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2020 Emissions Reduction Target Consultation  
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## **Gazetting New Zealand's 2050 Emissions Target**

Business New Zealand is pleased to have the opportunity to provide a submission on the Minister for the Environment's position paper entitled 'Gazetting New Zealand's 2050 Emission Target', released 31 January 2011.<sup>1</sup>

### **Introductory Remarks**

The Climate Change Response Act 2002 (amended in 2009) states:

"the Minister responsible for the administration of this Act **must** set a target." (section 224(1), emphasis added).

The current targets are that of the previous Labour-led Government. Those targets are not being revoked.<sup>2</sup>

A judgment has now been made that New Zealand's long term emission reduction goal should be a 50% reduction on the basis of net emissions, relative to gross emissions in 1990. It is, as outlined in the position paper, in New Zealand's long-term interests to begin taking steps towards a low carbon future.

However, in moving the target's status from a politically aspirational target to a gazetted notice, the burden of proof should be high. Unfortunately, the

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<sup>1</sup> Background information on Business New Zealand is attached in Appendix One.

<sup>2</sup> Section 224 (2A) of the Act state that "Before the Minister sets, amends, or revokes a target, the Minister must consult, or be satisfied that the chief executive has consulted, persons (or their representatives) that appear to the Minister or the chief executive likely to have an interest in the target."

absence of hard, analytical information on the range of potential impacts of implementing this target has frustrated our desire to enter into an open discussion about it.

Lessons do not appear to have been learnt from the process of setting the 2020 target. We believe that the Treasury advice from that time remains as relevant for the setting of the 2050 target, when it said:

Setting the [2020] target is possibly the most important decision Ministers will make [this year], because of the economic and fiscal costs it will end up imposing on New Zealand.<sup>3</sup>

When the Government offers up an emission reduction target, it needs to undertake an analysis on burden sharing. It should also have a plan for how the cost would be kept as low as possible for New Zealanders. Neither is evident.

In light of this, BusinessNZ is not in a position to determine whether the proposed target is appropriate and recommends that gazetting is delayed until Treasury advice is sought and made publicly available, and the practical consequences of such a target is considered by the emissions trading scheme Review Panel. Serious consideration should also be given to waiting until after COP 17 at Durban before gazetting the target, as should the development of a set of plausible low-carbon pathways, as envisaged in the Cancun Long-term Co-operative Action decision text.

Without clearer ex ante carbon reduction pathway information, the likely unpredictability of supporting policy settings raises the prospect of ex post asset stranding, resulting in the deferral, or cancellation of investment decisions and a loss of international competitiveness.

At an absolute minimum, should the Government move ahead and gazette the target in the absence of appropriate supporting information, its achievement should be assessed against the conditions that have been applied to the 2020 target range or any other conditions appropriate to New Zealand's unique economic and emissions circumstances.

### **Factors Critical to Setting a Target**

BusinessNZ agrees that it is important that New Zealand does its "fair share" to reduce global emissions. This is in the interests of the global environment and for reputational reasons.

However, it is well known that the cost of domestic abatement is high. This is due to the fact that nearly 50% of our emissions are from agriculture where mitigation options are limited, we already lead the world with our high percentage of renewable electricity generation, we have had the highest

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<sup>3</sup> Page paragraph 78

population growth since 1990 amongst Annex 1 countries and we have the third lowest GDP per capita amongst Annex 1 countries.

If the Government is going to enshrine the target in regulations then at a minimum, it needs to assure the community that it is realistic, achievable and will not impose an unreasonable and disproportionate burden on the economy.

Critical to providing this assurance is the provision of information of a sufficiently high standard that will enable interested stakeholders to make informed contributions to the debate. Information on such factors as progress of the international negotiations, comparability of effort, the net public benefit expected and the underpinning low-carbon pathway are core to the debate. The 'advertorial' nature of the information provided belies the importance of these issues. The balance of this submission outlines BusinessNZ's view on these information requirements.

### Progress of the International Climate Change Negotiations

The demise of the Kyoto Protocol (or at least that of its binding target and compliance regime) is now almost inevitable and significant uncertainty exists as to the nature and form of its replacement. This is very different to when the target was first adopted by the National Party. At that time, the likelihood of a second Kyoto Protocol commitment period was strong and there was growing confidence of the widespread adoption of emission trading schemes.

However, a lack of progress toward a global climate change agreement in recent years means that assumptions made even as recently as a year ago concerning the speed of action by our trade-competitors to price carbon, no longer hold.

The incorporation of the Copenhagen Accord 2020 emission reduction targets into the UN decision-making framework at Cancun is a more positive indication of the overall sense of direction. However, the absence of any firmer indication as to the timing of an eventual agreement, its legal form, any indication of how it will be enforced, and how it will apply across developing and developed countries even in the short-term medium term means that it is premature for New Zealand to adopt a legally enforceable longer-term target. These factors will be better understood after COP 17 at Durban at the end of this year and gazetting the target should be deferred until after COP 17.

If New Zealand's international emission reduction obligations were less stringent than the domestic target then that could impose unnecessary costs on the economy.

### Comparability of Effort

The science underpinning the extent of international ambition is important, but so too is the economics. Even if the international context and emission reduction commitments were more settled, it is difficult to estimate the

economic impacts of such a target as no economic modeling of it has been completed. It is difficult, therefore, to directly assess the comparability of effort implied across jurisdictions, in terms of an equalised cost of abatement as a percentage of GDP.

Despite this, New Zealand's proposed target is held up as being broadly comparable to those of a range of other countries. However, similar targets do not mean comparable effort (based on different sources of emissions and relative ease of reductions). In other words, achieving a similar target to others could cost New Zealand disproportionately more to achieve due to the make up of our economy. For example, in the context of the 2020 target, Treasury advice to the Government was that a 10-20% emission reduction target range would impose a cost on New Zealanders that is eight times greater than the costs of other countries' stated targets.

Taking on a costlier burden than other developed countries that are richer than New Zealand is something we can ill afford. An update of the Treasury analysis could have been expected to inform the current target setting exercise.

As a part of the 2020 target setting exercise, Infometrics was independently commissioned to model the cost of a 40% reduction by 2020. The results were alarming, as common sense (let alone economic modelling) tells us New Zealand's marginal abatement cost is very high. BusinessNZ would, at a minimum, have expected the Government to have commissioned and released a similar study to inform the debate about an appropriate 2050 target.

At a minimum, the decision to gazette the target should be informed by the review of the emission trading scheme that is underway. The Review Panel is tasked with assessing the contribution of the emissions trading scheme established under the Act towards any targets that are in effect.<sup>4</sup> No targets (either medium or long term) are yet in effect. However, the central role of the emissions trading scheme in meeting New Zealand's international obligations leads BusinessNZ to expect that one of the Review Panel's tasks will be to determine the impact of a scheme on the economy that is calibrated to achieve a target or range of targets.

### Demonstrating the Net-benefit to New Zealand

While a key element is determining comparability of effort, so too is the need to be able to justify the new gazette in terms of its net benefit to New Zealand-inc. At a minimum, in order to be assured of the underlying quality of the proposed gazette, BusinessNZ expected a regulatory-impact type statement or attempt at a cost-benefit analysis. Neither is evident. A qualitative cost-benefit analysis could be implied from the position paper but the language is often one-sided, for example:

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<sup>4</sup> Section 160, Climate Change Response Act, 2002

Achieving the 2050 emissions target *could* mean higher costs for consumers and businesses as we transition to a low-carbon economy. However, a less ambitious target *would* undermine New Zealand's clean, green environmental reputation (emphasis added)

Similarly, reputational impacts are stated as significant. But, no mention is made of the reputational impacts of failing to meet, or indeed renouncing a target that is too ambitious.

The Government has recently agreed to proceed with a Regulatory Responsibility Bill. The likely purpose of such a Bill will be to establish a set of principles of responsible regulation, or good law-making. It might also be expected to provide for any incompatibility with the principles to be justified. BusinessNZ considers this target setting process would likely fall foul of the requirements of any future Regulatory Responsibility Bill.

BusinessNZ acknowledges that the gazette notice is not a new regulation and would not be subject to the requirements of a Regulatory Responsibility Bill, if passed into law. Nonetheless, the economic significance of the target is such that it warrants being treated as if it were a regulation and being required to meet such a stringent standard of quality, as intended in such a Bill.

#### Evidence of a Low Carbon Pathway

The fact that the proposed target will give taxpayers, business, industries and farmers clear, long term certainty about where domestic climate change policy is headed so that they can plan and invest accordingly is given some prominence in the position paper.

Businesses rarely act without a clear understanding of costs, risks and benefits. If market uncertainties grow too large, it is difficult for businesses to justify major investment. Business understands that even under the best of circumstances, perfect certainty is not a realistic outcome. Predictability is a much more reasonable expectation. For an increased likelihood that the target be achieved, business needs clarity not unpredictability of the policy settings that will underpin the pathway.

Therefore, to be useful for business, targets must be disciplined by consideration of how they might realistically be achieved and the broader implications of such efforts.

The 50% reduction target implies a substantial and dramatic shift in the New Zealand economy. But while there is a brief outline of the policy tools to be used, there is no information on the transition path these tools imply for businesses over the medium to long-term.

BusinessNZ agrees that the emissions trading scheme should be relied upon to do a reasonable proportion of the heavy-lifting, but having an international target that New Zealand cannot hope to meet with available technology other

than via the purchase of overseas emission reduction units would not be in New Zealand's best interests. It is also clear that reducing New Zealand's relatively small industrial and transport emissions severely will not deliver the target.

A well considered carbon pathway can both inform and make national commitments more credible, whether to other countries, or to long-term investors in energy, infrastructure and industry, by providing more detailed information on how the target will be achieved. A well informed target underpinned by a realistic carbon pathway can also provide a more fruitful venue for business to inform and gauge government expectations, resulting in greater clarity on investment requirements and policy implications for growth, competitiveness and jobs.

On the other hand, a target that is disconnected from a carbon pathway, risks policies which are increasingly chaotic, short-term or stop and start over the target's timeframe and that this will act as a source of increased unpredictability that would be deeply unhelpful to businesses considering large, long-term investments.

BusinessNZ considers the case for the development of a carbon pathway to inform the long-term target is strong. The idea of a carbon pathway is not novel. New Zealand was a party to the recent UN decision at Cancun that decided that developed countries should develop low-carbon development strategies or plans. Once developed, BusinessNZ considers that there should be frequent tracking updates to show progress and note major developments – perhaps annually – and regular major reviews leading to updates based on future development and consultation processes.

## **Summary**

There are benefits from having a longer term emissions reduction target. But a poorly considered target risks either becomes an empty formality or unduly rigid and constraining.

BusinessNZ urges the Ministry for the Environment to see beyond the slogan of 'doing our fair share', to the real risks and benefits the target implies for the future of New Zealand's prosperity. The target must be consistent with the speed of others' actions, based on a comparable metric such as the equalised cost of abatement, able to demonstrate benefits that are tangible and greater than the costs involved, and underpinned by a carbon pathway that can show it is realistic.

But the Government must not only give thought to how the target will be set, and the broader implications of efforts to achieve it, but must communicate its thinking clearly to the wider community and especially to the business community. It is business that will be making investments and adjusting to different market circumstances at various stages along the way.

In order to make this a reality, much needs to be done. BusinessNZ suggests that the 2050 target not be gazetted, pending consideration of it by the emissions trading scheme Review Panel, analysis from Treasury, and an assessment of the Durban COP. If the Government decides to push ahead in lieu of this, achievement of the target should be assessed against the conditions that have been applied to the 2020 target range or any other conditions appropriate to New Zealand's unique economic and emissions circumstances.

BusinessNZ looks forward to working with the Ministry for the Environment to ensure that an appropriate outcome is reached.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John A Carnegie', with a stylized, cursive script.

John A Carnegie  
Manager, Energy, Environment and Infrastructure  
Business New Zealand

## **APPENDIX ONE: ABOUT BUSINESS NEW ZEALAND**

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' Chamber of Commerce (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 65 strong Major Companies Group, and the 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand 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 on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.