



New Zealand Steel Limited  
Mission Bush Road, Glenbrook  
Private Bag 92121, Auckland 1142  
P +64 9 375 8963  
E [gretta.stephens@bluescopesteel.com](mailto:gretta.stephens@bluescopesteel.com)

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PO Box 10362  
Wellington 6143

Lodged via email: [ZCB.Submissions@mfe.govt.nz](mailto:ZCB.Submissions@mfe.govt.nz)

### **Submission on the Consultation on 'Our Climate Your Say: Consultation on the Zero Carbon Bill'**

- 1 New Zealand Steel (NZS) welcomes the opportunity to submit on the 'Our Climate Your Say: Consultation on the Zero Carbon Bill' (the *Discussion Document*) and the proposed Zero Carbon Bill (*Bill*). This letter sets out NZS's position on the Discussion Document in detail.
- 2 NZS has also prepared specific responses to the questions for discussion contained in the discussion document, cross-referencing to this letter where appropriate. These responses are included in the **Appendix** to this letter.

### **KEY MESSAGES**

- 3 NZS' key messages in this submission are:

#### **The Target**

- 3.1 A 2050 target should be set in legislation but it is inappropriate to do so at present. None of the three options currently proposed have been subject to the necessary rigorous testing for them to be shown to be achievable, realistic and meaningful. The assessments undertaken to date regarding the ability to achieve any of the targets make substantial and unsupported assumptions and rely on speculative or uncertain future events occurring.
- 3.2 Furthermore the currently proposed targets have major economic impacts which have not been adequately communicated to the New Zealand public and New Zealand businesses. A focus on percentage changes in growth obscures the absolute costs of the targets. To provide some context, the NZIER modelled reduction in average GDP is equivalent to withdrawing 0.5 to 2 times the economic contribution of the dairy industry, or alternatively the country facing GDP losses in the range of 0.6 to 2.5 times the magnitude of the 2008 GFC, in each and every year of the 2017-2050 transition. These economic impacts are calculated for what NZS considers to be an extremely optimistic 'status quo' case in respect of available mitigation tools. A more realistic baseline comparison increases these economic impacts markedly.

- 3.3 Instead of including one of the three proposed targets, the Zero Carbon Bill should set a process by which the Climate Change Commission is charged with considering and advising on what the 2050 target should be. That assessment should be based on current knowledge, existing technology and reasonable levels of innovation. The Government should then consider the Climate Change Commission's advice, together with a list of mandatory considerations (see below), and propose a 2050 target as an amendment to the legislation. Such amendment should be the subject of the usual parliamentary process, including public consultation.
- 3.4 The Zero Carbon Bill should also include a mechanism for the 2050 target to be revised, through amending legislation. This mechanism would allow for the target to respond to major changes that will inevitably occur over time and which may enable a better understanding of what the 2050 target can and should be.
- 3.5 The Zero Carbon Bill should provide that for the emissions target to be meaningful, only emission reductions that do not take the form of 'carbon leakage' should be accounted for. In other words, where emissions associated with domestic production are reduced but consumption of the same product is not commensurately reduced and is instead merely supplied from an overseas producer with similar emissions, New Zealand should not be claiming those emissions as meaningful reductions towards meeting its targets. It is therefore important that the New Zealand Emissions Trading Scheme (*NZ ETS*) maintains effective carbon leakage provisions at current levels, so that carbon leakage can be avoided where possible.
- 3.6 Credible international units should be available to be used to meet New Zealand's target, without quantitative limitation. If real and credible greenhouse gas reductions can be more efficiently achieved elsewhere, New Zealand should be able to support, and benefit from supporting, that more efficient emissions reduction.

### **Emission Budgets**

- 3.7 Emission budgets should be set by the Government by way of regulations that are subject to public consultation. The Climate Change Commission should advise the Government on the budgets and the Government should be required to consider that advice together with a range of mandatory considerations (as set out below) before proposing regulations and hearing submissions on the budget.
- 3.8 Only two five-year budgets should be set in advance. The second budget should be able to be amended by the Government in a range of exceptional circumstances and force majeure events (examples of which are set out in the submission below).
- 3.9 Emissions budgets should be calculated on a gross emissions basis, without accounting for forestry emissions/sinks. Emissions budgets should also be calculated to exclude any emission reductions associated with carbon leakage where consumption of the relevant product is not commensurately reduced.
- 3.10 The budgets should allow for unlimited banking and borrowing between budgets as this can assist in addressing cyclical economic and emissions activity across budget period boundaries.

## Climate Change Commission

- 3.11 The Climate Change Commission's role should be advisory and monitoring only. It should not have decision making powers. The value of the Climate Change Commission is its independence and its expertise as a trusted check and balance to the government of the day.
- 3.12 The Climate Change Commission's advisory role should include providing recommendations regarding a range of matters including: a better tested and more realistic 2050 target; when the 2050 target should be reviewed; credibility of various international emissions reduction units; and advice on setting, amending and accounting for emission budgets.
- 3.13 The Climate Change Commission should include persons with a wide range of skills and backgrounds, including those from the business sector. More specifically, the Climate Change Commission should be required to include at least one appointee who has real world experience in sectors which are emissions intensive and trade exposed, these being the sectors most affected by the Zero Carbon Bill.

## COMMENTS ON THE 2050 TARGET

- 4 NZS supports the setting of a long term emissions reduction target in legislation. The political and policy certainty that such a target offers is critical for New Zealanders and New Zealand businesses to be able to make long term investment decisions. It is also important to keep in mind the desired outcome is to build a prosperous low emissions economy, not to destroy prosperity in a crusade for low emissions.
- 5 However, NZS considers that any target that is set in legislation must be credible, and to be credible, the targets must be based on sound economic analysis that shows they are both achievable and meaningful (in so far as they relate to real emission reductions). If New Zealand sets a long term target but then is unable to meet that target or can only meet that target through pushing emission generating activities overseas, it would be likely to cause considerable damage to New Zealand's international reputation and would also discourage other countries from taking similar action. Consequently, NZS wishes to ensure that the following matters are taken into account when setting a target which is both achievable and relates to actual emission reductions.

### The need for an achievable and realistic 2050 Target

- 6 NZS considers that the 2050 target can only be set at a level that is practically, socially and economically achievable. If the target is not set at a level that is realistic and cannot be achieved, NZS submits that it would undermine New Zealand's climate goals and make climate action in other countries less likely to occur.
- 7 As the Productivity Commission's Draft Report<sup>1</sup> and the NZIER economic impact analysis<sup>2</sup> indicate, the achievement of a net zero carbon target is only possible if a

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<sup>1</sup> Productivity Commission, 'Low-emissions economy - Draft report', April 2018 (the *Productivity Commission Draft Report*).

<sup>2</sup> NZIER, 'Economic impact analysis of 2050 emissions targets: A dynamic computable general equilibrium analysis', June 2018, Publication reference number CR311 (the *NZIER Report*).

number of relatively speculative or uncertain future events occur, including all of the following:

- 7.1 Major technological advances in as yet unproved and un-commercialised products (such as a methane vaccine being available on the market by 2030, substantial reductions in international dairy and meat demands in favour of synthetic meat and dairy and like-for-like alternatives to steel);<sup>3</sup>
  - 7.2 An exponential increase in the uptake of innovative technologies which is highly optimistic (such as the 95% uptake of electric light vehicles and 50% uptake of electric heavy vehicles);<sup>4</sup>
  - 7.3 International developments for which there is no precedent (such as an international approach to pricing carbon which imposes an international carbon price and drives innovation);
  - 7.4 An increase in the amount and rate of forestry sequestration (at least a 140% increase in forested areas is necessary, while having no impact on available productive land);<sup>5</sup> and
  - 7.5 A near 100% renewable generation of electricity by 2035, which remains constant until 2050.<sup>6</sup>
- 8 All of the above factors occurring together is at best speculative and yet all of these factors are required to occur if New Zealand is to have any chance of meeting any of the three net zero emissions targets by 2050. The economic analysis commissioned by the Government casts significant doubt on whether these factors can be achieved with respect to the rate of innovation and international trends in carbon prices. Sense Partner's analysis notes: "*To presume that climate policy could make the difference (in innovation rate) would be a kind of exceptionalism and a serious leap of faith.*"<sup>7</sup> The same report goes on to conclude that it is highly unlikely that a price of carbon will emerge internationally and instead it is expected that "*climate change policies will continue to be applied unevenly around the world and especially in Asia Pacific*".<sup>8</sup>
- 9 NZS suggests that setting a target at any of the current three options represents a leap of faith which is not appropriate. NZS considers that New Zealand should not legislate an emissions target based on factors that we, as a country, cannot control or greatly influence.
- 10 The target also needs to be informed by an accurate assessment of economic impacts. NZS notes that the NZIER Report uses the 'Wide innovation, 50% target' scenario as its 'status quo' case. The NZIER report notes that this status quo case was selected "*based on guidance from officials*", and that "*to the extent that this status quo is overly ambitious, then the marginal economic impacts we report [...] will be under-stated*".<sup>9</sup> The 'status quo' case referred to by NZIER contains all the 'built-in' assumptions/factors noted above, which in reality may not transpire. As

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<sup>3</sup> Productivity Commission Draft Report, page 56.

<sup>4</sup> Discussion Document, page 53 and NZIER Report, page 14.

<sup>5</sup> NZIER Report, page 33.

<sup>6</sup> Discussion Document, page 16 and NZIER Report, page 14.

<sup>7</sup> Sense Partners, '*Countervailing forces: Climate targets and implications for competitiveness, leakage and innovation*', April 2018, Publication reference number CR312 (the *Sense Partners Report*), page 8.

<sup>8</sup> Sense Partners Report, page 1.

<sup>9</sup> NZIER Report, page 13.

conceded by NZIER, if actual market and policy shifts prove less extensive than is assumed in the 'status quo' case, the marginal economic impacts of carbon reduction measures are likely to be more severe. NZS therefore considers that the 2050 target should be informed by a comparison to a true base case that contains a more plausible set of mitigation / offsetting assumptions.

- 11 The Discussion Document, referring to the NZIER analysis, suggests that GDP will be in the range of 10 per cent to 22 per cent less in 2050, compared with the 'baseline' do nothing scenario.<sup>10</sup> NZS fully accepts that New Zealand will face costs in meeting its international obligations and that therefore the GDP impact may be lower than this. However, as highlighted above, the alternative 'status quo' counterfactual is far too optimistic. NZS submits that GDP impacts of zero carbon target are likely to be closer to those compared against the baseline than those against the status quo.
- 12 That use of percentage impacts for the 2050 year also somewhat obscures the scale of the GDP opportunity cost that the transition to a zero carbon target really represents. NZS suggests the following important findings of the NZIER report should be highlighted:
  - 12.1 The reduction in GDP between 2017 and 2050, when compared to a 'status quo' GDP, is anticipated to be \$6.7 billion (-1.8%) per annum even if the 'wide innovation' scenario is assumed to be realistic.<sup>11</sup> However, that reduction in GDP increases to \$26.6 billion (-7.1%) per annum if lower levels of innovation are assumed.<sup>12</sup>
  - 12.2 The per annum reduction in GDP between 2017 and 2050 when compared to the, in NZS's view, more realistic 'baseline' is \$16.5 billion (-4.2%) per annum if the 'wide innovation' scenario is assumed to be realistic.<sup>13</sup> However, that GDP reduction balloons to a startling \$36.9 billion (-9.5%) per annum if lower levels of innovation are assumed.<sup>14</sup>
- 13 Those GDP reduction figures are, in NZS's submission, staggering on their own and NZS does not consider that the Discussion Document adequately highlights, nor does it adequately communicate the extent of these economic impacts to the New Zealand public. To put these numbers in perspective, it is appropriate to compare the scale of those GDP reductions against other well understood benchmarks, for example:
  - 13.1 For the March 2016 year the dairy industry was calculated to contribute 3.5% (\$7.8b) annually to GDP <sup>15</sup>. Applying this dairy industry benchmark to the more optimistic 'status quo' comparison basis represents GDP losses in the range of 0.5 to 2 times the contribution of the dairy industry in each and every year of the 2017-2050 transition. For the more realistic 'baseline' comparison basis the magnitude increases to 1.2 to 2.7 times the contribution of dairy.

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<sup>10</sup> Discussion Document, page 28.

<sup>11</sup> NZIER Report, Table 13, '\$ change, compared to status quo annual average real GDP pf \$377 billion 2017-2050', third column, third row.

<sup>12</sup> NZIER Report, Table 13, '\$ change, compared to status quo annual average real GDP pf \$377 billion 2017-2050', third column, second row.

<sup>13</sup> NZIER Report, Table 13, '\$ change, compared to baseline annual average real GDP pf \$386 billion 2017-2050', third column, third row.

<sup>14</sup> NZIER Report, Table 13, '\$ change, compared to baseline annual average real GDP pf \$386 billion 2017-2050', third column, second rows.

<sup>15</sup> See, <https://www.nbr.co.nz/article/dairy-sector-contributes-8-billion-gdp-jw-199810>

13.2 The 2016 Treasury Economic Overview shows the impact of the 2008 Global Financial Crisis (GFC) to have been 2.8% of GDP <sup>16</sup>. Applying this GFC benchmark, the more optimistic 'status quo' comparison basis represents GDP losses in the range of 0.6 to 2.5 times the magnitude of the 2008 GFC in each and every year of the 2017-2050 transition. For the more realistic 'baseline' comparison basis the magnitude increases to 1.5 to 3.4 times the 2008 GFC impact. .

#### **NZS's Preferred 2050 Target**

- 14 NZS submits that instead of the three proposed targets, a separate exercise is necessary to identify what the 2050 target should be based on current knowledge, existing technology and reasonable levels of innovation.
- 15 Such a target would be more realistic and achievable. It could still be aspirational but grounded in likely outcomes and certainty. NZS therefore submits that the Government should not set a 2050 target in the Zero Carbon Bill at this stage. Rather NZS considers that the Zero Carbon Bill should instead provide that:
- 15.1 The Climate Change Commission should consider and advise the Government on what the 2050 target should be following further comprehensive analysis. The Climate Change Commission should be empowered to commission independent reports to assess a range of potential targets and consider the impacts of those targets on New Zealand society, business and our environment. The Climate Change Commission should also be empowered to consult with key stakeholders including those most affected by a 2050 target.
- 15.2 The Government shall be obliged to consider the Climate Change Commission's advice regarding the 2050 target, together with the wider impact of that target on New Zealand (including social and economic impacts).
- 15.3 The Government should then propose amending legislation to include the target in a Zero Carbon Amendment Act. Such amending legislation should be subject to the full parliamentary process, including public consultation.
- 16 NZS submits that the Zero Carbon Bill should provide that, when advising on and proposing the 2050 target, the Climate Change Commission and the Government, (respectively) are obliged to take into account a range of relevant factors, including:
- 16.1 fully checked assumptions including economic, technological and innovation assumptions;
- 16.2 technology that is in use and new technology but only to the extent that such technology is in place and shown to be working;

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<sup>16</sup> New Zealand Economic and Financial Overview 2016 - New Zealand Treasury, p11.

<https://treasury.govt.nz/sites/default/files/2010-04/nzefo-16.pdf>

*"Response to GFC The New Zealand economy experienced a recession in 2008 and 2009 owing primarily to the intensification of the GFC in 2008. Similar to the experience in many advanced economies, business and consumer confidence plummeted as the cost of credit increased and house prices fell modestly. Local banks' access to funding in overseas markets was temporarily curtailed as uncertainty dominated the global financial and economic environment. Real GDP contracted 2.8% overall between March 2008 and June 2009."*

- 16.3 any legislative changes (once they are in force) that serve to remove barriers to new technology uptake; and
- 16.4 financial and social constraints, including viability of job transition and retraining.
- 17 NZS further submits that the Zero Carbon Bill should provide a mechanism for the 2050 target to be revised, through amending legislation. This power would allow for the target to respond to major changes that enables a better understanding of what the 2050 target can and should be. The purpose of such changes should be to ensure the 2050 target remains both meaningful and realistic.

#### **Statutory requirement for real emission reductions rather than 'carbon leakage'**

- 18 NZS also considers that for New Zealand to transparently meet any carbon emission reduction goal, the Zero Carbon Bill should clarify that only emission reductions that do not take the form of 'carbon leakage' can be accounted for.
- 19 If New Zealand's carbon policies simply shift the same emission producing activities offshore, it would not contribute to any global reduction in emissions. Provided the NZ ETS's carbon leakage provisions (eg free allocation) remain effective, the levels of carbon leakage should be low. However, the Bill should recognise that, if these measures are ineffective and carbon leakage occurs, this 'exportation' of emissions should not be considered a domestic emissions reduction.
- 20 Accounting for consumption emissions as well as production emissions should be included as part of the 2050 target. Mechanisms to reduce emissions in New Zealand (ie the NZ ETS) have largely focused on reducing emissions associated with domestic production. Where these measures have resulted in production shifting offshore, with no overall change in demand for emissions-intensive goods, there is no true reduction in the global emissions profile and for New Zealand to claim this as a domestic emissions reduction would be to obscure the true domestic actions being taken.
- 21 An example of this trend is the reduction in steel production in the UK. In 2000, the UK produced 15.2 million tonnes of steel, and consumed 13.1 million tonnes. By 2016, production had fallen to 7.6 million tonnes, while consumption had only fallen to 10.7 million tonnes. Accordingly, while the UK's steel production fell by 50% between 2000 and 2016, its steel consumption fell by only 18%. Rather than reduce demand for steel and transition to lower emissions materials, the UK has instead largely closed domestic steel production in favour of imported steel, whose emissions are not counted in the UK's carbon statistics.<sup>17</sup>
- 22 Sense Partner's economic assessment commissioned by the Government specifically notes in relation to steel in New Zealand:<sup>18</sup>

*"This also raises the possibility of leakage, where economic activity migrates and mitigation of emissions in New Zealand is offset by an increase elsewhere. If this happens, global emissions may not fall at all and may even increase."*

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<sup>17</sup> All data from World Steel Association, *World Steel in Figures* publications, 2001 and 2017.

<sup>18</sup> Sense Partners Report, page 2.

### Availability of International Units

- 23 NZS considers that credible international units should be available to be used to meet New Zealand's target. NZS further considers that there should be no limit on the use of such credible international units.
- 24 If real and credible greenhouse gas reductions can be more efficiently achieved elsewhere, New Zealand should be able to support and benefit from supporting that more efficient emissions saving. NZS considers that there is no justification for requiring New Zealanders and New Zealand businesses to have to finance more expensive domestic emission reductions if cheaper and credible emission reductions can be achieved overseas. To do so would be to willingly accept economic harm for no climate change benefit.
- 25 The NZIER analysis states that "*If we introduce access to international emissions permits, economy wide costs fall sharply.*"<sup>19</sup> Given this sharp reduction in costs, NZS considers that it would be unwise for the Zero Carbon Bill to provide any limit on the access to international emission reduction permits, provided such permits are proven to be credible.
- 26 The access to international units also aligns with the underlying principle that addressing climate change is a global task, to be addressed at an international level. NZ involvement will also help with the development of a well-functioning international market and the movements towards an international price for carbon.
- 27 It is also worthy of note that although in 2016 the UK's Committee on Climate Change recommended that international units (non EU ETS) be entirely excluded from contributing to the UK's reduction target, the UK Government considered and rejected that recommendation. Instead the UK Government legislated to enable 55Mt CO<sub>2</sub>e of international units to be used to achieve its target over the five year period of the third carbon budget, in addition to unlimited access to emission units under the EU ETS.<sup>20</sup>

### EMISSION BUDGETS

- 28 NZS supports the concept of emissions budgets in principle, and agrees with the proposed five-year budgeting period. NZS considers that any emissions budgeting mechanism within the Bill should include the features discussed below.

#### Setting the budget

- 29 Assuming emissions budgets are to be implemented via regulations, NZS considers that the Bill should include an obligation on the Government to consult on a proposed budget and take into account those submissions. Such requirements will ensure each budget is appropriately informed by public input and relevant expertise.
- 30 Given the wide-ranging impact of emissions budgets, NZS considers that the Bill should provide both the Climate Change Commission and Government wide discretion to take into account any factors they consider relevant in advising on and setting budgets (respectively). NZS also suggests that as a minimum the following factors should be specifically considered:

30.1 scientific knowledge about climate change;

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<sup>19</sup> NZIER Report, page 45

<sup>20</sup> See: <https://www.theccc.org.uk/2016/06/30/ccc-welcomes-government-backing-for-fifth-carbon-budget-and-continued-ambition-to-meet-2050-target/>.



- 30.2 the exclusion of domestic emission reductions generated by carbon leakage to offshore operations;
- 30.3 fully checked and revised assumptions;
- 30.4 new technology relevant to climate change goals that is available and/or in use;
- 30.5 fiscal circumstances and the likely impact of the decision on growth, GDP, taxation, public spending and public borrowing;
- 30.6 social circumstances including the likely impacts on lower socioeconomic groups and more vulnerable groups;
- 30.7 local factors such as regional availability of energy sources and population density;
- 30.8 legislative financial and social changes that add/remove barriers to achieving emission reductions;
- 30.9 energy security and cost;
- 30.10 optionality and flexibility of mitigation options (budgets should not be so stringent that they force technology adoption at a too early stage in its development, leading to high / regret capital expenditure);
- 30.11 force majeure and exceptional circumstances (see below); and
- 30.12 a 'catch-all' provision in the relevant section (eg "any other factor the Climate Change Commission considers relevant") is appropriate.

#### **Two budgets set in advance**

- 31 NZS considers that two five year budgets, rather than three should be set in advance. NZS suggests that it is unnecessary to set three emissions budgets in advance and that setting two five year budgets in advance aligns well with both local authority 10 year budgeting, plans reviews which occur every 10 years and Government Policy Statements which also have a 10 year duration. Any longer duration will, NZS submits, simply result in a lack of flexibility and prevent responding to technological changes as they emerge.
- 32 It is expected that the emission budgets will be devolved down to "sub-budgets" for those emissions covered by the NZ ETS. The widely acknowledged Motu framework<sup>21</sup> sets out a system of budget trajectories of five and 10 years extending by one year each year. NZS recommends careful consideration of how emission budgets under the Zero Carbon Bill will integrate with the NZ ETS.
- 33 In NZS's submission, setting two budgets in advance:
  - 33.1 provides a sufficiently long emissions budgeting horizon to ensure certainty and predictability; and
  - 33.2 is flexible enough to allow the Government to respond to changes in the technological, scientific and political landscape as they arise.

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<sup>21</sup> Motu, 2017, 'An Effective NZ ETS – Clear Price Signals to Guide Low-Emission Investment'.

### **Circumstances in which budgets may be amended**

34 The Bill should also provide a mechanism for budgets (from and including the second budget onwards) to be reviewed and amended in the event of a force majeure event or other exceptional circumstances. Such a review could be triggered by man-made events as well as natural disasters. Appropriate force majeure events should include, as a minimum:

34.1 major economic downturns;

34.2 major/unexpected technological advances or restrictions in use;

34.3 natural disasters (including earthquake, and significant national or regional drought/flooding etc);

34.4 major industry crises (for example significant disease outbreaks – both for human and livestock);

34.5 significant geopolitical and national security events such as the outbreak of war or economic failure of a major trading partner;

34.6 new international climate change agreements, existing agreements ceasing to have effect or being substantially renegotiated; and

34.7 restricted or full loss of access to international units.

### **Emissions target accounting**

35 NZS considers that emissions budgets should be calculated on a gross emissions basis, without accounting for forestry emissions/sinks. This approach will avoid the following adverse outcomes:

35.1 increased burden on energy and other sectors where there is an unrelated shortfall in anticipated afforestation/sequestration rates; and

35.2 confusion that may arise through changes in forestry accounting rules having a material impact on the timing and magnitude of forestry emissions.

36 As noted above, NZS submits that emissions budgets should identify emissions that have only been reduced through carbon leakage. Such reductions should be accounted for differently to 'true' emissions reductions. NZS requests that the Bill specify that such carbon leakage emissions continue to form a part of New Zealand's calculated emissions, unless domestic consumption related to such emissions is also commensurately reduced.

37 NZS also submits that the budgets should allow for:

37.1 Unlimited banking and borrowing between budgets: NZS does not consider that there is any utility in limiting savings made in one budget period from being used in the next budget period. Banking or borrowing from one emissions budget to the next can assist in addressing cyclical economic and emissions activity across budget period boundaries. Provided the long term achievable target is met, there should be no adverse implication for having achieved those targets earlier or later than anticipated. Instead, where savings are secured in an early budget, the Climate Change Commission's role would be to consider whether the target should be revised upwards and it would be left to Parliament to revise the target.

37.2 International offsetting of domestic emissions: Qualitative limits should apply to such international units to ensure they are credible but any quantitative limits on international units should only be introduced when there is clear evidence that proven technical and cost-effective solutions are commercially available in New Zealand at an appropriate scale.

#### **Government response proposal**

38 NZS supports the proposal to require the Government to report on its plans to reduce emissions and achieve emission budgets within a set timeframe. NZS suggests that:

38.1 the Government should be required to specifically consult with those persons likely to be affected by any proposed policies; and

38.2 the Government's published proposals should also, as a mandatory requirement, identify how the Government proposes to manage the impact on emissions intensive trade exposed businesses.

### **CLIMATE CHANGE COMMISSION**

#### **Role of the Climate Change Commission – advisory and monitoring**

39 NZS considers that the Climate Change Commission's role should be advisory and monitoring only and that it should not have decision making powers. NZS considers that the value of the Climate Change Commission is its independence and its expertise as a trusted check and balance to the government of the day. Placing decision making powers in the hands of an unelected group would risk politicising the Climate Change Commission and make it more vulnerable to political intervention.

40 As noted above, NZS advocates for a more realistic and moderate 2050 target to be included in legislation, with the possibility that the target be revised upwards if currently speculative future circumstances occur. NZS considers that the Climate Change Commission should have a role in making recommendations to the Government regarding:

40.1 the options for a fully tested and realistic 2050 target;

40.2 when the 2050 target should be reviewed;

40.3 advice on emission budgets, including how they are set and what emissions can and cannot be accounted for as emission reductions;

40.4 advise on what international emissions reductions are considered to be sufficiently credible to enable their use to achieve the 2050 target; and

40.5 any unit cap, price floor and ceiling set in the NZ ETS, although any such proposals and/or changes to such measures must still be the subject of full public consultation.

41 NZS also supports the proposal that the Government should be required to respond to recommendations made by the Climate Change Commission. Such responses should, NZS submits, be made within specified time frames of not more than 6 months and should be publicly available.

### Skills and expertise of the Climate Change Commission

- 42 NZS supports the proposal that the Climate Change Commission should include persons with a wide range of skills and backgrounds, including those from the business sector. More specifically, NZS submits that the Climate Change Commission should be required to include at least one appointee who has real-world experience in sectors that are emissions intensive and trade exposed. Given these sectors are likely to be the most affected by emissions targets and budgets, it is logical for the Climate Change Commission to have experience in such industries.
- 43 The Climate Change Commission should also be adequately resourced and funded to ensure that it is able to function and perform its roles.

### OTHER GENERAL COMMENTS

- 44 NZS considers that any legislative and policy changes should be guided by detailed and impartial assessment of potential outcomes, risks and impacts. It is crucial that debate on how best to address climate change in New Zealand is supported by considered and accurate information and that individuals and departments in Government provide clear and accurate information about the outcomes and risks of action versus inaction on climate change. In NZS's view, New Zealanders must have access to full and frank information about these matters so they can make informed decisions about any proposed legislative changes, with an 'unvarnished' appreciation of the trade-offs involved.
- 45 With that in mind, NZS notes its concern regarding the following matters of relevance to the background of the Discussion Document:
- 45.1 The Discussion Document's Message from the Minister refers to the Paris Agreement including a decision to achieve net zero emissions by the second half of this century.<sup>22</sup> In reality, the Paris Agreement refers to "*achieving a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century*".<sup>23</sup> It is important for New Zealanders to be aware that the selection of a 2050 carbon neutral target does not reflect the Paris Agreement and rather selects the earliest possible date in the range of time anticipated in the Paris Agreement. Consequently, the target reflects an elevated sense of urgency on the part of the New Zealand Government.
- 45.2 Statements from the Climate Change Minister regarding the Bill having "*marginal cost to the economy*" and suggesting that the Bill enables the "*continued existence of human civilisation*"<sup>24</sup> are neither accurate nor helpful. Such comments downplay the potential economic impact of the proposed legislation, which may be significant (particularly if entire industries are forced to close), and overstate the contribution that a 2050 target set in New Zealand could make to international climate change and human civilisation more generally.
- 45.3 The Discussion Document draws on findings in the Productivity Commission's draft report on the 'low emissions economy' inquiry.<sup>25</sup> The Discussion

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<sup>22</sup> Discussion Document, page 8.

<sup>23</sup> Article 4(1).

<sup>24</sup> Quoted in <https://www.stuff.co.nz/national/politics/104839106/fighting-climate-change-wouldnt-stop-our-economy-but-it-might-hurt-the-poor>.

<sup>25</sup> For example, page 41 of the Discussion Document refers to the Productivity Commission's recommendation to set up an institution similar to the proposed Climate Change Commission.

Document does not note that the Productivity Commission's report is currently draft and when the Discussion Document was released, was still open for submissions. In NZS's view, it is important for the Discussion Document to recognise that the Productivity Commission's draft report may change in response to submissions and not pre-judge the outcomes of that inquiry. Accordingly, NZS considers that the Productivity Commission's draft findings should not be used as the basis for policy decisions until the final report is released.

- 45.4 The economic reports and modelling that have informed the Bill were not made available to the public until after the discussion document on the Bill was released. This material was presumably therefore not available to the Productivity Commission when it produced its draft report, meaning the Productivity Commission's draft report was not informed by detailed economic modelling and analysis. NZS trusts that the Productivity Commission's final report will have regard for these documents, in particular the NZIER economic impact Report and Sense Partners assessment of the implications on competitiveness, leakage and innovation. Given the latter document was finalised in April 2018, NZS is surprised that its public release appears to have been delayed for two months and has only been released after the close of submissions on the Productivity Commission's draft report.

We would be happy to discuss these and any other issues that MfE or the Government considers relevant to progressing the discussion regarding the Bill. As previously offered to the Productivity Commission, the Minister and MfE officials are more than welcome to come to the Glenbrook steel mill and see our business in action, meet our people and see our community.

Yours sincerely,



Gretta Stephens  
Chief Executive, New Zealand & Pacific Islands

**APPENDIX**  
**SPECIFIC RESPONSES TO THE DISCUSSION DOCUMENT QUESTIONS**

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.

Please refer to the cover letter of this submission, including more specifically at paragraphs 3.1, 3.3, 4 and 5.

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.

Please refer to the cover letter of this submission, including more specifically paragraphs 3.1, 3.3 and 4 - 17 (inclusive).

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.

Please refer to the cover letter of this submission, including more specifically paragraphs 18 - 27 (inclusive).

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

Please refer to the cover letter of this submission, including more specifically paragraphs 3.4 and 17.

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?

Please refer to the cover letter of this submission, including more specifically paragraphs 3.8 and 31 - 34 (inclusive).

6. Should the Government be able to alter the last emissions budget (ie, 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.

Please refer to the cover letter of this submission, including more specifically paragraphs 3.8 and 31- 34 (inclusive).

7. Should the Government have the ability to review and adjust the second emissions budget within a specific range under exceptional circumstances?

Please refer to the cover letter of this submission, including more specifically paragraph 34.

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?

Please refer to the cover letter of this submission, including more specifically paragraphs 3.7- 3.10 and 28 - 37 (inclusive).

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

Please refer to the cover letter of this submission, including more specifically paragraph 38.

10. What are the most important issues for the Government to consider in setting plans to meet budgets?

Please refer to the cover letter of this submission, including more specifically paragraphs 30 and 38.

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 proposed functions?

Please refer to the cover letter of this submission, including more specifically paragraphs 3.11 and 39-43.

12. What role do you think the Climate Change Commission could 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.

Please refer to the cover letter of this submission, including more specifically paragraph 40.5.

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?

Please refer to the cover letter of this submission, including more specifically paragraph 42.

14. – 16. Questions related to adaptation

NZS reserves its position in relation to the questions concerning adaptation until such time as further detail is provided and/or the Zero Carbon Bill text is released.