the first few decades of this century, with some estimates placing the peak as early as 2010.

The combination of rapidly increasing demand for oil with peaking production is likely to lead to further substantial price increases and disruption to supply. Such sustained price increases and supply scarcity would have economic effects quite different from those modelled from the simple equilibrium models that were used in the report.

Therefore, our specific comments are as follows:

1. The Government should start planning now for the consequences of Peak Oil, which represents a permanent rather than transient scarcity of oil. Peak Oil needs to be addressed by both transport energy demand management and supply-side investment in alternatives. Peak Oil considerations should be factored into the cost/benefit analysis of how many days' total storage New Zealand should hold.
2. We do not believe that the report's analysis of why additional oil should be held is adequate. From a sustainable energy perspective, it is undesirable to insulate customers from market realities, and some transient restrictions on the quantity of oil available are acceptable. Strategies for coping with temporary shortages of petroleum products should be developed, and these should include the use of such shortages as opportunities to make New Zealanders aware that our present profligate use of oil products cannot continue indefinitely.
3. We agree that New Zealand should hold the stocks recommended on national benefit grounds. We believe further stocks should be held to fully comply with the IEA requirements.
4. In addition, New Zealand should consider two approaches to covering exceptional risks, such as production scarcity, terrorism, accident, or product diversion: either holding additional stocks beyond those recommended on national benefit grounds, or using emergency demand reduction methods prepared in advance.
5. Increasing storage to provide three months' supply at today's consumption rates will soon fail to meet that criterion if demand growth continues its historic trend. Therefore, the storage enhancement measure should be considered in the context of a wider strategy to stabilise and eventually reduce New Zealand's demand for transport fuels.

6. We understand that on-water stocks en route to New Zealand have been diverted to other destinations in previous times of scarcity. If this is correct — or reasonably likely — we do not think it wise to include on-water stocks in the total.
7. We suggest that a government-imposed levy (excise tax) would be the most equitable means of paying for the additional storage required, because it would ensure that costs were spread equally.
8. When considering the location of the additional storage, vulnerability to earthquakes and tsunami should be one of the factors taken into account.
9. Of the rationing options suggested, the Forum prefers the idea of rationing by short-term taxation, because, as stated in the report, this is economically efficient and does not cause wealth leakages from the New Zealand economy. This approach has a further advantage: it encourages less wasteful use of transport, with the potential for permanent gains in efficiency. However, planning for quantity rationing is probably also needed for extreme cases. A shortage of petroleum products in New Zealand should be regarded not as a failure of Government, but as a manifestation of the real state of global oil supply.
10. The report does not adequately cover the question of how and by whom the decision is made to release oil from the storage reserve, or outline circumstances in which this may become necessary. SEF believes that this decision should be made by the Government, and that the political nature of this decision should be made explicit in the Government's oil security policy.
11. We understand that there is only one oil terminal in the country capable of taking the large tankers used for international trade. An accident, sabotage or an extreme natural event at this terminal would leave no alternative to either importing products in small tankers, or unloading products in large tankers by trans-shipping to small tankers offshore. We recommend that contingency planning be carried out to deal with this problem. Innovative solutions would be worth investigating, such as planning to charter a large tanker to act as floating storage, or preparing an offshore mooring buoy and pipeline. In either case it might be possible to purchase key equipment and keep it in store for installation when needed.

Thank you for the opportunity to comment on this report.

Yours sincerely

John Blakeley
Convenor
The Sustainable Energy Forum Inc.