

19 July 2018

Ministry for the Environment
PO Box 10362
Wellington
Via email: ZCB.Submissions@mfe.govt.nz

OUR CLIMATE YOUR SAY: ZERO CARBON BILL DISCUSSION DOCUMENT

About ExportNZ

ExportNZ are national industry associations representing a diverse range of exporters throughout New Zealand. ExportNZ is a division of BusinessNZ, New Zealand's peak business advocacy body.

We are a membership organisation and across our two brands have approximately 2,000 members. We also have four regional partners: Employers Manufacturers Association (Upper North Island), Business Central (Lower North Island), Canterbury Employers Chamber of Commerce (Upper South Island) and Otago Southland Employers Association (Lower South Island).

Our value proposition for members is a mixture of policy and advocacy, education and training, networking, trade missions and inspiration through awards events and conferences.

Submission

ExportNZ welcomes the opportunity to submit on the Zero Carbon Bill Discussion Document ('the Document').

ExportNZ absolutely agree that climate change is a very real global issue that needs to be addressed, and that New Zealand must do its part. However, we question whether the Zero Carbon Bill is the solution to New Zealand's climate change commitments, given the current target of a 50% reduction of GHG from 1990 levels is already a stretch target and will come at an annual real GDP cost of \$8.6 billion between 2017-2050, according to NZIER economic modelling.

We acknowledge some of New Zealand's largest companies have signalled their support for the Zero Carbon Bill. While we congratulate these companies for being in the position to become carbon neutral, we believe these companies are either ahead of the curve in terms of the wider economy's ability to achieve carbon neutrality or they believe they are not trade exposed and can pass on the cost to their customers and/or they have a small carbon footprint in the first place. It is great that these companies are able to show leadership, but we believe we need more analysis to be done on the broader feasibility of reaching this target and just how it would be achieved, given we have the **emissions profile** of a developing economy, a high proportion of renewable electricity already, a growing population and a significant percentage of our export earnings are related to animal food products.

We wish to raise some concerns we have around the discussion document, specifically regarding how the document compares us internationally, issues around global competitiveness and those industries that are export/trade exposed.

Specific comments regarding the Discussion Document

ExportNZ has some general comments to make about the discussion document.

Is 2050 the right date?

We question whether 2050 is the right date for the target. The Paris Agreement on Climate Change itself states in Article 4.1 that all parties aim “to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century.” Given the monumental change to the makeup of the New Zealand economy that would be required to meet this target, we would support the Bill allowing the revision of the 2050 target to allow the economy time to adjust and catch up to a net carbon neutralist state.

We would argue that the transition to carbon neutrality is not going to maintain public or political support if the price of carbon has to rise to \$272 per t/CO₂ and those costs flow through to consumers and affect jobs, if the rest of the world’s largest emitting countries take significantly lower levels of action.

Policy recommendations?

We would also note that there are few indications around policy the Government would put in place to help the economy reach 2050 targets, outside of comments on setting up a Climate Change Commission and setting emissions budgets. In order to comment on the how to achieve a zero carbon economy, we would like to see more suggestions regarding policy options.

Without seeing real policy options regarding the approach to achieving a zero carbon economy, we would advise caution. We need to be very deliberate about such major changes to how the economy is run – rushing into changes could be disastrous for the economy. We need to think very carefully about sequencing of changes to ensure business has time to keep in step with changes.

What we propose

As with BusinessNZ, we agree that having a clear target is helpful to business in their decision-making processes, but what happens if we set the target too high and find that it isn’t achievable, or too low to move the needle? Or what if other jurisdictions do not take the action that they have promised to take? These questions lie at the core of implementing stable, long-term durable policy settings that don’t become unstable through political intervention if the policy settings become unachievable or need to be dramatically strengthened.

We believe that we should have a target set in the Bill, but not the targets set out in the discussion document. We propose a hybrid format that involves:

- legislating a pair of 'bookend' targets, being the current target of a 50% reduction by 2050 and an 'anchor' net zero all gases target by 2100; and
- requesting the Climate Commission to advise on the target pathway between the two bookends.

We propose this formulation believing that it will:

- give time for the fuller suite of low emissions policies to emerge, and be tested in terms of their likely contribution towards an increase in the 50% reduction target;
- signal the seriousness of the challenge and provide for the Climate Commission to advise on the target pathway between the two points (leaving, for example, it to the Commission to advise as to whether the end date of 2100 can be achieved by an earlier date, but not to reduce the 50% reduction target or make the 'anchor' target later);
- provide for greater political durability – by avoiding the prospect that a future government walks away from an over-ambitious, unachievable target, and minimise the prospect of unpredictable outcomes from ad-hoc politically motivated reviews;
- assist in providing business with greater predictability and underpin a smoother more effective long term transition; and
- work in concert with the international negotiations over time regarding the expectation of progressively more stringent targets.

Other comments regarding a Zero Carbon economy

Global competitiveness

ExportNZ sees the current aims of the Bill as having the potential to severely impact exporters' ability to stay globally competitive. As we know, New Zealand is fairly geographically removed from the rest of the world. As goods make up 70 percent of the total value of our exports, these exporters rely on competitive production and transport rates in order to get their products to market. The majority of these goods are out of the agricultural sector which would also be heavily impacted by the Bill. The Bill would drive these costs up and impact our ability to remain globally competitive when selling our products.

There are more than a few major geopolitical matters in play that will further impact on NZ's competitiveness. For instance, China's Belt and Road Initiative will cause a massive dislocation of shipping given the renewed emphasis on rail through to Europe – it is estimated that freight from China to France will take 13 days by rail versus 4-6 weeks by sea. This is going to impact on feeder services out of NZ and result in a potential short term advantage due to surplus capacity but once that rebalances reduced capacity will result in higher pricing for transport to markets beyond Asia. Given uncertainty around future geopolitical moves that will impact our

ability to stay globally competitive, we do not believe it is prudent to lock ourselves into emissions targets and therefore be unable to mitigate future geopolitical changes and challenges.

Additionally, New Zealand is not a high emitter. According to MBIE's Energy in New Zealand 2017 report, renewable energy was 40 percent of the New Zealand's energy supply in 2016, giving New Zealand the fourth highest renewable share in the OECD. Further to this, 85 percent of electricity generated was renewable – due to this, the amount of coal used in electricity generation fell 60 percent. Overall, New Zealand is estimated to contribute 0.1 percent of total global greenhouse gas emissions. While we agree improvements can be made, it's important to note that our efforts will only have a global impact if the larger emitters (United States, China, etc) buy in to reducing their emissions. As such, we would advocate that New Zealand needs to be in lockstep with the rest of the world in terms of emissions reductions, rather than a leader, in order to maintain our global competitiveness.

We recommend that the Climate Change Commission establish an international monitoring service to analyse and interpret the action that is being taken internationally so that robust cost comparisons can be made on how that flows through to business costs. If New Zealand's approach to carbon neutrality can be competitively neutral against our main global competitors, then our trade exposed businesses can embrace these additional costs that drive change without fear of becoming uncompetitive and therefore unviable in New Zealand. The only political challenge that would then remain is whether the costs on consumers are bearable.

UNFCCC Rules

Another issue from the New Zealand perspective is that the rules set by United Nations Framework Convention on Climate Change (UNFCCC) don't favour New Zealand.

Two main issues exist here. Firstly, further investigation of the use of 1990-level carbon emissions as the benchmark shows the date is favourable to Europe. For instance, around 1990, the UK shifted much of its energy from coal mining into getting natural gas from the North Sea. Additionally, the collapse of the Soviet Union forced a large number of high-emitting factories to close in Eastern Europe. These factors enabled a very quick shift from higher levels around 1990 to significantly lower levels, not due to any dramatic shifts in climate change policy, but due to circumstances of the time. New Zealand at the time was a relatively low emitter anyway, so significant reductions would be much harder to achieve. Since 1990 we have needed to invest more in housing, transport infrastructure etc to account for our own population growth – this inevitably leads to more emissions. Further, we have seen the shift from mostly beef and lamb in agriculture to dairy, which is more emissions intensive but has added immense value to the economy.

Secondly, UNFCCC rules allow forestry as carbon sinks, but do not include other natural assets New Zealand possesses, including agricultural grassland and soil, fruit trees, shelter belts and seaweed among others. For a country rich in plants and surrounded by oceans, we are unable to take complete advantage of those resources that reduce carbon emissions through natural processes. The Kyoto Protocol is set in time, while science is changing all the time which should allow for changes to the system's rules. We feel, provided the science supports it, UNFCCC rules must reflect

the changing impacts of the science of carbon sinks, and would advocate that New Zealand pushes to include more than just forestry in the carbon sinks framework.

Impact on agriculture

In the discussion document, we note a heavy emphasis on the emergence of new technology to aid economic growth while other sectors make changes necessary to comply with the Bill. However, the ability of the economy to outweigh the current bearing agriculture has on GDP through new technology has been somewhat overestimated. Instead, we believe that the agricultural sector needs to be incentivised to make changes or help themselves to become carbon neutral.

We would advocate treating methane and nitrous oxide as separate from other greenhouse gases. The reality is that methane is a product of a natural process and it is a short lived gas. It is also worth noting that F&B exports make up 55% of NZ exports – worth roughly \$20 billion to the NZ economy. \$14 billion of that is meat and dairy, which will be severely impacted by a zero emissions bill, unless methane is treated differently. While plenty of research has been given to reduce methane emissions from cows, we do not believe it is logical to include methane and nitrous oxide in New Zealand’s net zero goals.

Furthermore, it is worth noting potential emissions leakage that will occur if our agricultural sector has to reduce production due to changes proposed. Any shift offshore to meat and dairy production is generally to grain-fed farms. These farms are far more emissions intensive than grass-fed farms, so moves that impact agriculture will actually lead to more global emissions, not less.

Given the impact the Zero Carbon Bill would have on agriculture, we would reiterate our comments above regarding a change being needed to the UNFCCC rules. Additionally, we would suggest that New Zealand could show leadership in this area by including pasture grass and soil, fruit trees, shelter belts, and seaweed among others in the ETS, should the science support it. We believe this is a way to alleviate the carbon pressures on the agriculture sector, assist them in becoming carbon neutral, and show global leadership in our approach to carbon emissions.

Planning for growth

We need to be aware that New Zealand is a big country with a small population. We have plenty of room for growth, but growth increases emissions. Any policy settings around changing New Zealand’s ability to grow need to be carefully considered as such. Do we want policy settings that result in a stagnating or shrinking population in New Zealand and a landscape covered in pine trees?

Recommendations

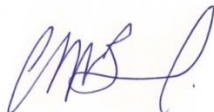
We would recommend the following:

- That the Ministry for the Environment considers whether 2050 is the right date for a net zero carbon economy.

- That the target set in the Bill becomes a hybrid format that involves legislating a pair of 'bookend' targets, being the current target of a 50% reduction by 2050 and an 'anchor' net zero all gases target by 2100, and that the Climate Commission to advise on the target pathway between the two bookends.
- That throughout this process, New Zealand maintains its global competitiveness through staying in lockstep with the rest of the world rather than a leader in terms of emissions reductions. This needs a special monitoring unit and rigorous analysis as it is complicated and there have been many examples of smoke and mirror policy around the world in the past.
- That New Zealand works to include other carbon sinks in the UNFCCC rules, provided they are supported by science.
- That methane and nitrous oxide are treated as separate from other greenhouse gases in the formation of the Zero Carbon Bill.
- That New Zealand shows leadership in the formation of carbon emissions sinks by including pasture grass and soil, fruit trees, shelter belts and seaweed among others in our Emissions Trading Scheme, should the science support it.

Thank you for the opportunity to submit on the Zero Carbon Bill Discussion Document, and we would welcome the opportunity to contribute further to the discussion on New Zealand's Zero Carbon efforts.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Catherine Beard', with a stylized flourish at the end.

Catherine Beard
Executive Director
ExportNZ