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2 October 2017

Steven Bailey
Inquiry Director
New Zealand Productivity Commission
PO Box 8036
WELLINGTON 6143
via email: info@productivity.govt.nz

Dear Steven,

Low-Emissions Economy

I am writing to express ExportNZ's support for BusinessNZ's submission to the Productivity Commission (the 'Commission') on its Issues paper entitled 'Low-emissions economy', dated August 2017.

As with BusinessNZ, we welcome the Commission's issues paper outlining its thinking about how New Zealand can maximise the opportunities and minimise the costs and risks of transitioning to a lower net-emissions economy. The Commission recognises that is not an insignificant challenge and has worked through a wide range of issues in a methodical, deliberate way, and should be congratulated for its thoughtful assessment of the issues it has undertaken in a relatively short period of time.

We particularly endorse BusinessNZ's comments around the black and white characterisation of the transition to a lower net-emissions economy:

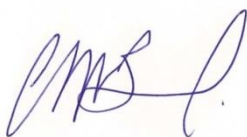
"Such labels are not only unhelpful but misleading, unless the Commission envisages a world without, for example, metallurgy, chemicals or meat and dairy food processing, or a world where these activities continue to exist, but just not in New Zealand. Businesses operate in New Zealand for a range of reasons but mostly because they are internationally competitive given the factors of production. Unless consumer demand diminishes for products such as dairy products or aluminium, or they cannot keep pace with the uptake of new technology, including low emissions technology, New Zealand is likely to retain these and other so-called 'traditional' or 'old economy' emissions intensive industries unless explicit policy decisions are made for them to face costs that are not faced by their trade-competitors. Such decisions, if made, should be transparent in their objective and outcome."

In addition to the points made by BusinessNZ, ExportNZ wishes to make the following points:

- a concerted effort must be made to calibrate the speed and stringency of our actions with that taken by with our trade-competitors. To do otherwise risks our export industries closing and production shifting offshore to where the stringency of action is lower. Given the structure of our industrial base this would potentially have massive regional and lumpy impacts. While this risk exists, we must keep the Emissions Trading Scheme free allocation. To move quicker would place our export base at a competitive disadvantage. We would suggest an approach similar to the shielding arrangements proposed for emissions-intensive trade-exposed industries in the Australian Government's now-repealed Clean Energy Act 2011, in which assistance was provided for those emissions-intensive trade-exposed industries where less than 70 percent of their foreign competitors faced comparable emissions reduction measures. Despite the Australian Act being repealed, we still see this as a viable method which could ease the transition to a low-emission economy, and assist affected industries with the required structural adjustment;
- from the issues paper it is unclear whether the Commission is going to position its recommendations at the framework level, the detailed, specific recommendation level or some mix. Clarity on this point is important. We would suggest that primarily the Commission should focus at the overall feasibility of becoming a low-emissions economy and leave the detailed work to the various agencies responsible. Given the all-encompassing nature of the issue of climate change it is important that the Commission provides policy framework direction, but does not interfere in the detailed, day-to-day functioning of real-time markets such as the electricity market or the emissions trading market. To do so would risk the transition becoming chaotic and disconnected, rather than systemic; and
- we note from the Commission's issues paper that the benefits from a decarbonised economy would improve New Zealand's international reputation "by taking decisive action on climate change as it would serve to back up the 'clean and green' reputation that underpins much of the export economy." International reputation matters greatly to our exporters. They understand that our international reputation is not static but a work in progress, which means they are continually working to enhance New Zealand's international reputation through the way they do business, particularly in meeting the changing preferences of their consumers, and especially with regard to greater accountability for environmental impacts. The same is true, of course, for our tourism sector operators.

As analysed by BusinessNZ, ExportNZ believes the next challenge for the Commission is how to take its potpourri of issues and the responses from submitters forward into a coherent, logical and clearly articulated policy framework and programme that can give effect to a seamless, smooth transition to increased productivity and diversified export base that is low emissions. Accordingly, ExportNZ supports the recommendations of BusinessNZ.

Yours sincerely,



Catherine Beard pp.
Executive Director, ExportNZ

2 October 2017

Steven Bailey
Inquiry Director
New Zealand Productivity Commission
PO Box 8036
WELLINGTON 6143

via email: info@productivity.govt.nz

Dear Steven

Low-Emissions Economy

BusinessNZ is pleased to have the opportunity to provide a submission to the Productivity Commission (the 'Commission') on its Issues Paper entitled 'Low-emissions economy', dated August 2017.¹

Introduction

BusinessNZ welcomes the Commission's issues paper outlining its thinking about how New Zealand can maximise the opportunities and minimise the costs and risks of transitioning to a lower net-emissions economy. The Commission recognises that is not an insignificant challenge and has worked through a wide range of issues in a methodical, deliberate way, and should be congratulated for its thoughtful assessment of the issues it has addressed in a relatively short period of time.

The issues paper understandably canvasses a wide, diverse and complex set of issues. Each question posed could be the subject of a lengthy submission in its own right, often requiring detailed technical information. Given this, we have not sought to respond to the specific questions but rather have provided our views on the overall shape and direction that we believe the Commission could usefully pursue. Where relevant, our members who have specific interests in the various detailed matters raised will respond to those questions directly.

Fundamentally, our view of this specific inquiry is shaped by the fact that the Commission is not addressing a particular topic (for example, urban planning or new models of tertiary education), or even systemic sectoral-specific issues (for example, international freight transport or local government regulation). What the

¹ Background information on BusinessNZ is attached in Appendix One.

Commission has been tasked to address is truly systemic and foundational. It is not overstating things to say that the Commission's advice, if accepted, would eventually result in an economy that looks quite different from how it does today. We therefore agree with the Commission where it states that:

"actions to mitigate GHG emissions will require real and significant changes which will have disruptive and potentially painful impacts on some businesses and households. These changes mean that the shift from the old economy to a new, low emissions, economy will be profound and widespread, transforming land use, the energy system, production methods and technology, regulatory frameworks and institutions, and business and political culture."²

But in agreeing with this sentiment, two clear implications emerge, these being:

- an especially high burden of proof is placed on the Commission regarding any changes it proposes. Literally no part of the economy and society would be left untouched. Therefore the Commission must be able to demonstrate with specifics and not generalities, that its proposals would, in a net-public benefit test way, leave New Zealand better off overall; and
- with the world already changing and quicker than ever before, the change is, in many cases, being driven by trends underway in digitalisation and decarbonisation. How New Zealand leverages off these trends, and the sequence, pace and scale of doing so will matter deeply to New Zealand remaining an outward facing, export-orientated and confident nation.

Before getting into the specifics of our comments, it is worthwhile noting we do not find it particularly helpful to characterise a transition in black or white terms of 'old economy' or 'new economy', or other labels such as 'green/clean jobs' or brown/dirty jobs'. Such labels are not only unhelpful but misleading, unless the Commission envisages a world without, for example, metallurgy, chemicals or meat and dairy food processing, or a world where these activities continue to exist, but just not in New Zealand. Businesses operate in New Zealand for a range of reasons but mostly because they are internationally competitive given the factors of production. Unless consumer demand diminishes for products such as dairy products or aluminium, or the businesses cannot keep pace with the uptake of new technology, including low emissions technology, New Zealand is likely to retain these and other so-called 'traditional' or 'old economy' emissions-intensive industries. Provided of course no explicit policy decisions require them to face costs not faced by their trade competitors. Such decisions, if made, should be thoroughly debated and transparent in their objective and outcome.

This is one of the key challenges for the Commission – how to shape the economy in a way that allows new, low-emissions activities to flourish while potentially allowing for high emissions activities that are economic and emissions-efficient (given the

² Productivity Commission Issues Paper entitled 'Low Emissions Economy', dated August 2017, page 1.

prevailing climate change policy settings at the time) to also flourish in New Zealand.³

A suggested overall approach to the inquiry

The systemic and enduring nature of the change required by the Commission to fulfil its terms of reference suggests a couple of things to us that the Commission might find helpful in terms of its overall approach to the inquiry, these being:

- while the issues are different, the transformational nature of the changes required allows an analogy to be drawn to the approach taken by the Treasury in its 1984 briefing 'Economic Management'. This document aimed to outline the nature of the issues facing the Government and to put forward a framework for their analysis. It spoke to New Zealand's long term structural issues and their management and some of it is still remarkably relevant today, for example:

"Like a supertanker, the economy will not be quickly or easily altered in its speed or direction. The technical side of economic management is difficult enough. That includes the setting of policies in the areas of taxation, expenditure, monetary policy, the foreign exchange rate, wages and employment, market regulations and public sector management. Ultimately the greater difficulties lie in creating a climate of views and attitudes which is favourable to the use of policies which will benefit the country as a whole. An economic management strategy must involve both."⁴

Further:

"The essential feature of the economy is the web of interdependencies underlying the aggregate statistics which summarise countless decisions taken in people's daily lives. Although the objective of economic management is to get these statistics moving in the right direction, there are no simple relationships between them that can be relied upon in designing policy. Economic policies generally operate indirectly by affecting the environment in which people make decisions. Few policies operate by the Government commanding directly the result it wants. Even in the public sector, the Government must attempt to further its objectives by establishing a favourable incentive structure. In affecting the economic environment, policies produce changes which are both intended and unintended. Effective policy achieves the maximum of the former with the minimum of the latter."⁵

Putting aside what one might think about the specifics of the agenda put forward by the Treasury in 1984 (as that is not the purpose of the analogy), the approach of putting forward a framework for the analysis of the issues facing the economy

³ The goal should be to establish where the most emissions-efficient producers should be located. In other words, subject to the internalisation of costs (including a price of carbon) that are also faced by our trade competitors, we should continue to produce emissions-intensive goods and services here in New Zealand when there is demand for the goods and services they supply, unless there is a welfare-enhancing reason for not doing so.

⁴ Economic Management, Treasury Briefing, 14 July 1984, page 110.

⁵ *Op cit*, page 111.

resonates strongly with the magnitude of the challenges faced today as we contemplate the transition to a low-emissions economy. While some useful ex post lessons about scheduling, pace and distributional impacts can also be drawn, the primary reason for bringing this to the Commission's attention is the *approach* used by the Treasury. It methodically and deliberately outlined the case for change (that is, the problem), and the framework for addressing it. While in some cases it proposed a solution that could be readily implemented, its role was primarily to shape or frame how the government might subsequently wish to think about a possible solution rather than getting into the minutiae of the solution. To this end, the briefing created an authorising environment within which subsequent detailed – but consistent – policy decisions could be made. In setting out such an approach, business was provided with greater confidence regarding investment decisions and their durability; and

- the key insight from the work undertaken by the BusinessNZ Energy Council on energy scenarios is that the future is unknowable.⁶ We simply do not know what the future will hold and those who profess to know cannot possibly, even though we might know the direction we need to take. Such views can only be informed observations at best. This sentiment is reflected in the Commission's terms of reference, which are careful not to talk about a pathway singular but pathways.⁷ To attempt to plot a single pathway or plan to a low-emissions economy would be folly. The work of Vivid Economic Consultancy demonstrated this with its net zero 2050 'scenario'. Inevitably wishful thinking, heroic assumptions or a disregard for costs are required. This realisation is important to:
 - a. how the Commission needs to think about the development of new incentive structures and unlocking new modes of low-emissions investment. The Commission's focus should be less on plans and the minutiae of policy and more on the rules, incentives and frameworks required to facilitate economic actors making informed decisions about low-carbon options (the Commission is, after all, unlikely to know what the future low-emissions opportunities will be, let alone when they will emerge or their impact when they do); and
 - b. what the Commission needs to do to determine how the economy, in all of its complexity and moving parts, can shift from one state to another in the most efficient, frictionless way possible.

⁶ As an interesting aside, we note that while listed as one of the Commission's key pieces of work on page three of the issues paper, other than a reference to its modelling as a tool for evaluating policy, the Commission makes no substantive reference to the work of the BusinessNZ Energy Council, even in its consideration of energy issues, the area in which the BusinessNZ Energy Council has comparative expertise, instead preferring to rely on the work of the Royal Society.

⁷ This is a subtle, but important distinction. Plans are often justified on the basis that business needs long term certainty and that plans are required to provide this. This is not so. What businesses really want is predictability of the conditions and frameworks in which they operate so that *they can plan* with greater confidence knowing that the assumptions they make about the future are likely to hold into the medium and longer terms. Bureaucratic plans that are too determinative risk having the opposite effect from that sought – they risk stifling the vigour of markets and market responses, and the pursuit of innovative responses and the contest of ideas. Unless of course they match your plans. This is why the BEC believes that scenarios are helpful – their role is to help reduce operating uncertainty and lower basis risk as decisions made in their context are likely to be more resilient to alternative outcomes.

Another way of looking at this is that the Commission should think about what New Zealand should do regardless of whether others take action, as well as what New Zealand must do when others do take action. This will allow for the identification of the zone of minimum regrets and in doing so, the identification of a range of actions that makes sense from the perspective of a growing resilient, adaptable economy which is more productive and competitive.

Comments

BusinessNZ has the following more targeted comments on the issues paper. These points are in no particular order of preference or importance:

- agreed emission reduction targets or at least targets within a narrow range are as - if not more - important as the policy pathways used to achieve them. A credible shared political commitment needs to emerge around New Zealand's emission-reduction targets. While we appreciate that targets are out of scope, they are critical to the overall conversation. One need only think about the current differences in targets across the political parties (for example, 30% below 2005 levels by 2030, net zero carbon by 2050, and net zero emissions by 2050) to realise what these might mean for how targets might vacillate over time, and the concomitant implications for policy settings and investment signals for business;
- policy consensus and 'independent' institutions can be undone. For example, the previously shared political and policy consensus that existed around superannuation, free trade and monetary policy no longer holds even though the outcomes sought remain agreed (at least on the face of it). The presumption that independence will provide policy durability is a chimera. New Acts, institutions and mechanisms, regardless of how stable or independent they are claimed to be, are only independent (if they are that at all) and provide predictability while a political consensus exists. We last saw this playing out in the climate change space with the establishment, and subsequent disestablishment of the Climate Change Office, and are seeing it play out on a global scale in American climate change policy. It is unclear why this would not happen with the now suggested climate commission.⁸ While it is important that policy settings are durable, there will inevitably always be a contest of ideas about how to reach the targets and this could vary over time.⁹ This risk is inevitable, but is mitigated if the targets or desired outcomes are agreed and further reduced with an enduring focus on

⁸ A key risk associated with climate focused institutions such as a climate commission is that they become de facto economy central planners along the lines of the long ago disestablished New Zealand Planning Council, but without the tools to put plans into practice. It is worthwhile recalling that the Planning Council was disbanded because it could never keep pace with technological, social, and other trends nor provide the quality of the decision-making inherent in that being made by the myriad of market participants facing a range of incentive structures.

⁹ An example of the absence of policy durability is the Renewable Preference Act 2008 passed into law by the Labour-led Government to ban the construction of new baseload thermal power stations. This Act was one of the first repealed by the new National-led Government. We note that it is the Labour Party's policy to reinstate this Act. It is this sort of policy 'ping-pong' that creates an absence of predictability, as opposed to a policy framework (such as the current ETS settings) that is stable but delivers an outcome that some don't agree with.

high quality advice and decision making (the latter seemingly the goal of the recently established 'transition hub' at the Ministry for the Environment [MfE]). We strongly support the work of the transition hub and believe that it should be given the space to grow and develop before judgment on it is made;

- there is no such thing as a 'flexible but certain' emissions trading scheme. Bureaucrats tend not to make good market managers. Businesses seek predictability from policy settings, not certainty. A desire for certainty simply implies a desire those seeking it to have someone other than themselves (presumably the government) accept the risk. Emissions trading scheme ('ETS') policy settings should be moved closer toward, rather than further away from market-like settings, including the development of risk management tools to manage volatility (which it must be remembered is a spur not a hindrance to innovation). We set out the rationale for doing so in our submissions to MfE on the ETS review (of which you have copies). The closer one gets to a managed ETS, especially in the absence of international links, the greater - not the smaller - the political risk, and therefore the lessening of durability and predictability and the greater our preference is for a carbon tax with revenue recycling;
- the BusinessNZ Energy Council developed a 'deep dive' on carbon emissions from its ground-breaking scenario work. This can be found via <https://www.bec.org.nz/projects/a-deep-dive-into-the-new-zealand-energy-and-transport-sector-emissions/nocache>. Unlike other reports, this was quantified, and facilitated a clear exposition of the policy levers required to deliver carbon emission reductions. Our work demonstrates that:

"CO₂ emissions from the energy and transport sector are strongly tied to economic, energy productivity and population growth. Achieving both a high growth economy and significant emission reductions will require a significant reduction in energy intensity and carbon intensity. It is not clear from the modelling that this will occur in a high growth scenario."

The deep dive recognised the practical issues associated with, for example, the absence of gas infrastructure in the South Island. However it also recognised the powerful leverage effect of increasing low-carbon electricity generation across a number of sectors. The leverage effect of large supply-side investment decisions in the electricity sector is significant. It would take many tens of thousands of individual decisions regarding, for example, electric vehicles to achieve the same effect on emissions as a single renewable energy power station. The deep dives showed that nearly two-thirds of the emissions reductions in residential, commercial and agriculture sectors come from their use of electricity. Greater electrification of industrial processes hold particular promise, but there are substantial co-ordination problems around the timing of demand (say, for example, for new dairy processing units) and the time it takes to get new transmission lines approved and built.

Other insights available from our work highlight:

- the role of urban centres in helping to drive towards a low-carbon future. The Commission needs to be more cognisant of these possibilities, beyond the impact of the carbon price on emissions, with further emissions reductions possible if transport systems and urban design evolve so as to change how we travel, away from private car usage to increasing use of public transport, walking and biking. This in turn has implications for the planning system and its seeming inability to do anything other than frustrate development, especially with a growing need to adapt as well as mitigate;
 - that, as a country, the opportunity for New Zealand to substitute away from flying is relatively limited domestically and - given our remote location as a country, and our tourism aspirations - almost zero internationally. But BEC2050's aviation figures do not factor in possible improvements in fuel efficiency. The historically observed improvements in fuel efficiency in the domestic aviation sector may continue at similar, or potentially greater, rates; and
 - achieving more emissions reductions from the energy and transport sector than indicated would be helped by greater investment in R&D in emissions reduction-related opportunities. As a technology-taker, with the right diffusion policies, New Zealand can benefit from the rapidly falling costs of new technology especially in the energy sector, and in turn minimise any efficiency losses that might be associated with the early adoption of higher-cost, higher-emissions technology. Currently there is no efficient way for business to peer inside the global new knowledge, research and development 'cupboard'. The Commission might want to look at knowledge and technology transfer tools and approaches that business and universities use to monitor and access knowledge, research and development related to transitioning to a low emissions economy;
- while new technology investment and diffusion policies are extremely important in their own right, so too are their related, enabling policies. We note that one of the reasons Lanzatech (a business located at the Glenbrook steel mill capturing flue gases and converting that into biofuels) relocated overseas was the New Zealand regulatory burdens associated with developing and using genetically modified organisms;
 - electric vehicles will undoubtedly be important going forward as a key way to reduce transport emissions, as they – like our energy-intensive businesses – can leverage off our increasingly renewable energy. More generally it is important that the Commission does not pick technology or product winners, but focuses on the development of a framework that will allow the market to establish what the best low emission options are. Ultimately, these choices

will be punished or rewarded by consumers. Policy interventions that demonstrably favour one competitor over another, or fuel type over another, either directly or indirectly, are unlikely to be durable (as evidenced from numerous examples from overseas jurisdictions) and risk damaging competition and worsening outcomes. While EVs are going to be important, we note that Toyota, BMW AG, Daimler AG, Honda Motor Co., and Hyundai Motor Co. are all part of a consortium committed to spending ten billion euros on hydrogen-related projects. We also understand that Methanex is looking to produce methanol for a low emissions fuel;

- we are unclear about the conclusion drawn on page 63 of the Commission's issues paper where it is stated that:

" the Commission understands that the implication of the commitments made under the Paris Agreement to limiting temperature increase to 2°C is a transition to zero net CO₂ emissions economy"

Article 1, paragraph 1. (a) says:

(a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

While Article 4 Paris Agreement says:

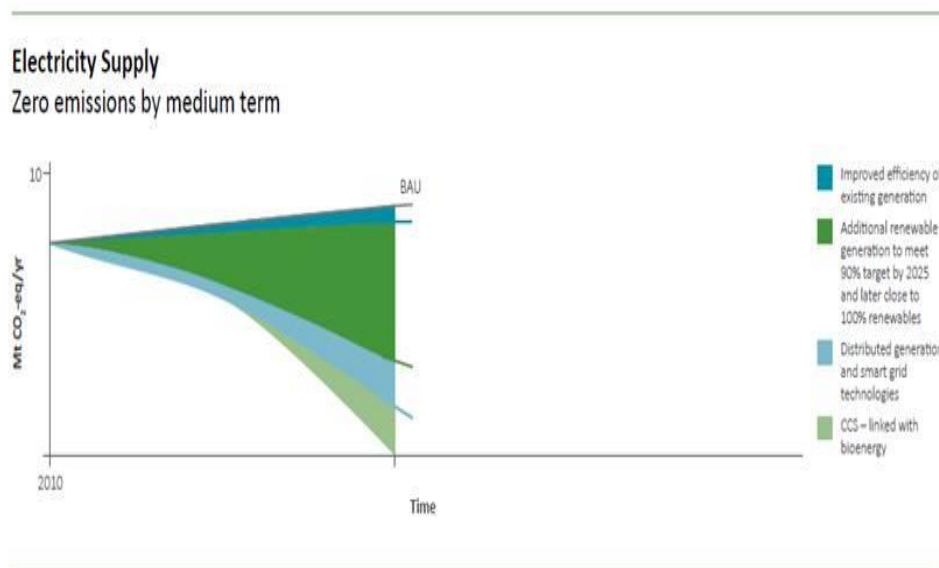
"1. In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty."

There is no automatic translation between the Paris goals and country-specific goals, nor any scientifically robust way of apportioning the global goal to specific countries. In any case, to do so would run counter to the very basis of each country's target being nationally determined. This is why the Government has asked the Commission to assess:

"how New Zealand can maximise the opportunities and minimise the costs and risks of transitioning to a lower net-emissions economy"

- in order to meet more aggressive domestic emission reductions, carbon capture and storage ('CCS') must be given greater consideration. This is

often dismissed as untested or impracticable. The BEC2050 scenarios show that at some point on the new generation supply curve, coal power stations will – in the absence of government intervention – be built, and with CCS with a carbon price. Our sense is that as governments around the world become more serious about meeting increasingly stringent emissions-reduction targets, while wanting to retain energy that is affordable, they will look to all technologies to help, and one of these will be the increased use of CCS, just as others, such as Sweden, are relying on nuclear power to produce carbon-free electricity. The BEC scenarios showed that carbon capture and storage with bioenergy power generation became commercial towards the end of the scenario horizon. Even the Royal Society suggested that CCS could be an option in the long term and, if coupled with bioenergy, would give negative GHG emissions. The Royal Society report contained the following schematic:



If one of our major electricity market participants has sufficient confidence given the geological and other risks to reinject and store gas into an old storage well and retrieve it that suggests that CCS is not an option that should be as easily dismissed as infeasible. The durable, long-term injection of carbon to facilitate enhanced oil recovery is a long-established practice;

- government procurement has a greater role to play. The Commission should look across all the tools available to government (ownership, purchase or regulation). While the power to purchase is often seen as a tool to subsidise, it need not be. As seen with the stated objectives of the recent political announcements with regard to EVs, government procurement can be used to stimulate the development of a nascent technology or market, and/or help achieve scale in what is a small domestic market;
- one of the key lessons from the World Energy Council's energy trilemma is that energy affordability is important and must not be lost sight of in the pursuit of environmental sustainability. One need only look to Europe for examples where the price of energy (electricity and fuel) has risen

substantially, placing households into energy poverty, and businesses at a commercial disadvantage. This has generally resulted in a slippery slope of regulatory intervention ultimately dampening investment and costing jobs;¹⁰

- the discussion about the two baskets approach could be seen as a technical accounting issue but rather, assuming a given target, actually implies a reduced obligation on one basket and a commensurately increased obligation on the other relative to the status quo. This would not be the effect if the two baskets approach was also adopted at the international level as the target would, in effect, become easier to meet. It is possible to have different rules for domestic and international purposes, for compliance and reporting purposes. There may also be a perception that carbon emissions are somehow easier to reduce than other gases. However, we would suggest caution in this case if a similar approach is not adopted internationally or the target is not adjusted downwards. We would suggest this in light of such factors as:
 - one must be extremely cautious when attributing ease of reduction to particular gases as this depends on the nature of the industrial process, for example, carbon emissions are fundamental to the very nature of steel and aluminium production;
 - the potential distortionary impacts including between the same gases (for example, fugitive methane and agricultural methane); and
 - the extreme pressure it would place on those sectors emitting carbon to reduce activity more quickly than their international competitors;
- consistent with the systemic nature of the economic changes required, it is important that the Commission give thought to the nature of the education and training system and to labour market and immigration policies necessary to facilitate a smooth transition. Such systems could, if misaligned, hinder the transition or worse, create severe distributional impacts for local communities (Glenbrook and Invercargill being the most obvious). We would make the following observations:
 - while it is hard to plan for such a transition, given that its precise impact is unknown, steps can be taken now to help ensure the acquisition of new, high demand skills can be achieved relatively seamlessly. The Commission's report *New Models of Tertiary Education* sets out recommendations for a more flexible, responsive and resilient tertiary system. Such a system is better placed to respond to uncertain trends and the known difficulties around workforce planning. Improving how our education and training system

¹⁰ For example, one such notable manifestation of the slippery regulatory slope was in the last UK election, where the leader of the Conservative Party promised a cap on rip-off energy bills in the Conservative manifesto, arguing that she was ready to intervene in markets if they are thought to be failing ordinary families.

is regulated, incentivised, and operates is important for addressing uncertain trends and providing better matching between the demand for, and supply of, skills. The measures set out in New Models of Tertiary Education, if implemented, should enable education and training systems to adjust and support the transition to low a lower emissions economy. Our skills and retraining efforts will need to be complemented by responsive immigration policy settings where the required skills are not available locally;

- transitioning needs to be accompanied by employment support services, training and upskilling opportunities that enable ongoing participation in the labour market as a result of disruption. Unlike technology, globalisation, the IoT, and demographic trends, transitioning to a lower emissions economy may result in severe impacts on current emission-intensive sectors and/or regions. As such, transitioning is likely to create an expanded need to support, retain and upskill displaced workers, especially in industries with a large proportion of workers with low skills and little education. New Zealand needs to get a handle on what kinds of training, upskilling and learning is attractive to individuals in the labour market with very low skills and little education, and in what sort of context. It is incorrect to assume that such people will simply sign up for the standard training or retraining offerings. The Commission's Social Services report recommendations maybe useful in this regard; and
- successful transitions require strategic and management capability. At the micro-level there will be two types of businesses: those that are being disrupted and know about it, and those who are being disrupted and haven't realised it yet. Business strategic and management capability is key to:
 - recognising that disruption is happening;
 - starting to think about what it means for the business; and
 - identifying what to do differently to remain competitive and profitable;

This is a particular challenge for small to medium enterprises. BusinessNZ and the Sustainable Business Council are examples of organisations that assist businesses build capability to be competitive. There is a need to provide basic tools for firms to help themselves. For example, to identify trends coming through, asking what does this mean for business goals, where to invest for best return, and what things need to be done differently. Regulation, incentives and sanctions will have to recognise that strategic and management capability needs to lift if New Zealand is to create opportunities and mitigate the risks of a transitioning economy;

- in our experience, most 'shared visions' are neither visionary nor shared. A shared vision might be a useful tool, but it might equally prove an unnecessary distraction to actually getting on with the task at hand. An effective and widely shared strategy is likely to be as powerful, if not more so;
- despite the best efforts of bureaucrats, 'transitions' never go as planned. They often happen more quickly than anticipated. Business acts on signals about the long term direction of travel. A plan for a managed or gradual transition signals to business making medium to long term investments now that such investments are unlikely to recover costs over their lifetime. Investment stops immediately. In light of this risk, we are likely to experience investment leakage before carbon leakage. In the case of the oil and gas sector, this could have dramatic flow-on effects throughout the value chain (for example, the production of hydrogen peroxide, and its use in the pulp and paper industry). The Commission needs to demonstrate that it understands these complex inter-relationships;
- consistent with the overall approach outlined above, we are not always sure, in light of some of the questions asked, if the Commission has focused appropriately at the right level to shape the systemic change that it has been tasked with advising on. As can be seen from our ETS review submissions, we have a number of potential changes but we do not think it appropriate to use this submission to repeat them. The risk is that the Commission simply descends into a re-hash of issues which are well worn (at least since the ETS was first mooted), and in the case of the ETS already under active reconsideration or development by officials and Ministers. To delve into such detail runs the risk of creating confusion and duplicated effort rather than providing officials, Ministers, business and the wider community with new insights about how to achieve the objective set out in the terms of reference – a growing, prosperous, low emissions economy. Rather than get caught up in the weeds, the Commission needs to take this opportunity to help shape and mould the development of future policies, and in doing so set the overarching direction of the future climate change policy agenda. To do this, the Commission must first articulate how it sees the component parts of the system fitting together in a mutually reinforcing way and the risks and opportunities involved. Only then will an informed conversation about the implications of our choices and options, along with their benefits and costs, be able to be had.

Summary

We welcome the issues paper. The Commission has been provided with a wide canvas and has grasped the opportunity to identify the relevant issues. The next challenge for the Commission is how to take its potpourri of issues and the responses from submitters forward into a coherent, logical and clearly articulated policy framework and programme that can give effect to a seamless, smooth transition to increased productivity and diversified export base that is low emissions. We have suggested some ideas in this regard.

We would be happy to discuss these and any other issues the Commission considers relevant to progressing its inquiry and look forward to working closely with the Commission as it proceeds through its inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Carnegie', with a stylized flourish at the end.

John A Carnegie
Executive Director, Energy and Infrastructure
BusinessNZ

APPENDIX ONE: ABOUT BUSINESSNZ

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ 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 and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).



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