

Consultation on the Climate Change Response (Zero Carbon) Amendment Bill

Sustainable Business Council submission to the
Environment Select Committee

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About the Sustainable Business Council (SBC)

SBC is a division of BusinessNZ and the global network partner of the World Business Council for Sustainable Development (WBCSD) in New Zealand.

Our organisational vision is to mainstream sustainability and our purpose is to help NZ businesses to be the best for NZ, and our world.

We have 112 members, mostly large businesses, (see appendix 1), who collectively represent more than a quarter of New Zealand's private sector GDP, and more than 130,000 employees.

All of these members work towards the balanced pursuit of economic growth, ecological integrity and social progress. Every two years, we review their performance against specific commitments they make as part of their membership, which includes measuring and reporting on greenhouse gas emissions and reducing their carbon intensity.

SBC's role is to create opportunities to show collective leadership on the issues that matter, such as the Climate Leaders Coalition; to help businesses create a roadmap for action, through our programme work and events like Embark. We identify the best sustainable solutions and tools for businesses to adopt. And we connect our members, so they can work together on projects that have a wide, cross-sector impact.

This submission has been prepared on behalf of SBC members, and they have all had the opportunity to read and provide input to it. We have sought unanimity where possible, however on some key questions, that has not been possible, and we have outlined the different points of view. We have also encouraged individual members to make their own submissions on the points most relevant to them.

The importance of action on climate change

Action on climate change is a top priority for SBC members.

There is a growing sense of urgency and ambition amongst SBC members to act, as a better understanding of the science emerges, and they anticipate the risks and opportunities for their business; and as they hear from their own staff and customers about how important it is.

SBC members are already taking steps to lead the transition to a low emissions economy and significant action is already underway. A sub-set of SBC members established the Climate Leaders Coalition (CLC), which has now grown to include non-SBC members. A key feature of the CLC is sharing knowledge and learning from each other about how best to transition. Members have invested in research and development, created long term decarbonisation plans, invested in novel technologies or partnered to help each other reduce emissions.

Much of this activity is voluntary and is based on businesses taking a long-term view. However, voluntary action can only ever advance the transition so far. Ultimately, a framework of policies, legislation, incentives, financing mechanisms and market initiatives will be needed, and our members want to be part of shaping what that framework might look like.

SBC members support the Climate Change Response (Zero Carbon) Amendment Bill (the Zero Carbon Amendment Bill) and agree with the purpose 'to provide a framework by which New Zealand can develop and implement clear and stable climate change policies that contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels.'

SBC members also support the guiding objectives for the framework and decision-making about the Zero Carbon Amendment Bill, namely:

- leadership at home and abroad;
- a productive, sustainable and climate-resilient economy; and
- creating a just and inclusive society.

Key considerations

SBC members wish to make the following observations in relation to the Zero Carbon Amendment Bill:

- **Predictability** – the transition to a low emissions economy will create opportunities for business but will also be challenging. For SBC members, it is imperative that the Zero Carbon Amendment Bill, and the establishment of the Climate Change Commission, ensures long-term predictability of climate change policy, creating the conditions for business to invest for the future. Institutions, laws and price signals must be able to endure changes in government in order to facilitate a transition at the lowest cost, which generates the most value for New Zealand. Members are also looking for a bipartisan approach on this Bill to ensure it can endure over the long-term.
- **Better information** – SBC members understand the Zero Carbon Amendment Bill is a framework for ongoing, long-term policy setting that will enable action on climate change. There is very little information about what it will take for New Zealand to reduce emissions to meet the 1.5° purpose or the targets in the Bill. Our responses would have been better informed if we had had access to the independent evidence and analysis carried out by the Interim Climate Change Committee, provided to Government on 30th April 2019, but yet to be released publicly. As we develop the framework for the transition, developments will need to be regularly communicated to the market. There needs to be dedicated budget and resource to do this effectively.
- **Pace** – SBC members are already moving to reduce emissions and invest in low carbon solutions and approaches, increasingly based on what the science is telling them about how steep reductions need to be, and by when. If businesses are going to continue moving at this pace, they need policy making at the same pace, that provides early and clear signals about the direction of travel, and then quickly follows with interventions that support businesses to make the transition. Government processes will need to accelerate to match business momentum, or we risk missing the targets, experiencing a bumpy transition and businesses will lose the commercial opportunities to overseas competitors.
- **The need for systems thinking** - SBC has been working to create the conditions for systems change and this work has helped us understand that a movement of change is necessary across all parts of society. This will require new ways of bringing together all sectors at scale – and quickly – to get buy-in, develop a cross-sectoral plan, and most importantly, ensure that we take action to reduce emissions.
- **Building capability** – it takes time to scale up actions for transitioning to a low emissions economy. This includes scaling up the capability across all sectors for those who work on climate change action so more of society, including business, can respond. Ensuring enough budget is allocated across government agencies to invest in science, education and training specifically on climate action should start now, given that the

legislation is necessary but not sufficient to enable the transition. Our current lack of mandatory verification is out of sync with global markets and could be strengthened.

- **Supporting innovation** – SBC members wish to restate the importance of investment for innovation. The Productivity Commission’s Report on the Low Emissions Economy Inquiry, Chapters 6 and 7, outlines the evidence for, and a sensible approach to this. In addition, research and investment cycles need to be informed by and responsive to business needs, to ensure relevance and efficiency. Investment should also encourage solutions that can be applied where emissions ‘sources’ (i.e. transport, agriculture, industrial processing, electricity) intersect, rather than solely within these sectors. This is because businesses are already working on opportunities to influence emissions reductions in their value chain (indirect emissions/scope 3).

Climate Change Commission

SBC members support the establishment of the Climate Change Commission (CCC) to provide independent, expert advice and to hold the Government to account.

SBC members strongly support the need for experts on the panel who can give advice in relation to energy-intensive, trade-exposed businesses, whose transition pathways need to be developed with consideration of the global markets they operate in, and their exposure to competitive carbon markets.

Delivering our carbon budgets is going to require systems level change, right across New Zealand. This requires behavioural and cultural change, collaboration, research and development, and financing not all of which can be delivered by an emissions budget or policy settings. As part of its monitoring role, SBC would like the CCC to have the power to comment on how and where other activity is needed to enable the transition to happen. Accordingly, members of the CCC should have systems change, behavioural science or behavioural economics capability.

Such experience will be invaluable when considering the practical impact that policies will have on both businesses' ability to transition and respond, as well as associated workforces and their ability to transition into other sectors.

The 2050 target

SBC members are ambitious for action on climate change, with a growing number setting long-term goals which align with keeping warming to within a 1.5°C or 2°C increase.

SBC members agree with setting a 2050 target in legislation because this

- gives long-term predictability to business;
- is consistent with New Zealand's commitment to the Paris Agreement; and
- is consistent with the Climate Leaders Coalition's 2017 Climate Change Statement.

While members support the setting of targets, they have different views on the make-up of the 2050 target.

A large number of SBC members support a net-zero emissions target across all gases on the basis that:

- all sectors of the economy should act together;
- the costs for action on climate change should be distributed across all sectors, acknowledging that some sectors are better positioned to be the first to move e.g. transport; and

- New Zealand should be consistent with the economy-wide reductions targets approach as per the Paris Agreement

A small number of members support reducing long-lived gases to net zero by 2050, while also reducing and then stabilising short-lived (methane) gases. This is either because they:

- support the scientific view that methane does not need to be reduced to zero in order to achieve well below 2 degrees warming, and, as primary production businesses, recognise that the opportunities for reducing methane to net zero are very challenging; and/or
- believe taking this approach could lead to a greater likelihood of achieving a bipartisan outcome in the long-term.

Budget setting

SBC members are supportive of the budget setting process as proposed. It provides predictability about the emissions reduction trajectory that will allow businesses to anticipate and respond.

Setting carbon budgets for five years separates target setting from election cycles. This is a fundamental principle that SBC members are seeking in all legislative frameworks related to action on climate change.

SBC members are concerned that the first budget period does not start until 2022. Given the scale of decarbonisation required to deliver the 2050 target, the absence of a budget – and therefore corresponding policy settings – creates a significant gap during which emissions are likely to continue to rise, making the reduction targets from 2022 to 2050 harder still to deliver. SBC recommends that the first budget be required by 31 December 2020 or sooner.

SBC members welcome the opportunity to work with the CCC to provide information and feedback to shape the budgets to make them more robust and achievable.

SBC members agree that there should be an option to use a proportion of high-quality emissions reductions from offshore because there is currently limited availability of domestic carbon units. This is also likely to reduce the overall costs of delivering the 2050 target. At the same time, members agree that there should be a signalled limitation to supply to stimulate innovation in domestic offsetting. This supply should be further reduced as New Zealand achieves reductions, the domestic market grows, and in line with any increasing stringency of offshore emissions.

Any offshore units purchased should be verified for their ability to deliver actual environmental benefits. Those that deliver social benefits as well as verifiable environmental benefits should also be recognised.

Emissions Reduction Plan

SBC supports the requirement for the Minister to prepare an emissions reduction plan before the beginning of the emissions budget period.

Business works to annual cycles of planning and budgeting, and longer-term cycles for large scale capital investments, and needs visibility of plans in order to align its investment and action.

Signalling the focus and extent of action needs to be done early, given the rate at which emissions continue to rise.

As well as clear timeframes, SBC members also need sufficient detail within the Government's plans to meaningfully inform their own emissions reduction plans, and ensure they have sufficient certainty to make the investments required to achieve their long-term targets.

Effect of 2050 target

Predictability is a key consideration for SBC members in the setting of a target and emissions budgets, because it enables long term planning and the ability to optimise capital investment decisions by businesses. Investing in decarbonisation or adaptation efforts comes with significant risk, especially at the early stage of adopting new solutions. These decisions are influenced by a wide range of factors, including for example local and regional council decision making under the Resource Management Act or by the activities of other governmental or quasi-governmental organisations like the Reserve Bank or regulatory authorities. By making the Bill permissive only, businesses could well get inconsistent signals about whether or not to prioritise decarbonisation or adaptation investment. The scale of the investment required is significant, and so all legislation, all governmental departments and governmental organisations need to be clearly aligned to meet the target. However, due to the wide range of industries represented, SBC would need to undertake further member consultation on the implications of a directive Bill in order to present a consensus.

Adapting to the impacts of climate change

SBC members strongly support, and see a clear and present need for, a National Climate Change Risk assessment and National Adaptation Plan. There is growing understanding amongst members about the need to adapt to a changing climate. A number of SBC members have already taken significant steps to understand, plan and invest for the consequences of a changing climate, and a number have adopted, and are reporting against, the recommendations of the Taskforce on Climate-Related Financial Disclosure.

However, action across New Zealand by business, and local and central government is uneven. It can be affected by short-term decision-making (particularly in local government where there are trade-offs between immediate rate-payer needs and long-term investment). Climate action also has the potential to be duplicated, and opportunities to create efficiencies between mitigation and adaptation effort are being missed.

SBC members support the proposed approach to developing these plans and believe that plans should focus on those who have the most significant responsibility for adaptation – central government, local government and business owners of infrastructure - because they are making the investment and planning decisions about these long term assets.

SBC members want to emphasise the importance of consulting with the relevant business sectors to ensure the plans are relevant and realistic.

SBC members, through their SBC membership commitments, promise to publicly report on sustainability, and many do this in accordance with international standards such as GRI or Integrated Reporting. Additional disclosure creates a reporting burden that may divert focus away from operational efforts to manage climate risk.

Members support additional disclosure, by relevant, critical businesses, if its purpose and the subsequent design of any information is to add to the body of knowledge about climate risk, adaptation planning and adaptation to improve co-ordination, decision-making and planning.

Design of disclosure requirements would need to:

- clearly define relevant and critical businesses such as owners of large private and public infrastructure;
- align with existing reporting that they use to minimise duplication of effort – our recommendation is to use the approach set out by the Task Force on Climate-Related Financial Disclosures¹ Taskforce; and
- respect commercial sensitivity.

¹ <https://www.fsb-tcfd.org/>

