

17 January 2020

Committee Secretariat
Environment Committee
Parliament Buildings
WELLINGTON 6140

Climate Change Response (Emissions Trading Reform) Amendment Bill

Thank you for the opportunity to submit regarding the Climate Change Response (Emissions Trading Reform) Amendment Bill.

Through our three membership brands, the Wellington Chamber of Commerce, Business Central and ExportNZ, our organisation represents around 3,500 businesses across the central and lower North Island. Our organisation is one of the four regional organisations that make up the Business New Zealand family and is also accredited through the New Zealand Chambers of Commerce network.

The Wellington Chamber of Commerce has been the voice of business in the Wellington region since 1856 and advocates policies that reflect the interests of Wellington's business community and the development of the Wellington economy as a whole. Business Central represents employers and provides employment, health and safety, and human resources advice, and advocates policies that reflect the interest of the business community.

As members of Business New Zealand, we support and endorse their submission on the Bill. This submission highlights the issues most important to our members and us.

Summary

Business Central supports the Bill and its intent to reduce New Zealand's long-term emissions in line with our international peers. We also support the mechanism to achieve emissions reductions targets by placing a price on carbon so that emissions decline most cost-effectively. A well-designed emissions trading scheme ('ETS') will accomplish these objectives; however, we note there are some amendments this Bill should incorporate to improve New Zealand's ETS. Also, New Zealand must remain aware of international policy developments to ensure our businesses are not at a competitive disadvantage.

Background

Business Central welcomes the government's ongoing education and policy development process to reduce the country's emissions. We support New Zealand's contribution to international fora working to achieve consensus on tackling global emissions and putting in place agreed targets for reduction.

New Zealand, compared to other countries, has a unique emissions profile as a developed economy with a large proportion of emissions coming from our agricultural sector. New Zealand farmers are some of the most efficient and productive in the world and continue to undertake scientific research to reduce emissions further. Our electricity sector is already heavily made up of renewable sources of generation with further wind farms underway. It is through continued innovation and technology change that we can reduce emissions and improve the productivity of our critical sectors like electricity, transport and agriculture.

Submission points on the Bill

Business Central supports the cap-and-trade mechanism developed across both this Bill and the recent Zero Carbon Bill. Working in tandem, this legislation creates a market-based approach to reducing emissions. A well-designed emissions trading scheme will achieve emissions reductions most cost-effectively.

It is essential for the government not to dictate precisely how organisations reduce emissions, but to provide the incentive and framework for organisations to make their own rational choices on emissions reductions. It is only through the many millions of different investment decisions made by businesses that our overall emissions will come down.

Rewarding companies or organisations for reducing their emissions faster than required is a vital spur to technological innovation and underpins the risk-reward of conducting the needed R&D.

An essential requirement to assist businesses with the transition to a lower-carbon economy is providing them with the confidence and policy certainty they can use to plan. Emissions reductions will only occur if companies, along with government, invest heavily in the research required to come up with new ways of doing business. But research is nothing without implementation.

Reforming industries requires a mixture of confidence about future economic conditions and policy settings, the available capital to invest in changing business processes, and the ability to fund iterative research to support further technology development.

Policy design which dictates emissions reductions without an economically sustainable framework is doomed to failure. As a country, we need to be able to afford to take the actions we need to take to reduce our emissions. And that comes down to businesses having the financial ability to change their business processes and remain profitable.

As stated above, Business Central supports the concept of placing a price on carbon through a cap-and-trade system. To implement such a system, a well-functioning cost containment reserve

('CCR') appears as a good solution to balance sending a price signal to the market with the need to provide businesses with certainty. However, more operational details are required, such as the volumes of carbon credits contained within the reserve and how this will be calculated.

In particular, the price trigger used will be a key consideration for business. Given the predominantly New Zealand-based nature of the emissions trading scheme, the carbon price faced by our businesses compared to international competitors is very important. Ideally, the trigger price under the CCR is calibrated with similar carbon prices faced by our trade competitors.

When completing the final design of our climate change response policies, decision-makers must remember that businesses will come under compounding pressure through higher prices for carbon credits, reduced units in the trading system, and reduced free allocation out to 2030.

It is essential to retain policy flexibility in phasing down the free allocation to respond to future events. Such events include changing economic conditions or international trading partners not following through on their emissions reduction commitments.

This industrial allocation is vital to protect our industries from international leakage. Leakage is the phenomenon by which production moves overseas to countries with lower operating costs, meaning no reduction in neither consumption nor global emissions, yet an adverse economic impact is felt. Reducing global emissions requires a level playing field for trade, New Zealand cannot go it alone. Business Central supports the proposal whereby phase-out rates are different between different levels of energy intensity and for trade-exposed industries.

Bringing agriculture inside the framework of the emissions trading scheme makes sense based on the recent industry-government agreement. As always, we note the unique makeup of New Zealand's emissions profile, and the relatively fewer options farmers have to reduce their emissions compared to other significant industries and manufacturing sectors.

If New Zealand is to press ahead as one of the first countries to ask farmers to pay for their animals' emissions, policymakers must acknowledge that agriculture is at risk of international leakage if care is not taken with domestic policy settings. We do not benefit our farmers or the planet by substituting New Zealand grown food for overseas produced food with a higher carbon footprint. Maintaining flexibility in policy settings is therefore essential so that New Zealand can react to the changing settings among our international competitors.

It is worth repeating the conclusions of the NZIER report "Economic impact analysis of 2050 emissions targets - A dynamic Computable General Equilibrium analysis" which was commissioned by the Ministry for the Environment. This report clearly warned that, even in the best-case scenario and with a methane inhibitor discovered, the price of emissions would need to go upwards of \$200 per tonne. This kind of economic shock, particularly to the agricultural sector, would damage New Zealand's ability to afford to reduce emissions.

The adoption of forest averaging will hopefully incentivise additional forestry planting where it makes sense. There is a need to monitor any conversion of higher-quality soils from agriculture to forestry. New Zealand cannot afford economically to plant trees and destock farms to achieve

emissions reduction targets. Averaging does provide additional flexibility to assist forest owners to manage their asset and make it more practical and economical.

Thank you again for the opportunity to submit.

Yours sincerely,

A handwritten signature in black ink, appearing to read "John Milford". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

John Milford
Chief Executive
Wellington Chamber of Commerce, Business Central