

3 June 2015

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## **New Zealand's Climate Change Target**

BusinessNZ is pleased to have the opportunity to provide a submission on the Minister for Climate Change Issues' discussion document entitled 'New Zealand's Climate Change Target, Our Contribution to the New International Climate Change Agreement', released 7 May 2015.<sup>1</sup>

### **Introductory Comments**

New Zealand is, along with all other countries, in the process of determining what its Intended Nationally Determined Contribution (INDC) should be. The INDC details the actions a country plans to take to reduce emissions beyond 2020. BusinessNZ strongly supports the concept and development of INDCs. We consider that this new, innovative and flexible process will enhance the likelihood of a greater range of bottom-up emission reduction options coming forward by facilitating a more realistic conversation with business about what is possible and over what timeframe while maintaining international competitiveness.

BusinessNZ asks when Ministers set New Zealand's INDC, that they do so with a clear understanding of the implications of the target for the New Zealand economy, its industries and consumers. This should especially be informed by comparing New Zealand's level of effort with the level of effort to reduce greenhouse gas emissions by other countries.

Setting New Zealand's INDC will possibly be the most important decision Ministers will make this year, because of the economic and fiscal costs it will end up imposing on New Zealand. But by the same token, it is in New Zealand's long term interests to continue to take steps towards a low carbon future. Key to this is a plan over the long term that achieves leadership on reducing emissions while delivering economic growth, investment and jobs.

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<sup>1</sup> Background information on BusinessNZ is attached in Appendix One.

## **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, as outlined in the discussion document it is well known that the cost of future 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, and we have had one of the highest levels of population growth since 1990 amongst Annex 1 countries. New Zealand is also a technology-taker.

In light of these factors the Government, at a minimum, needs to assure the community that any target is realistic, achievable and will not impose an unreasonable and disproportionate burden on the economy but instead deliver net positive economic and environmental benefits.

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, addressing uncertainty, comparability of effort, and the underpinning low-carbon pathway are core to the debate. So is the role of business in helping to shape and implement the transition.

The balance of this submission outlines BusinessNZ's view on these issues.

### Progress of the International Climate Change Negotiations

The demise of the Kyoto Protocol is now almost complete and while expectations regarding its post-2020 replacement are growing, significant uncertainty exists as to the nature and form of its replacement.

The absence of any clear indication of the new agreement's term (for example, will it have Protocol-type commitment periods), its legal form (for example, will it require domestic ratification), any indication of how it will be enforced (for example, will it be binding), how it will apply across developing and developed countries and will it allow for the use of flexible mechanisms like land-use rules and carbon markets means that it is premature for New Zealand to adopt too ambitious a target, at least in the near term.

### Overcoming Uncertainty

The future, both with respect to the international climate change negotiations and action by New Zealand's trade competitors, is highly uncertain. Unsurprisingly, the climate change pundits are continually being confounded as to why governments cannot make progress quicker.

But policy making in an uncertain environment is not new, and neither is the prescription for addressing it – minimise economic harm and preserve future options

by waiting until more, improved information comes to hand before taking definitive action.

It is also important not to lose perspective – New Zealand’s Paris INDC will be its first but not last effort. If circumstances arise that show New Zealand’s initial response is inadequate, the target can be intensified or additional measures can be deployed. However, the reverse is not true - an over-ambitious decision now by policy makers with supporting domestic policy settings may potentially impose very large costs on businesses, consumers and the wider economy. Such costs occur through distorted resource use and reduced investment and innovation (that is, they impair allocative and dynamic efficiency). Reduced investment results in a compounding loss of value that may become quite substantial over a long period.

Accordingly, while global climate change policy settings are unclear, and the costs and benefits are uncertain, adding additional aggressive policy interventions to force greater action risks creating unwarranted market distortions and imposing otherwise avoidable price shocks on to both businesses and consumers.

Importantly, BusinessNZ considers that uncertainty is unlikely to dissipate anytime in the near future. Paris is unlikely to be a break-through moment which causes the policy uncertainty to seriously abate. It is almost inevitable that whatever is agreed in Paris will require future decisions by negotiators over the following years to operationalise it.

In other words, the expectation that we will move through a period of uncertainty and get to a more settled situation that would provide a more certain environment in which to operate is at best, naïve. Instead, the uncertainty we now face is likely to be a permanent feature, albeit different in nature.

### Comparability of Effort

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

Central to this on-going uncertainty, and most relevant for New Zealand future domestic policy settings, are whether our trade competitors have agreed to take on an emissions reduction target that reflects a level of effort comparable to New Zealand’s. But it is not just the *level* of emission reduction or the carbon price in other countries that is relevant, but also the:

- a. policy detail on how the target is proposed to be reached<sup>2</sup>;
- b. burden of the policies on the economy and individual industries; and
- c. the likelihood of the proposed policies being implemented and the target reached.

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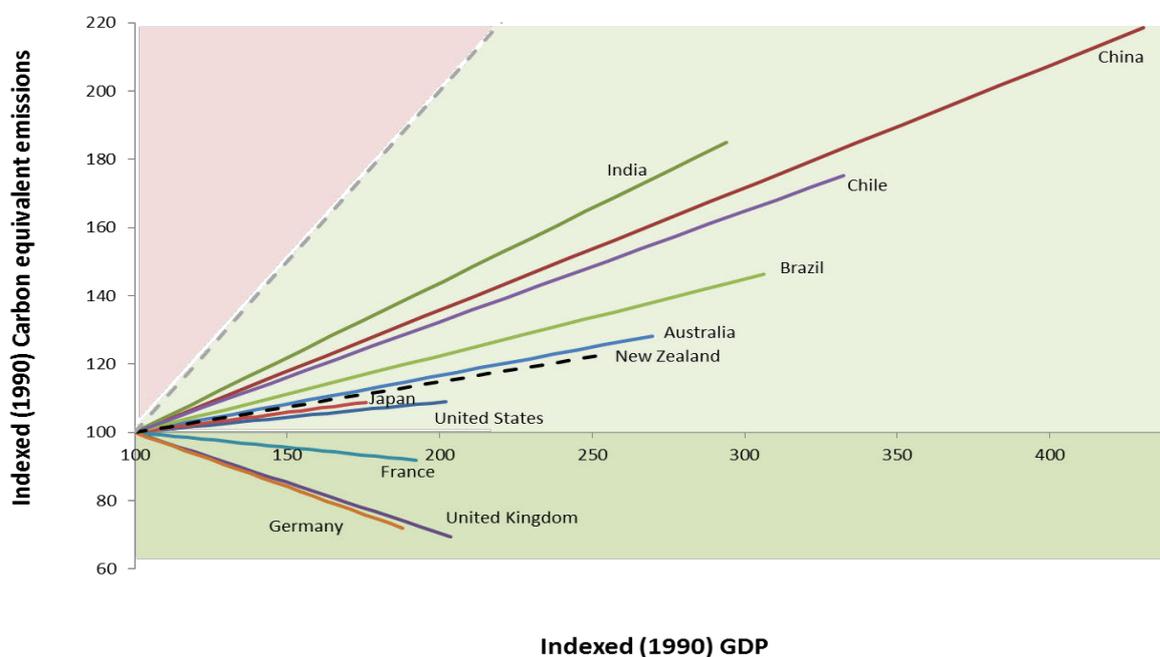
<sup>2</sup> For example, is carbon being priced into their economy in a transparent way.

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. There would appear to be no good reason to assume this no longer holds true.

It is, therefore, informative to stand back from the constantly shifting detail of the negotiations to take a factual look at a key driver of policy responses – emission trends. Below are two graphs that reviews trends in emissions, population and economic growth across ten countries that are important for shaping a future international framework (United States, China and India), expected to implement comparable policies to New Zealand (Australia, United Kingdom, France, Germany and Japan) and significant competitors (Brazil and Chile). These categories also include New Zealand's largest trading partners – China, Australia, the United States, Japan, and the European Union.

Since 1990 all countries have decreased their emissions per dollar of gross domestic product (GDP) generated (emissions intensity), but most developing countries now have higher emissions per capita.

**Figure 1: Trends in Emissions and Economic Growth 1990 to 2011<sup>3</sup>**



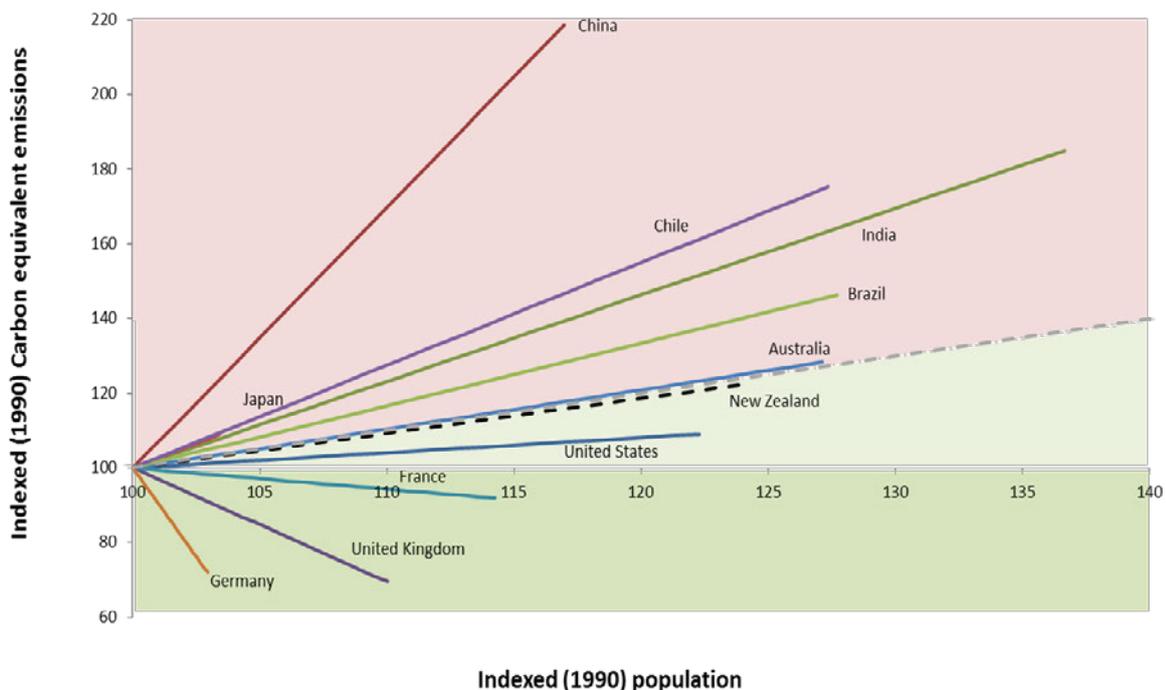
Source: World Bank Resources Institute (Emissions), World Bank (GDP)

<sup>3</sup> In terms of the data used, emissions data is available from the World Resources Institute (WRI) CAIT 2.0 climate data explorer, published in May 2014. Data is available for 1990, 1995, 2000, 2005 and 2011. We expect that new data would be published for 2016 (following the 5 year increment pattern) but would not become available until 2017 or 2018. There is also data available for 2012 from the UNFCCC but this is not available for all countries. We have therefore used the WRI data as it provides the most complete up-to-date dataset.

Figure 1 (above) plots changes in emissions and GDP from 1990 to 2011, using 1990 as the base year (1990 = 100). The dotted-line on the graph represents a 1 for 1 increase in emissions and GDP. The area to the left of the dotted line (shaded red) indicates that the emissions intensity of economic output has increased since 1990 while the area to the right of the dotted-line (shaded green), reflects a decrease in emissions intensity. The following trends in emissions intensity are of interest:

- all countries have decreased their emissions intensity of GDP since 1990- all countries are to the right of the dotted line;
- most countries that have achieved levels of economic growth comparable to New Zealand have a similar path of emissions growth - some with slightly higher emissions intensity (Brazil, Australia), some with slightly lower (Japan and United States);
- only the United Kingdom, Germany and France have managed to achieve economic growth since 1990 while simultaneously decreasing emissions;
- China has experienced significant economic growth over the period, with GDP now at 430 percent of 1990 levels, while emissions have increased to 218 percent of 1990 levels; and
- India has the highest emissions intensity of GDP with a ratio of 0.63.

**Figure 2: Trends in Emissions and Population 1990 to 2011**



Source: World Bank Resources Institute (Emissions), World Bank (Population)

Trends in emissions growth compared to population growth from 1990 to 2011 are shown in Figure 1.2 (above). Again, 1990 is used as the base year (1990 = 100) and the dotted-line on the graph represents a 1 for 1 increase in emissions and

population. The area to the left of the dotted line (shaded red) indicates that emissions per capita have increased since 1990, while the area to the right of the dotted line (shaded green) reflects a decrease in emissions per capita. The following trends in emissions per capita are of interest:

- a. most countries with rapidly growing populations have increased emissions per capita, with the exception of the United States and New Zealand;
  - b. most developed countries with low birth rates, with the exception of Japan, (Germany, United Kingdom, and France) have decreasing emissions per capita;
  - c. countries with stable or even falling population growth find it easier, all other things being equal, to reduce emissions. For example, Germany and Japan have the lowest increases in population, with less than five percent growth over the 21 year period considered;
- a. China has increased emissions per capita by significantly more than other countries—emissions have grown to 218 percent of 1990 levels, while population has only grown to 116 percent of 1990 levels; and
  - b. India has experienced the highest population growth, with population increasing to 136 percent of 1990 levels, while emissions have grown to 185 percent of 1990 levels.

These overall trends provide some context, and demonstrate that New Zealand cannot afford to implement climate change policy in a global vacuum. Indeed, in the frequent references in the discussion document to the concept of fairness, New Zealand's emission reduction target should, therefore, be framed by the commitments of other countries.

More specifically, relevant information to comparability of effort is the:

- a. underlying drivers for action by other countries and the policy responses to them;
- b. amount of abatement their target requires and from which sectors (that is, the volume of emission reduction compared to a situation where there was no target); and
- c. the cost or impost of achieving that emission reduction.

This is needed to inform the work of Ministers and officials. As outlined in BusinessNZ booklet released in 2011 entitled '*Raising the Profile: Comparing New Zealand's Emission Trends Against Other Countries*', it is clear that each country's action is shaped by its particular emissions profile. The relative ease with which it can reduce emissions without reducing growth generally determines its willingness to agree to ambitious targets for emissions reductions. Therefore, the ability to abate is not uniform across jurisdictions and tends to reflect the strong link between economic fundamentals and climate change policy.

Our dependence on trade means any domestic action to reduce emissions must be balanced with action by our trade competitors in order for us to maintain our international competitiveness. This does not, of course, prevent or hinder businesses who see a strategic advantage to moving early to capture a commercial advantage from doing so.

However, the risk to the economy from carbon leakage is real.<sup>4</sup> Asymmetric climate change policy action poses material economic risks that cannot be ignored. Indeed rather than alleviate this risk, the new global climate change agreement – with differentiated responses by developing countries – may simply entrench it. The concern is that entrenched asymmetric environmental policies will reshape the pattern of international comparative advantages, incentivising New Zealand businesses to move from countries where environmental measures are stricter, to countries that are not subject to the same requirements.

New Zealand's policy response and international negotiating position on climate change must, therefore, take into account the policy responses and negotiating positions adopted by other countries, particularly our major trading competitors.

Emission reduction targets, in their various forms of implementation and interactions, are remarkably difficult to fully comprehend and compare. For example, some of the factors that need to be accounted for are:

- a. within New Zealand, the economic cost of a target will be determined by the projected business as usual (BAU scenario), the opportunities for substitution and the approach taken to realise the target;
- b. costs will also be affected by the actions of other countries;
- c. the stringency of other countries' targets, combined with their projected BAU conditions will determine the availability of international permits (which may allow New Zealand to meet its target at *lower* cost);
- d. additionally, international conditions and mitigation efforts will affect demand for New Zealand's products which will in turn affect its BAU and therefore economic costs of abatement. For example, strong action to reduce emissions internationally could lower the demand for New Zealand oil. With lower oil production in New Zealand, BAU emissions may be lower and therefore meeting a specific emissions level target will be less costly (relative to BAU) than otherwise; and
- e. the approach other countries take to reducing emissions is likely to affect the competitiveness of New Zealand industry. Emissions reduction policies that impact the cost of producing traded goods in the rest of the world (such as a widely applied carbon price) will improve the competitiveness of New Zealand traded sectors. Achieving the same emission reductions in non-traded

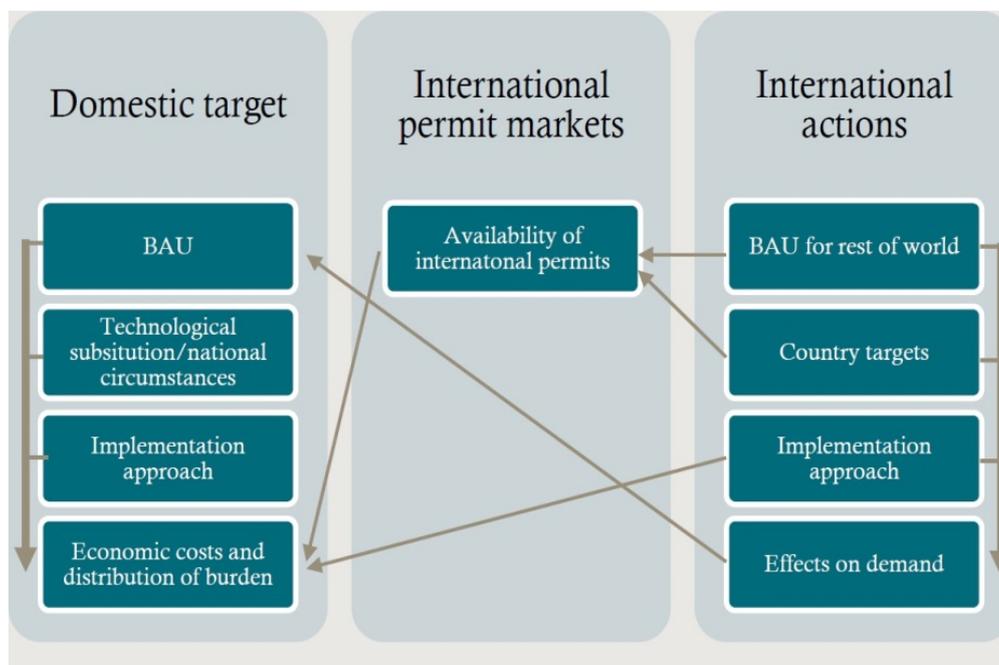
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<sup>4</sup> Carbon leakage is the risk that otherwise internationally competitive but carbon intensive businesses relocate to jurisdictions who have less stringent carbon standards, thereby adding to the global problem, not reducing it.

sectors (such as electricity generation, or forestry management) will not have the same effect.

Figure 3 below illustrates some of the complexity and interactions that should be considered in any judgement of an appropriate emissions target.

**Figure 3: Determinants of the economic cost of meeting a domestic target**



Source: The Centre for International Economics, Australia

The complexity of these issues more than anything shows there is no ‘cookie-cutter’ approach to the development of emission reduction targets. Formulaic calculations of burden sharing based on the global aspiration of holding the increase in global average temperature below 2°C or 1.5°C above preindustrial levels, or the IPCC global greenhouse gas reduction of 40-70% below 2010 by 2050<sup>5</sup> trivialises this complexity, and also undermines the whole intention of the development of INDCs, which are intended as bottom-up initiatives anchored in national circumstances.<sup>6</sup>

### Which Should Come First – the Means of Delivery or the Target?

It is difficult, if not impossible, to separate consideration of a target from our knowledge of the suite of possible, and current policies. A target must be, after all, feasible and/or likely. If there are no clear means by which a target will be reached, or the target is overly ambitious and the target is therefore unlikely to be reached, then the target itself holds little value or meaning.

<sup>5</sup> IPCC Working Group 3 Report (Summary for Policy Makers), page 13.

<sup>6</sup> We contrast this with the advocacy by some for the Government to set an emission target of a 40% reduction below 1990 levels by 2030 (in other words, the same as the European Union INDC). It is also worthwhile comparing this advocacy with the aforementioned IPCC target. A 40% reduction target implies a substantial and dramatic shift in the New Zealand economy.

But a target hinged solely on the known is likely to be unnecessarily constraining and focused on only near-term considerations. However, by the same token, the uncertainty associated with looking too far into the future risks turning the target setting into an exercise in crystal ball gazing.

Both need to be accommodated, but the key issue is the extent to which current policy should inform any emission reduction target eventually settled on in the context of the on-going international negotiations. For example, the NZETS, as designed, is capable of delivering any target by manipulating its settings. But BusinessNZ considers this to be a wrong-footed way of looking at the relationship between current policy settings and emission reduction targets. To drive policy settings to deliver a target, without a prior, well-informed assessment of economic burden, would likely be extremely damaging to the New Zealand economy.

Instead, the level of economic burden should inform the target with the full range of policies including the NZETS being subsequently calibrated accordingly. Fundamentally, this assessment of economic burden could be expected to set the strategic economic framework within which changes to future policy settings such as the design of the NZETS can be considered.

#### Should we Focus on Costs, or Benefits, or Both?

A balance between costs and benefits need to be carefully considered when setting a target. But in the context of climate change this is not a straight-forward exercise. It is extremely difficult to model the effects of climate change.

When trying to determine mitigation effort, therefore, the most appropriate measure of effort is the economic cost of the policies required to reach the proposed target. All policies that induce a change in behaviour effectively impose a cost by requiring a shift to less cost effective, but also less emission intensive, production. Thus, taxes on emissions or subsidies to reduce energy are all costs. Increased employment in the renewables sector, for example, if it takes place via a subsidy, is not a benefit but part of the cost (resources being shifted from one sector to another).

This needs to be understood in the context that the purpose of these costs is ultimately to achieve the benefit of avoiding future climate change, that is, to avoid a future cost of global inaction, or the potential cost to New Zealand if we take no action while others do. It is important not to lose sight of these benefits.

But caution too must be applied to the consideration of benefits when modelling the impacts of climate change. For example, models that assume perfect foresight risk overstating the benefits of early action.

Finally, the 'small' modelled impacts on households should not be trivialised. The United States (the 'US') Environmental Protection Agency estimated the Waxman Markey Bill (the emissions trading Bill that only progressed as far as the US House of Representatives) would cost a US family only \$USD1.00 per day. The estimates set out in Table 1 on page 7 of the discussion document are in sharp contrast to the US estimates and would pressure on household budgets at a time that there are growing concerns over poverty.

Macro-economic models also mask the likely substantial micro-economic impacts of change. Just as others have already publicly criticised the baseline assumed in the modelling (by asserting it undercooks reality thereby making the modelled impacts of the results even more trivial than shown), such criticism is equally valid to the modelled impact on industrial output which assumes a modest one percent reduction.

If the economic history of New Zealand teaches us anything it is that transition paths matter in the size, distribution and duration of costs.

New Zealand businesses already face a cost of carbon (albeit modest) and in light of the comparability issues raised above, it is a stretch of credibility to simply assume that their trade competitors also do, as it is to assume that New Zealand will have access to international units. Given the make-up of New Zealand's industrial sector (regional, often one-off, and large – for example, the smelter, methanol plant or steel mill), the impact of getting this wrong in terms of jobs and investment is - at a time of substantial and growing regional economic fragility - likely to be large and dramatic.

A more stringent target underpinned by a higher carbon price without commensurate action by trade competitors or access to carbon markets will produce results that tend towards the more extreme of the Infometrics model runs and have a substantial impact on the economic viability.

### The Nature and Form of New Zealand's INDC

As noted above, the INDC process provides for the ability to be innovative and creative. Core to this process is the opportunity to reset the public discourse away from 'Kyoto-think' with its expectation of a single (supposedly comparable) economy-wide emission reduction number for all gases. Options previously unavailable within the top-down Kyoto straitjacket now exist around base year, end year, sectors, gases and whether the targets are net or gross targets, or even a part of the target.<sup>7</sup> This might mean gross emissions reductions for some industries, and others that have reductions linked to emissions per-unit of production for export products or emissions per capita so that our internal targets do not introduce artificial limits to global competitiveness.

Options also exist around the application of scientific effort, and research and development. Agricultural and associated process emissions are prime examples as cutting production or offsetting gross emissions would be ill-conceived.

A concerted and well-thought-through transition is required, especially with respect to agriculture, because of the size and impact of the issue on the New Zealand economy.

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<sup>7</sup> Putting aside for the moment the size of the INDCs submitted by other jurisdictions so far (given the comparability issues noted above), BusinessNZ notes that with the exception of the US INDC, the other INDCs submitted essentially *only* cover carbon, and not methane (except to the extent of industrial methane).

## Evidence of a Low Carbon Pathway

While not explicitly covered in the discussion document, a key issue for the transition to a low carbon economy is how to manage the evolution of New Zealand's policy over the longer term as the global policy evolves.

BusinessNZ understands that the primary focus of the discussion document is for a target through to 2025 or perhaps 2030, but without a good understanding of where the New Zealand economy needs to be by say 2100, it is likely that any pathway will get us there. This creates risk for business and the wider economy.

A failure to consider the short-term target in the context of the longer term goals creates two risks, being of a tactical and strategic nature:

- a. a tactical risk – that each target tranche is approached by those interested in such matters as merely a series of on-going tactical discussions about how much we should commit to undertake in light of the on-going uncertainty, rather than a broader, more strategic conversation informed by a broadly understood and agreed direction of travel; and
- b. a strategic risk – that the actions which New Zealand commits to now create path dependency. That is, the actions we commit to today might not be able to be scaled-up to achieve New Zealand's long term target, and impose higher costs than would otherwise have been the case.

Much of our caution concerning the setting of a target relates to the absence of setting what New Zealand should do now, in the near-term, in the wider context of where New Zealand should position itself in the medium to longer term (out to say, 2100) and the opportunities that might flow from doing so.

Business rarely acts without a clear understanding of costs, risks and benefits. If market uncertainties grow too large as the time horizon extends out into the future, it is difficult for businesses to justify major investment. To increase the likelihood that the long-term objectives sought are achieved, business needs clarity not unpredictability of the policy settings that will underpin the pathway in the near-term.

The best policy response to uncertainty is predictability. What business really wants is predictability of the conditions and frameworks in which they operate into the future, so that they can plan and implement their business initiatives with greater confidence, knowing that their assumptions they make about the future are likely to hold into the medium to longer term, or at least over the life time of the asset.

Technology choices and investment plans, particularly in the energy sector, reach across decades and so politicians and policy makers need to create the right frameworks and systems now that will facilitate more active business participation in the development and deployment of useful solutions and try to avoid the lock-in of current higher emissions technologies.

A target that is disconnected from a longer term 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 goal is strong. The idea of a carbon pathway is not novel. New Zealand was a party to the UN decision at Cancun in 2010 that decided that developed countries should develop low-carbon development strategies or plans.

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.

BusinessNZ agrees that the emissions trading scheme is likely to do a reasonable proportion of the heavy-lifting in the short-term, as is the purchase of international carbon units, but having a target that New Zealand cannot hope to meet other than via the purchase of overseas emission reduction units would not be in New Zealand's best long-term interests.

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.

### **Engaging with Business to Unlock Enhanced Emission Reduction Opportunities**

Key to developing a long-term perspective to emission reductions will be the extent to which policy makers engage with business. A well informed target underpinned by a realistic carbon pathway can also provide a more fruitful avenue for business to inform and gauge government expectations, resulting in greater clarity on investment requirements and policy implications for growth, competitiveness and jobs.

Business has a wealth of knowledge and experience to offer in the research and commercialisation of new, innovative approaches. As the key delivery channel by which emissions will first be stabilised, then reduced, business needs to be at the very heart of discussions, formal and informal about what practical initiatives New Zealand's INDCs will comprise.

The business sector is already making substantial efforts to adopt a broad range of sustainable business practices including the reduction of its emissions. In doing so, businesses are already responding to the commercial opportunities that arise from satisfying changing consumers' demands that they be more accountable for their impact on the environment of the goods and services they produce. They are also acting in response to the prospect of a future, higher price of carbon.

Some other examples of where business is taking action are:

- a. *value chain management*: the World Business Council global network is focused on mitigation and creating resilience within global supply chains. A

large proportion of carbon emissions are outside a company's boundaries. A value chain approach helps companies to understand where their big risks and opportunities are and to develop strategies for reducing emissions along their value chain;

- b. *freight efficiency*: a large and growing proportion of New Zealand's emissions profile is from road transport. Businesses are working collaboratively to identify, and unlock opportunities to reduce emissions from the transport sector and assist with more sustainable growth of the freight sector;
- c. *electric vehicles*: New Zealand appears to have one of the strongest business cases for wide-spread adoption of electric mobility, that if unlocked could realise a range of health, environmental and economic benefits;
- d. *smart grid*: with the following goal "*In 2050, NZ will have leveraged the opportunities made available from emerging smart grid technologies and practices to the benefit of electricity consumers and New Zealand's prosperity and productivity as a whole*", the Smart Grid Forum (a multi-sector group, including BusinessNZ) seeks to facilitate the efficient uptake of disruptive, and low carbon technology on both the supply and demand-sides of the electricity market; and
- e. *natural capital assessments*: businesses are utilising a recently developed ecosystem services review tool. This helps them look at their dependencies and impacts on ecosystem services. For a number of them this work is resulting in initiatives to preserve biodiversity which will have carbon reduction co-benefits.

These examples, and many others, are demonstrative of businesses across the economy taking leadership in the climate change space, and of the role of business in catalysing change. Where appropriate the Government needs to engage with business to help it scale-up these and other initiatives as business identifies the practical barriers to reducing emissions. Different problems will require different solutions but an overall approach that allows business to capture all of the possible emission reductions options available when it makes economic sense to do so needs to be supported.

In particular, we draw officials' attention to the recent report from the World Energy Council entitled 'World Energy Trilemma: Priority Actions on Climate Change and How to Balance the Trilemma'<sup>8</sup>. It focuses on how to unblock the bottlenecks to moving towards an entirely new, balanced, low carbon energy system and the economic opportunities that will emerge once we start to address climate change challenges.

BusinessNZ considers that the recommendations made in this report should be considered in depth, in a New Zealand context. Well-designed policies could support, for example, the reduction of market and regulatory barriers to new

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<sup>8</sup> <http://www.worldenergy.org/publications/2015/world-energy-trilemma-2015-priority-actions-on-climate-change-and-how-to-balance-the-trilemma/>. BusinessNZ is, via its BusinessNZ Energy Council, the WEC New Zealand National Member Committee.

technologies, its diffusion and new business models, and facilitate the uptake of financial innovations such as green bonds, and risk sharing instruments and products. In turn, this could achieve more resilient infrastructure, greater energy security, and grow the economy while allowing opportunities to reduce carbon to be seized, positioning New Zealand in a leadership role.

Finally, to help further advance the conversation around the transition to a more carbon-constrained world, and the role of New Zealand business in it, BusinessNZ's Major Companies Group and the Sustainable Business Council have commenced a Business Leaders Climate Change Dialogue. While still in its infancy, business leaders from across the economy are starting to discuss their level of ambition for New Zealand and the role they can play in a transition to a low carbon economy/more sustainable society.

In working with business, we think that the following principles for are appropriate for guiding the conversation:

- a. non-partisan and depoliticised;
- b. take a systems approach;
- c. be for New Zealand-inc and take everyone along;
- d. be inspirational in what we do;
- e. focus on opportunities that leverage our strengths; and
- f. strive for long term significant change and clever thinking on the steps to get there.

## **Summary**

The effects of climate change policies on New Zealand and other countries are potentially profound. To the extent that climate policy raises energy prices, prevents or discourages certain economic behaviour and encourages new economic activity it requires:

- a. business to adjust;
- b. business to take up new opportunities; and
- c. infrastructure and institutional arrangements to change.

BusinessNZ strongly supports the INDC concept and process as an approach to target formulation. It represents a break from the traditional Kyoto Protocol-type framework with top-down, inflexible rules that don't adequately reflect differences between countries. Instead, INDCs will be built from the "bottom-up" with countries determining for themselves the form and level of their targets and the rules they intend to apply when measuring and reporting progress towards meeting them.

The target setting process offers an opportunity to re-engage with businesses and consumers in a meaningful conversation about what New Zealand is trying to achieve with the INDC, how to achieve (a) to (c) above, and over what timeframe while growing the New Zealand economy.

In doing this, BusinessNZ urges policy makers to carefully assess the real risks and benefits a target implies for the future of New Zealand's prosperity. The target must be consistent with the speed of others' actions, and based on a comparable metric. What we do as a country therefore needs to be both economically viable as well as demonstrative of its leadership and reputation enhancing. New Zealand's reputation in terms of the credibility of its INDC is important. But so are the reputational impacts of failing to meet, or indeed renouncing a target that is too ambitious.

Importantly, a target must also be underpinned by a long-term carbon pathway. We have high expectations as we move into and beyond Paris and how setting a target can help galvanise a stable long term pathway for business and consumers.

Finally, the Government must not only give thought to how the target will be set, and the broader implications of efforts to achieve it, but it 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.

BusinessNZ looks forward to working collaboratively with the Government and officials to assist in the achievement of an appropriate outcome.

Yours sincerely



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BusinessNZ

## **APPENDIX ONE: ABOUT BUSINESSNZ**

Encompassing four regional business organisations (Employers' & Manufacturers' Association, Business Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), its 82 member Major Companies Group comprising New Zealand's largest businesses, and its 74-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. 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 on behalf of enterprise, BusinessNZ 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.

BusinessNZ'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.