

Consultation on the Zero Carbon Bill

Sustainable Business Council Submission to
the Ministry for the Environment

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About the Sustainable Business Council (SBC)

SBC is a division of Business NZ and the only 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 the world.

All our members have made a commitment to the balanced pursuit of economic growth, ecological integrity and social progress.

Every two years, we review each member to make sure they are fulfilling their SBC commitments, which include measuring and reporting on greenhouse gas emissions and reducing their carbon intensity.

SBC helps businesses create a roadmap for action. We identify the best sustainable solutions and tools for businesses to adopt. And we connect our members, so they can work together on sustainable projects that have a wide, cross-sector impact.

We are also focused on developing sustainable leadership within the business community, with professional development programmes.

At the time this submission was developed, the Sustainable Business Council had 95 members (see Appendix 1), including a number of New Zealand's largest companies, representing a wide range of sectors. Their collective turnover is around 29% of private sector GDP and they employ 9% of New Zealand's workforce¹. SBC council members are CEOs, senior executives and business decision-makers.

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.

¹ www.sbc.org.nz/__data/assets/pdf_file/0008/127961/SBC001-Snapshot2017-.pdf

The importance of business action on climate change

- Action on climate change is one of the top three priority issues for SBC members².
- There is a growing sense of urgency and ambition amongst SBC members to act. Science suggests global emissions must peak by 2020 and then begin to rapidly decline, if we are to keep warming to within 2°C by 2100³.
- SBC members are leading the way on the transition to a low emissions economy by business. They are aligning their work to the UN Sustainable Development Goal 13, Climate Action, which calls for urgent action to combat climate change and its impacts.
- While SBC members understand that the transition to a low emissions economy will be challenging, they are starting to see the commercial opportunity that may arise from taking a more innovative approach to sustainability across their respective businesses. Globally, for instance, in 2017 the Business & Sustainable Development Commission estimated that by driving to reach the UNSDGs, US \$12 trillion of market opportunities could be unlocked⁴.
- Members want to work closely with government, academia and community groups to develop a vision for the transition and they want to help develop a framework of policies, legislation, incentives, financing mechanisms and market initiatives.
- SBC members support the establishment of a Zero Carbon Act and agree with the guiding objectives for the framework and decision-making about the Zero Carbon Bill, namely
 - Sustainable and productive economy
 - Global and local leadership
 - Creating a just and inclusive society.

Key considerations

SBC members wish to make the following observations in relation to the Zero Carbon 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 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 long-term. 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 and happens at an appropriate pace.
- Better information – SBC members understand the Zero Carbon Bill is a framework for ongoing, long-term policy setting that will enable action on climate change. However it is difficult to provide definitive input on a target-setting approach that still requires considerable work in order to fully understand the sectoral implications, such as the level at which 'short-lived' gases would need to be reduced and stabilised by.

² www.sbc.org.nz/_data/assets/pdf_file/0008/127961/SBC001-Snapshot2017-.pdf, pg 8

³ www.wri.org/sites/default/files/WRI13-IPCCinfographic-FINAL_web.png

⁴ Better Business, Better World, Jan 2017 http://report.businesscommission.org/uploads/BetterBiz-BetterWorld_170215_012417.pdf

- The needs 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 the response to transitioning to a low emissions economy. This includes scaling up the capability for those who work on climate change action so more of society, including business, can respond. Ensuring there are allocations across government agencies for investment in the science, education and training specifically on climate action should start now, given the legislation is necessary but not sufficient to enable the transition.
- Supporting innovation – SBC members wish to restate the importance of investment for innovation. The Productivity Commission’s Draft Report on the Low Emissions Economy Inquiry, Chapters 5 and 6, 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, to ensure relevance and efficiency. Investment should also encourage solutions that can be applied where emissions ‘sectors’ (i.e. transport, agriculture, industrial processing, electricity) intersect, rather solely within these emissions ‘sectors’. This is because businesses are able to, and are already working on, opportunities to create emissions reductions from the goods and services they procure through their supply chains.

2050 target

1. What process should the Government use to set a new emissions reduction target in legislation? Pick one:

- ✓ the Government sets a 2050 target in legislation now
- the Government sets a goal to reach net zero emissions by the second half of the century, and the Climate Change Commission advises on the specific target for the Government to set later.

Comment:

SBC members are ambitious for action on climate change. An increasing number of SBC members are moving away from short-term, incremental reduction targets, towards long-term goals which align with keeping warming to within 2°C. For example Vector has set out its ambition to achieve net zero emissions by 2030; Ports of Auckland has announced its goal to become a zero emissions port by 2040; Fonterra has set its target to reduce both on-site and on-farm emissions using differing time frames: net zero emissions for its global operations by 2050, with a 30% reduction by 2030 from a 2015 baseline; and New Zealand Post has announced it will be carbon neutral from 2030.

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 Statement⁵

2. If the Government sets a 2050 target now, which is the best target for New Zealand? Pick one:

- net zero carbon dioxide:** Reducing net carbon dioxide emissions to zero by 2050
- net zero long-lived gases and stabilised short-lived gases:** Long-lived gases to net zero by 2050, while also stabilising short-lived gases
- net zero emissions:** Net zero emissions across all greenhouse gases by 2050.

Comment:

All SBC members are ambitious for concerted, urgent action on climate change, consistent with achieving levels below 2°C. While they 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

- the costs for action on climate change are distributed evenly across all sectors
- all sectors of the economy act together
- New Zealand is consistent with the economy-wide reductions targets approach as per the Paris Agreement⁶.

There are a small number of members who support reducing long-lived gases to net

⁵ www.climateleaderscoalition.org.nz

⁶ www.unfccc.int/sites/default/files/paris_agreement_english_.pdf

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.

SBC members do not support the imposition of a zero target for carbon dioxide only as this would ignore almost half of our domestic GHG emissions.

3. How should New Zealand meet its targets? Pick one:

- domestic emissions reductions only (including from new forest planting)
- ✓ domestic emissions reductions (including from new forest planting) and using some emissions reductions from overseas (international carbon units) that have strong environmental safeguards.

Comment

SBC members agree that there should be an option to use a proportion of high-quality emissions reductions from offshore because there is limited availability of domestic carbon units currently. This is also likely to reduce the overall costs of the Zero Carbon Bill. Notwithstanding this, members agree that there should be a strong signal to restrict supply⁷ so that innovation in domestic offsetting is stimulated. This 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 additional environmental benefits. Those that deliver social benefits as well as verifiable environmental benefits should also be recognised.

4. Should the Zero Carbon Bill allow the 2050 target to be revised if circumstances change? Pick one:

- yes
- ✓ no

Comment

SBC members seek predictability in the policy and regulatory settings on climate change. This would be significantly undermined by enabling revision of the target.

⁷ www.sbc.org.nz/___data/assets/pdf_file/0015/113208/SBC-ETS-Review-Submission-FINAL-190216.pdf; pg 12

Emissions budgets

5. The Government proposes that three emissions budgets of five years each (ie, covering the next 15 years) be in place at any given time. Do you agree with this proposal? Pick one:

- ✓ yes
- no

Comment

SBC members agree with aligning the time frames to our Nationally Determined Contributions under the Paris Agreement. Fifteen years of carbon budgets helps provides business with greater investment predictability. In addition, setting carbon budgets of 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.

6. Should the Government be able to alter the last emissions budget (i.e. furthest into the future)? Pick one:

- yes, each incoming Government should have the option to review the third budget in the sequence
- ✓ yes, the third emissions budget should be able to be changed, but only when the subsequent budget is set
- no, emissions budgets should not be able to be changed.

Comment

SBC members see the Zero Carbon Bill as providing an overall framework for how the Government acts to mitigate and adapt to climate change. This means that while the goal posts are set by the target, the playing field needs flexibility in order to respond to the challenges and opportunities arising as the transition to a low carbon economy unfolds. SBC members therefore support amending the third emission budget, however only when progress against existing budgets is known and there is visibility of the subsequent budgets. This provides transparent expectations for reduction planning and thus investment predictability.

7. Should the Government have the ability to review and adjust the second emissions budget within a specific range under [exceptional circumstances](#)? Pick one:

- yes
- ✓ no.

Comment

SBC members do not support the adjustment of the second emissions budget as it undermines investment predictability.

8. Do you agree with the [considerations](#) we propose that the Government and the Climate Change Commission take into account when advising on and setting budgets? Pick one:

- ✓yes
- no.

Comment

SBC agrees that the considerations listed are appropriate and comprehensive. SBC strongly agrees that there must be expertise on the panel who can give advice in relation to energy-intensive, trade-exposed businesses – their transition pathways need to be developed with consideration of the global markets they operate in, and their exposure to competitive carbon markets.

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

Government response

9. Should the Zero Carbon Bill require Governments to set out plans within a certain timeframe to achieve the emissions budgets? Pick one:

- ✓ yes
- no.

Comment

SBC members recommend that the Government sets out the plan to achieve each emissions budget at the time each emissions budget comes into force.

Business works to annual cycles of planning and budgeting and need visibility of plans in order to align their investment and action.

Timeframes need to be transparent, consistent and set out at the start of each emissions budget because

- Signalling the focus and extent of action needs to be done early given the rate at which emissions continue to rise
- The plans need to inform business planning cycles
- It will help stimulate sectoral and cross-sectoral action which is critical to achieve the transition.

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.

10. What are the most important issues for the Government to consider in setting plans to meet budgets? For example, who do we need to work with, what else needs to be considered?

Comment

SBC members recommend the government considers:

- Obligations under the Treaty of Waitangi including consulting with tangata whenua
- Cross-sectoral planning - creating coordinated, cross sectoral plans to guide the emissions reduction activity. SBC member businesses have emissions reductions activity underway, however the transition is uneven and will be strengthened by being deliberate about co-ordinating, prioritising and scaling the activity. For example, business can, through its procurement practices, drive change across sectors that traditional single-sector based plans may not uncover.
- Availability of technological solutions, especially by sector
- Increased investment in innovation, especially if the levels of emissions pricing increase. The Productivity Commission's Draft Report on the Low Emissions Economy Inquiry, Chapters 5 and 6 outline the evidence for and a sensible approach to this⁸
- Commenting on how and where New Zealand needs to invest in building capability for the transition
- Changing scientific knowledge about climate change including alignment with the changes in New Zealand's Nationally Determined Contribution
- Strengthening the role of central and local government procurement to include low emissions criteria
- Strengthening local and central government infrastructure investment to support policies and plans (e.g. energy transmission, renewable energy generation, port and transport infrastructure)
- Requiring/publishing up-to-date data that includes economic, environmental and social impacts and reflects the true costs of climate change to New Zealand
- The fiscal implications and social impacts. This includes the support required to manage the impact that transitioning to a low emissions economy will have on lower income households so they can adapt and build resilience.
- Effective ongoing engagement with business to inform each plan
- Recognising and supporting business leaders in the development of voluntary actions to achieve climate change (for example, the New Zealand Climate Leaders Coalition which launched in July 2018).

⁸ www.productivity.govt.nz/ProductivityCommission_Low-emissions_Draft_FINALWEBVERSION.pdf

Climate Change Commission

11. The Government has proposed that the Climate Change Commission [advises on and monitors](#) New Zealand's progress towards its goals. Do you agree with these functions? Pick one:

- ✓ yes
- no.

Optional comment

SBC members support an advisory role for the Climate Change Commission (CCC) with mechanisms to hold the Government to account. The role of the CCC will be further strengthened by ensuring there are mechanisms in place for publicly disclosing why the Government has deviated from the advice of the CCC.

In addition to the roles set out on page 42 of the Discussion Document, SBC recommends the CCC has a specific role in requiring the Government's transition plan to set out how it will support the achievement of co-ordinated, sector-wide systems change.

This is the approach SBC uses to define its work programme on climate change. The four pillars of this – encouraging leadership, building capability, enabling collaboration and positive story telling – are proving to be effective levers for change.

For example, the voluntary leadership being shown by NZ businesses through the establishment of the Climate Leaders Coalition⁹ is creating significant momentum and helping to normalise climate change action as business as usual. International experience suggests that initiatives like this are necessary to encourage adoption and improve understanding amongst business and the wider public (for example, We Mean Business, B Team Net Zero by 2050, and We're Still In).

Building capability for the transition to a low carbon economy is also a critical enabler of change. SBC would like to see the CCC, in its critique of the Government's plans to achieve its emissions budgets, also make comment on how and where capability coordination and leadership needs to be improved.

12. What role do you think the Climate Change Commission should have in relation to the New Zealand Emissions Trading Scheme (NZ ETS)? Pick one:

- ✓ advising the Government on policy settings in the NZ ETS
- makes decisions itself, in respect of the number of units available in the NZ ETS.

Comment

SBC members agree with the objectives of the CCC's role in relation to the ETS i.e. to support policy certainty and predictability, send a consistent signal to business and encourage more investment in low-emissions technologies and natural climate solutions (forest, grasslands and wetlands, for example).

The ETS is one of the mechanisms to enable the transition to a low emissions economy and its settings will play an important role in meeting the emissions budgets

⁹ www.climateleaderscoalition.org.nz

and the Government's plan. Therefore the CCC has an important role in ensuring alignment and providing expert advice to the government on the impacts of the policy settings.

SBC members agree that the role should be advisory rather than decision-making. However, they want the Bill to contain clear provisions allowing the CCC to communicate in an unfettered way, if the Government does not meet its budgets and plans. This should include publicly reporting on why recommendations related to specific policy mechanisms such as the ETS have not been adopted by the Government and the consequences of that.

13. The Government has proposed that Climate Change Commissioners need to have a range of **essential and desirable expertise**. Do you agree with the proposed expertise? Pick one:

- ✓ yes
- no.

Comment

SBC supports expertise-based appointments to the roles of Climate Change Commissioners and agrees.

Our members recommend that commercial experience, particularly in the area of business competitiveness, is added as essential rather than desirable.

In addition, SBC strongly recommends including expertise from the field of behavioural economics – the study of how psychology affects the economic decision-making processes of individuals and institutions¹⁰.

Finally, SBC members want to see this expertise reflected within the employees of the Climate Change Commission as well as across the appointment of the Commissioners.

¹⁰ <https://hbr.org/2017/10/the-rise-of-behavioral-economics-and-its-influence-on-organizations>

Adapting to the impacts of climate change

14. Do you think the Zero Carbon Bill should cover adapting to climate change? Pick one:

- ✓ yes
- no

Comment

There is agreement that countries around the world will need to adapt to a changing climate as a result of anthropogenic activity. A number of SBC members, for example Auckland Airport, Vector, Auckland Council, Fonterra, Z Energy and KiwiRail are taking significant steps to understand, plan and invest for the consequences of a changing climate.

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

15. The Government has proposed a number of new [functions](#) to help us adapt to climate change. Do you agree with the proposed functions? Pick one:

- ✓ yes
- no.

Comment

SBC members agree in principle that the Bill should require development of national adaptation plans that prioritise actions based on regular risk assessments and that these be developed at five-yearly intervals in line with New Zealand's climate change risk assessment process.

We also support the role of the Climate Change Commission in reviewing these plans. SBC members support the proposed approach to developing these plans and believe that this 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 sectors of business to ensure the plans are relevant and realistic.

16. Should we explore setting up a targeted adaptation reporting power that could see some organisations share information on their exposure to climate change risks? Pick one:

- ✓ yes – only for some organisations and with conditions
- no.

Comment

SBC does not agree with additional reporting requirements for all of business nor on focusing on exposure to climate change risks. Increasing the burden of reporting diverts focus from working at a strategic level with the Board and Executive teams on managing climate risk.

However we would 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 so as 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 so as to minimise duplication of effort – our recommendation is to use the approach set out by the Task Force on Climate-Related Financial Disclosures¹¹ Taskforce
- Respect commercial sensitivity.

¹¹ <https://www.fsb-tcfd.org/>

Appendix 1: SBC Membership as at 1 July 2018

1. 3R Group
2. 4Sight Consulting
3. AECOM NZ Limited
4. Aeroqual
5. Air New Zealand
6. Anderson Lloyd
7. Auckland International Airport Ltd
8. Auckland War Memorial Museum
9. Aurecon
10. Beca
11. BNZ
12. BRANZ Group Ltd
13. Catapult
14. Chilltainers
15. Christchurch International Airport Ltd
16. CODA
17. Contact Energy
18. Countdown
19. DB Breweries Ltd
20. Deloitte
21. Dempsey Wood
22. Downer
23. Ecostore
24. Energy & Technical Services (ETS)
25. Energy Solution Providers (ESP)
26. Enviro-Mark Solutions
27. ERM New Zealand
28. Ernst & Young
29. Fletcher Building Ltd
30. Flick Electric Co.
31. Fonterra Co-operative Group Ltd
32. Fujitsu New Zealand Ltd
33. Fuji Xerox New Zealand Ltd
34. Genesis Energy
35. Golder Associates (NZ) Ltd
36. IAG New Zealand Ltd
37. J. Walter Thompson New Zealand
38. Kantar Insights NZ (Parent company of Kantar TNS and Colmar Brunton)
39. KiwiRail
40. KPMG New Zealand
41. La Nuova (part of Apparelmaster)
42. Landcare Research NZ Ltd
43. Lion NZ
44. L'Oreal New Zealand Ltd
45. Lyttelton Port Company (LPC)
46. Massey University
47. Mercury
48. Meridian Energy
49. Microsoft
50. Moana New Zealand
51. Nespresso New Zealand
52. Netlogix
53. New Zealand Post Group
54. New Zealand Steel Ltd
55. Ngāi Tahu Holdings Group
56. Ngāti Whātua Ōrākei Whai Rawa Limited
57. OCS Ltd
58. OfficeMax
59. O-I New Zealand
60. Oji Fibre Solutions
61. Ports of Auckland Ltd
62. Porter Novelli (part of Clemenger Group)
63. Proxima
64. Ravensdown
65. Reputation Matters
66. Sanford Ltd
67. Shell New Zealand Ltd
68. Silver Fern Farms
69. SKYCITY Entertainment Group Ltd
70. SLR Consulting New Zealand Ltd
71. Spark
72. Stuff Ltd (part of Fairfax Media)
73. Synlait
74. Terra Moana
75. The Warehouse Group
76. thinkstep
77. Toll New Zealand
78. Toyota New Zealand Ltd
79. True
80. Unilever NZ Ltd
81. University of Waikato Management School
82. Vector Ltd
83. Vodafone New Zealand
84. Waste Management NZ
85. Wellington Zoo Trust
86. Westpac New Zealand Ltd
87. Wright Communications
88. WSP-Opus
89. Z Energy Ltd

Associate Members

90. Ākina Foundation
91. Auckland Council
92. EECA Business
93. Fairtrade Australia New Zealand
94. Victoria University of Wellington
95. Waikato Regional Council