Sustainable Business Council

wbcsd Global Network Partner

# Low emissions economy

## SBC submission to the New Zealand Productivity Commission

**28th November 2017**

# 1. Executive Summary

Climate Change is arguably the single greatest issue facing society today.

Already, we are seeing the effects creep into our daily lives, with an increasing number of extreme weather events causing destructive storm surges, hurricanes, floods and droughts.

In business, we are also seeing the effects, as consumers, shareholders and businesses move their investments away from fossil fuels, and demand to know more about the environmental and social impact of the goods and services they buy.

The 2015 Paris Agreement has become a catalyst for action on climate change around the world. There is now a global consensus that the transition to a low emissions economy is inevitable. "**What was once unthinkable is now unstoppable**", said the then UN Secretary-General Ban Ki-moon.

Climate change will have a very real impact on business. **There can be no more business as usual.**

In New Zealand, many Sustainable Business Council (SBC) members see the transition to a low emissions economy as the **biggest business opportunity in the foreseeable future**. EY Partner, Dr Matthew Bell, has described climate change as the largest economic disruption in our lifetimes, as well as the greatest driver of innovation since World War Two.

SBC members are using the UN's Sustainable Development Goals to identify how they will play their part in ending poverty, protecting the planet and ensuring that all people enjoy peace and prosperity. The Sustainable Development Goal called 'Climate Action' calls for urgent action to combat climate change and its impacts.

Already, many members are setting ambitious targets to reduce and offset emissions, which will help to keep global warming to within 2°C. This means their decisions on capital allocation, investment, innovation, emissions reduction initiatives and offsetting projects can be made well in advance. **The level of ambition amongst these businesses and organisations is growing rapidly. They want to be part of the solution.**

Members are putting very real resources, expertise, money, planning and strategy into reducing their emissions. There are hundreds of other initiatives underway, which include: optimising vehicle fleets with low emissions alternatives, implementing energy efficiency programmes, collaborating to share resources and solutions, funding research and innovation, and reducing waste to landfill with innovative schemes and recycling programmes. Z Energy has built its first biodiesel production plant, and several members have committed to using that alternative.

The Business and Sustainable Development Commission estimates that sustainable development to meet the UN's Sustainable Development Goals could unlock new markets worth $12 trillion USD and 380 million jobs. **Our members know they cannot afford to be left behind, as the world makes transformative change and embraces new**

**business models. They want to maximise the opportunities that will come from this systems shift.**

The desire to be at the forefront of change taps into New Zealand's history and psyche. New Zealanders were the first to give women the right to vote. They were bold enough to become nuclear free, despite international pressure. Climate change is a comparable issue, which will require individuals, organisations and government to **be brave and make positive change in partnership together.**

Indeed, outside of SBC membership the conversation about climate change is fast becoming mainstream. The new Labour-led government would like to see transformative change that will,"adopt and make progress towards the goal of a Net Zero Emissions Economy by 2050"[1]. On top of that, a 2017 BusinessNZ-Deloitte Election Survey of 500 Kiwi companies found action on climate change is the tenth most important government-related issue. The New Zealand Stock Exchange has also introduced guidelines that ask listed companies to report on environmental and social issues.

If New Zealand is to get the transition right, we must take a holistic view. We need to ensure that low-carbon solutions don't have unintended consequences, which undermine New Zealand's long-term interests. We must consider all aspects of society before we make any decisions; could there be a negative effect on the community, with job losses or degradation of waterways or soil? And if so, how do we mitigate those effects?

There is also a risk emissions intensive sectors will lose their competitiveness offshore if they have to internalise the cost of carbon ahead of their competitors. We need to be thoughtful about how we manage these challenges.

## What members want

There is a growing sense of urgency amongst SBC members to act. Science suggests global emissions must peak by 2020 and then begin to rapidly decline, if we are to keep warming to within 2°C by 2100[2].

Businesses alone cannot make the momentous changes that are necessary. The path to a zero carbon economy must be co-designed and therefore co-owned by all of us. There are challenges to be navigated, as well as unintended or unwanted consequences that need to be understood and addressed. We need to have those conversations together, meaning that leadership will need to come from all sectors of society.

That is why SBC members say they want to work closely with government, academia and community groups to develop a vision for the transition. They want to help develop a framework of policies, legislation, incentives, financing mechanisms and market initiatives.

And they want to see this process de-politicised. Businesses need long-term certainty, beyond the election cycle, to make the right investments and changes to their business operations. They need consensus across all political parties.

[1] www.greens.org.nz/sites/default/files/NZLP%20%26%20GP%20C%26S%20Agreement%20FINAL.PDF
[2] http://www.wri.org/sites/default/files/WRI13-IPCCinfographic-FINAL_web.png

Many of our members have expressed concern that the national conversation about climate change is primarily focussed on likely challenges and costs, with very little emphasis on the opportunities. We need to recognise and address the challenges we will face, but without a positive narrative it is difficult to inspire action. **We need a more positive and compelling dialogue. Clear and consistent storytelling will motivate action and normalise the transition**.

Our members are energised because **New Zealand stands to gain social as well as environmental benefits, if we get the transition right**. It is well-documented that more efficient building standards reduce emissions and bring better health outcomes. And electric vehicle fleets reduce exposure to carbon dioxide, as well as air and noise pollution.

Forward-thinking companies get it. The challenge ahead is significant, but it is exciting. The transition to a low emissions economy is one of the greatest economic opportunities New Zealand has seen. And businesses have a critical role to play, as the driver of innovation, source of investment, and engine for lasting economic growth and prosperity.

# 2. Introduction

In the 2017 SBC Election Manifesto, our members told us their top sustainability priority is the transition to a low emissions economy. In our Emissions Trading Scheme review, they said they want to see New Zealand become carbon neutral in the second half of the 21st century, or sooner[3].

What they are looking for now is to engage with the government to co-create a pathway to achieve this. It needs to be depoliticised and long-term in design. It must ensure we meet our Paris Agreement target and achieve carbon neutrality.

SBC has observed that business sentiment on climate change is changing rapidly. In the last six months we have seen a surge in ambition and urgency on this issue from leading members. We anticipate this momentum will continue to grow and we have tried to accommodate this in our work.

This submission was developed through conversations with a wide range of SBC businesses. Feedback was sought from all members. It has been approved by the SBC Advisory Board, which is made up of business CEOs and senior executives.

Some members have different perspectives on key points and have made their own submissions, to ensure their unique challenges and opportunities are heard.

This submission sets out:

- SBC member activity on climate change
- SBC's view on what a successful transition will look like
- Key considerations for the transition

[3] www.sbc.org.nz/__data/assets/pdf_file/0015/113208/SBC-ETS-Review-Submission-FINAL-190216.pdf

# 3. About the Sustainable Business Council

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

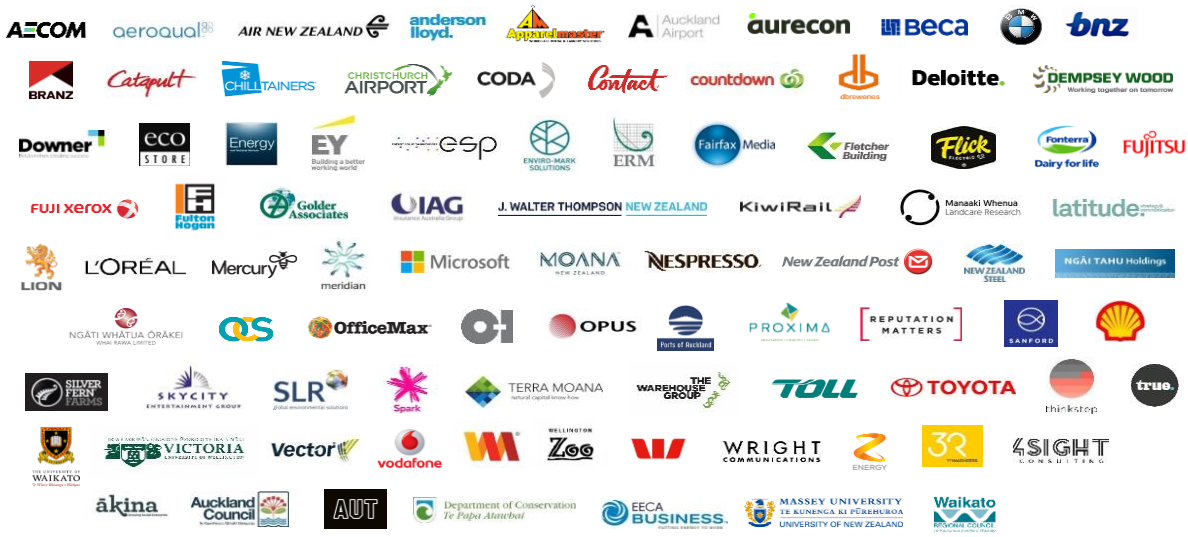
We aim to mainstream sustainable business practices in New Zealand. All our members have made a commitment to the balanced pursuit of economic growth, ecological integrity and social progress.

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

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

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

At the time of writing, the Sustainable Business Council had 91 members, including a number of New Zealand's largest companies that represent a wide range of sectors. Their collective turnover is around 29% private sector GDP and they employ nine per cent of New Zealand's workforce[4]. SBC council members are CEOs, senior executives and business decision-makers.




[4] SBC member information on 25th October 2017

# 4. SBC activity on climate change

## 4.1 Changes in drivers, approaches and ambition

Each business has its own unique drivers for measuring and managing emissions, and its own mix of processes to deliver data and implementation. Over the last decade, we've seen an evolution of how businesses think about and undertake that work. Here we capture some of the shifts we have seen from SBC members and businesses that are involved in the CEMARS® and carboNZero$^{CertTM}$ programmes.

### 4.1.1 Changes in drivers; from moral imperative to response to multiple signals

Historically, the drive to address carbon emissions has primarily been a moral imperative, with leading businesses saying "it is the right thing to do". Businesses that have started to reduce their emissions in the last ten years have quickly realised they also deliver cost savings, with reduced energy and fuel use.

In the last two years there has been an increase in the number external factors influencing businesses to act on climate change. They include a growing demand from institutional investors and shareholders, who are a very significant influencer of mainstream business.

Expectations from existing and potential customers have also increased. The request for evidence of sustainable business practices in the tender process is making carbon emissions something "we have to consider". Informal discussions with members tell us these requests are coming from offshore stakeholders, customers and owners, particularly in Asia.

Within New Zealand, SBC members have work underway to influence sustainability in their own supply chains. They are using their procurement processes to request sustainability credentials from their suppliers, and focus on emissions management through freight efficiency projects[5].

Enviro-Mark Solutions administers the CEMARS® and CarboNZero$^{CertTM}$ programmes, and say there has been a 97% retention rate of programme participants in the last year. Even in the years following the global financial crisis, the retention rate was 92%. They believe that once businesses start the journey the benefits are so compelling they continue to reduce or offset emissions.

[5] https://www.sbc.org.nz/__data/assets/pdf_file/0011/119783/Sustainable-procurement-guidelines-for-freight.pdf

### 4.1.2 Changes in approach; from standalone resource to increasing formalisation of emissions management

New Zealand businesses typically start to reduce their emissions by identifying their emission sources and collating data about those sources. Once their carbon footprint has been established, a business will then set short-term, achievable reduction targets. They can then put a plan in place for different projects. This usually starts with the largest emissions sources and opportunities for emissions reduction, at little or no cost. Energy and fuel efficiency projects are often prioritised[6], as they offer the business optimisation opportunities that save money and reduce emissions.

Once a business has delivered some projects and demonstrated both cost and emissions savings, this often creates an impetus to set more targets and allocate more capital to future projects.

SBC has seen the increased promotion and awareness of these co-benefits spark interest from other businesses to undertake this work. For example, SBC facilitated roundtable discussions for members interested in electric vehicle uptake in 2015. Members were able to hear first-hand from each other about the benefits of fleet optimisation, driver experience, brand and reputation benefits, and road user tax exemptions. Following the discussions, we saw more members commit to trial or adopt electric vehicles. Fleet managers told us the easy access to case studies and information helped them speed up the process of writing a business case.

SBC has also observed as a business progresses through its carbon management work, budgets become larger and more formalised each year. Businesses that have undertaken this work for several years have often locked-in ongoing emissions savings through short-term investment projects and changes to operational processes and procedures. In other words, they have delivered all of the 'quick wins' that have almost immediate benefits.

The next phase of emissions management is typically harder. It often requires a change in process or technology, which needs significant investment. The business case will often outline a larger capital cost and a longer payback period. Putting a price on the avoided cost of carbon emissions over the lifetime of the project helps to strengthen the business case.

SBC has also learnt the size of a business does not necessarily correlate to the time it takes to collate the information required to make significant change. While larger businesses have broader operations, they may also have greater access to dedicated resources and information systems that capture data. Smaller businesses can struggle to prioritise and resource this activity, alongside other competing business interests.

SBC has observed the way the work is resourced also varies between businesses. Budgets might sit within 'Corporate Social Responsibility', 'Health & Safety', or 'Communications & Marketing', while the actual work is undertaken by someone sitting in a different business unit. The process is often driven by a single 'champion'. If this person changes roles or moves on from the business, the projects are sometimes discontinued.

[6] www.sbc.org.nz/__data/assets/pdf_file/0003/111198/BusinessNZ-Climate-Survey.pdf

Some SBC members have started to look at different financing models and investment approaches, which will help them accelerate their emissions reduction. This includes: assigning an internal price on carbon, utilising new models to finance their activity, and taking a long-term view on the external price of carbon and what that could mean for their balance sheets.

Businesses purchase carbon credits under one of two schemes in New Zealand. Either through the Emissions Trading Scheme or through voluntary offsetting programmes, such as CarboNZero$^{CertTM}$. If a business is a participant in the Emissions Trading Scheme, it is required to purchase and surrender carbon credits. If a business is certified carbon neutral, it voluntarily purchases credits to offset its emissions. A business doing voluntary offsetting must allocate capital on initiatives to reduce emissions, as well as capital to purchase credits. Typically it decides the split during the annual planning and budgeting cycle.

Businesses are also exploring how to finance their transition to low emissions in the long-term. This means moving away from annual budgets and planning towards two, five or ten year horizons. They are considering taking money that would have been used to buy credits and instead investing it in emissions reduction processes and technologies. This investment is justified in the longer term because it provides significant emissions reduction opportunities.

### 4.1.3 Changes in level of ambition: from incremental targets to long-term impacts

Targets are usually set by taking a baseline year and calculating a reduction that can be achieved in the next 12 months. Typically, businesses will report on progress in the previous year at the same time. Businesses that have used this approach for several years have now made significant emissions reductions, while continuing to grow their operations[7].

There has been a marked shift in business ambition to tackle climate change, since the Paris Agreement came into force. Leading New Zealand businesses are moving away from short-term, incremental reduction targets, towards long-term goals. Their decarbonisation goals now align with keeping warming to within 2$^{o}$C; the Paris Agreement has become their new 'minimum'.

The businesses who have publicly announced carbon reduction targets include: -

- Vector – net zero by 2030
- Fujitsu – net zero by 2050
- Fonterra - net zero for global operations by 2050, with a 30% reduction by 2030 vs 2015 baseline)
- Toyota - locally match New Zealand's Paris Commitment by reducing emissions 30% on 2005 levels by 2030 and globally reduce to net zero by 2050 (manufacturing plants and vehicles lifecycle; 90% less emissions produced from new vehicles).

[7] www.countdown.co.nz/community-environment/environmental-sustainability/carbon-footprint-goal

- The Warehouse –emissions reduction target aligned with keeping global temperature increase below 2°C by 2050 (10% reduction vs 2015 by 2020 and 32% by 2030).
- Air New Zealand – carbon neutral growth for international aviation from 2020 and 50% reduction by 2050 vs 2005. 1.5% average annual improvement in aviation fuel efficiency over the period 2009 – 2020. 100% electric vehicles in corporate light vehicle ground fleet by end of 2017 (achieved) and transitioning all Ground Service Equipment to electric options
- DB – 40% by 2020 vs 2008
- New Zealand Post - 30% by 2030 vs 2005 (alignment with New Zealand's Paris commitment)
- Silver Fern Farms - 30% by 2030 vs 2005 (alignment with New Zealand's Paris commitment)
- Auckland Council - 40% by 2040 vs 2005

There are many other SBC members who are scoping targets that align with keeping warming within 2 degrees.

SBC has observed that businesses have a high level of influence on each other, both directly and indirectly. A business will sometimes strengthen their level of ambition when they hear what others are doing.

A number of SBC members [8] are certified CEMARS®, CarboNZero$^{CertTM}$ or other independently verified carbon neutral programmes. These members have been working to reduce their emissions year on year, often with three or five year reduction targets.

Some have started to use their tender processes and supplier relationships to encourage greater efficiencies and emissions reduction projects. This trend has been most noticeable amongst members who regularly review their emissions reductions targets, and also members who set targets for the first time. Because of this, SBC expects more businesses will adopt these practices in the coming months.

## 4.2 Creating the conditions for systems change

Over the last three years, SBC has run multiple projects to develop business solutions that address climate change. Most recently we've used System Design to inform how we might tackle the big issues.

A critical insight from our work is that the 'how' is just as important as the 'what', if we are going to develop solutions that enable us to transition in a way that leaves all New Zealanders better off.

[8] 3R, 4sight, Auckland Airport, BMW, BNZ, Energy & Technical Solutions, Landcare Research, The Warehouse Group, Toyota, Wellington Zoo, Westpac

Our work has helped us understand that we need a momentous cross-societal shift. We need more than good business solutions or good policy in government. A movement of change, across all parts of society, is necessary to ensure no New Zealander is left behind.

We know that business alone cannot achieve the required outcomes at the scale needed. The transition needs to involve all sectors – business, civil society and government. It also needs individuals to consider their own consumption patterns and whether they are sustainable.

### 4.2.1 SBC's approach to Systems Thinking and Design on climate

SBC's objective was to create the conditions to transition to a low emissions economy as soon as possible.

SBC identified three key initiatives it could help facilitate, which will bring about the conditions for a systems shift, with speed. They were:-

1. Convening a Vision Group of leaders to develop and advocate a long-term, collective ambition for climate change in New Zealand. This group of leaders represented business, government, civil society and academia;
2. Convening a series of action groups to deliver emission reductions through to 2020. The groups focused on 'quick wins' and worked together to share knowledge and resources; and
3. Identifying some of the supporting elements New Zealand needs to bring about a movement of change, and how to optimise them.

SBC's Systems Design approach has delivered a number of insights on what a good transition will look like. This submission outlines the most relevant insights for the Commission to consider.

# 5. A successful transition to a low-emissions economy in New Zealand

New Zealand's transition to a low emissions economy offers up the opportunity to transform the way we pursue economic growth, environmental integrity and social prosperity. Some possible future scenarios for the low emissions world of 2050 are presented in the Vivid Economics 'Net Zero in New Zealand' reports[9].

SBC believes there are a number of principles, which will ensure a successful transition including:-

## 5.1 Embracing transformative change

Business as usual is not an option; neither is continuing to point the finger at who should 'lead' on this issue.

A successful transition to a low emissions economy requires the full participation of individuals, government, civil society and business.

Most people understand that climate change will result in more severe weather events, coastal erosion or inundation. What is less well-understood is that climate change will be a massive disruptor of business and the greatest driver of innovation since World War Two. Already, we are seeing shareholder activism overseas and, more generally, investor divestment away from carbon intensive businesses that have climate-related risk exposure. Company directors are realising that if they don't properly consider and disclose climate-related risks, they could be liable for breaching their duty of care and diligence.

SBC's experience working with businesses tells that we need:

- a bold ambition for the country that all sectors in society design together;
- a series of co-ordinated plans to help get us there;
- activity to reduce emissions that all sectors undertake, starting with initiatives that offer the most co-benefits and are readily available for uptake;
- a supporting framework of policy, legislation, incentives, financing mechanisms and market initiatives that can respond with speed to new opportunities, as they arise;

[9] http://www.vivideconomics.com/publications/net-zero-in-new-zealand

- the whole system needs to be supported by consistent and positive storytelling, which will clearly celebrate success and communicate the action needed;
- New Zealand leverages its size and interconnectedness by putting in place platforms for information sharing that inspire and drive momentum; and
- the transition is underpinned by accessible and transparent information and reporting on our progress against short, medium and long-term targets.

## 5.2 A long-term vision of what we stand to gain

The opportunity to improve New Zealand's prosperity, whilst transitioning to a low emissions economy, needs to be at the centre of our national response to climate change.

Working towards a common goal is critical to our success. We cannot realise the full potential of the transition if we don't have an ambitious vision that outlines positive outcomes and shared successes.

The development of a vision will not only frame the long-term direction of travel, but will also help persuade New Zealanders to get behind its delivery. We need buy-in from every level of society. Engaging with people throughout this process will foster a sense of ownership of the transition.

## 5.3 We all transition together – no one is left behind

It is essential all sectors move together. New Zealand's size and interconnectedness is a strength that will help us transition more effectively, if leveraged in the right way. Building a sense that everyone is playing their part can be achieved if we use existing networks, such as the financial markets, the supply chain, mainstream media and regular events and everyday conversations.

Our experience is that different sectors across society often have different values, expected outcomes and ways of working. It is essential to dedicate time to work with individuals as well as groups, to build trust, mutual understanding and shared experiences. We need this level of engagement if we are going to work together in a new, interconnected way.

## 5.4 A coordinated plan to guide our activity

SBC members already have work to reduce their emissions well-underway. Initiatives include: energy and freight efficiency projects, electric vehicle and biofuel adoption, waste management schemes, sustainable procurement through the supply chain and behavioural change programmes. Our transition needs to strengthen these activities by making them more co-ordinated across different businesses, industry groups or sectors. More co-ordinated plans will help identify the activities that should be prioritised and ensure the opportunities and co-benefits are considered.

The plans will also help set a strategic direction and supporting framework that is adaptable and can flex as new activities and opportunities arise. The proposed use of carbon budgets could be linked to a plan, or series of plans, to quantify the emissions targeted by the activity. This will need to include a portfolio of policy and legislation, set by the government of the time. It will also need to be supported by financial mechanisms and market interventions, which evolve as the visibility of activity and importance of the work emerges. The proposed Climate Commission could oversee the development and delivery of the plans.

## 5.5 Connectivity is leveraged

New Zealand's interconnectivity is a key strength in our ability to drive a successful transition. We all speak the same language and operate under one jurisdiction. Our markets are closely connected, and we share suppliers and customers much more than in other countries. New Zealand's 'two degrees of separation' means we are well-placed to influence others through supply chains, networking forums and in day-to-day work place and social conversations.

SBC's Climate Action Groups have demonstrated the importance of connectivity. They have chosen to collaborate within their groups, as well as between their groups – to share knowledge and avoid duplication of effort. SBC has facilitated this and, as a result, is launching a website called 'Platform for action on climate and emissions'. The website aims to connect others to the Climate Action Groups' work and highlight the good work being done by others.

If we want to get activity happening amongst a wide range of organisations – we need to provide a single place where everyone can go to access information and tools. It is important for organisations and individuals to be able to learn from the work of others and feel part of a greater movement of change.

## 5.6 Measurement and reporting on progress is readily available

Ensuring businesses have access to information on the country's emissions profile and progress toward our long and short-term targets will be a critical to the success of the transition.

Data and information needs to be accessible, consistent and transparent, and as current as possible. The recently launched Interactive Emissions Tracker[10] shows our emissions breakdown by sector, but does not show how we are tracking against our Paris Agreement target. We need to start building more robust emissions data for industry sectors.

This information is critical if we are to raise awareness of our increasing emissions and growing trajectory. Good data helps businesses and government quantify the potential reduction from their efforts, and understand how their work will contribute to New Zealand's overall emissions profile. It also shows us how we are tracking against our international obligations, as well as global efforts to keep warming to within two degrees.

Statistics New Zealand and the Ministry for the Environment currently report on our Greenhouse Gas Inventory. The Ministry for the Environment is responsible for the measurement of our emissions, as well as verification and transparency of our reporting procedures.

[10] https://emissionstracker.mfe.govt.nz

# 6. Key considerations for the Productivity Commission

## 6.1 How do we shift to a more integrated way of thinking and working?

New Zealand stands to make significant social and environmental gains through comprehensive emissions mitigation initiatives - if we get them right.

Take for example, the money we might spend purchasing or off-setting emissions with offshore carbon credits. That money could instead be used to increase native forest planting, which would support regional economic development and tourism. Investment in research and development would help develop new low emissions technologies, reduce our emissions profile and create significant business opportunities.

We need cost benefit analysis and new investment models to quantify these potential co-benefits. A good existing example is Treasury's Living Standards Framework[11], which is used to support their vision of higher living standards for New Zealanders. It is a guide for thinking about good economic, environmental and social policy in an integrated way. It aims to enhance individual and communal wellbeing in a sustainable way.

We must start to consistently use a shared-benefit model in all policy, investment and decision-making procedures. Our regulatory, technological, financial and institutional systems are critical parts of the system, which will enable the transition to a low emissions economy. It is critical that these are treated in an integrated way and aligned to support our co-ordinated plans.

## 6.2 Leadership and ambition

The scale of the transition we need to make requires much more than policy responses and solutions. We need clear leadership and ambition, which is collectively held.

There is a diverse suite of leadership styles in New Zealand. There is also a diverse set of views on what role leadership should play during the transition.

As previously mentioned, SBC's Climate Action groups have worked together on a number of 'quick wins' that enable information sharing and access to supporting resources. They

[11] http://www.treasury.govt.nz/abouttreasury/higherlivingstandards/his-usingtheframework-v2.pdf

consistently cite a lack of 'leadership' on climate change as a barrier to getting more businesses on board with their work.

They have defined good leadership as an individual, group or organisation that:

- leads a national dialogue about a clear climate ambition; and
- shows how all sectors in society are working together to achieve this ambition.

At climate conferences, forums and during meetings with SBC members, the need to harness the disconnected pockets of activity into a coordinated movement of change is often discussed. The SBC Climate Action groups have benefited from a sense of being part of "something big together". The ability to harness their networks and display a collective will helps them work at greater speed and scale, beyond their own business.

SBC cross-sector leader discussions also reveal how different sectors view leadership. In this group there was an expectation that business leaders should 'step up'. There was also a sentiment that little could be achieved unless government 'did their bit'. Academic leaders in particular saw their roles as 'advocating or lobbying' for business and pushing for government to 'do more'.

If we are going to reach consensus on our ambition, we need to be thoughtful about the support systems we put in place, which will help bring individuals and different sectors together. Our own experience shows this is no easy task – you can't just convene a group and ask them to develop a vision. Each individual or sector needs to have their own passion and drive for climate change opportunities in New Zealand. They also need to build trust and a sense they are in this together. If one individual or sector feels it is 'all on them' there is a risk they will disengage.

SBC's collaboration models have been most successful where there has been a strong sense of fellowship – people have fun, feel warmth and benefit from the group dynamic. This can be fostered by the physical space being worked in, or with illustrations of how the group-work contributes to change in the broader system. It is important to create a safe space to share ideas, issues and creativity.

SBC is actively looking for opportunities to collaborate with businesses, government, academia and the community, on a model that facilitates these discussions. Our view is that this needs to be done to set ambition, strategic direction and action plans at a smaller scale, which can test the supporting framework of policy, incentives and legislation.

SBC believes the freight sector could be a great sector to start with, because the reduction of emissions from heavy vehicles is a key opportunity area in New Zealand. Stakeholders from all sectors could work together to agree on an ambition for the sectors' transition, develop some pathways and action plans for its implementation, and discuss the supporting framework required.

## 6.3 Priority areas for co-ordinated plan development

### 6.3.1 Low Carbon Transport

Many SBC members have prioritised emissions reduction initiatives from transport, because this area makes up a large percentage of their carbon footprint. They are working on fleet optimisation and travel management policies and initiatives. Collectively, they are making significant inroads on freight efficiency, and using renewable fuel sources like biofuel and electricity.

There are many opportunities to mainstream low carbon transport. They include: -

- Quantifying the emissions reductions from the electric vehicles target of 64,000 vehicles by 2021 and analysing its impact on our targets;
- Continuing to create EV price parity, using the public and private sector joint procurement model to build the fleet at scale; and broaden the number of organisations with access to the model;
- Working with public sector fleet managers to overcome Electric Vehicle range anxiety (similar to that in the private sector two years ago) by arranging test drives of vehicles for fleet managers;
- Improving vehicle fuel standards and link fuel efficiency to vehicle registration costs. The Vehicle Fuel Economy Label supports consumer choices for emissions efficient vehicles such as hybrids and electric vehicles;
- Continuing to explore other technologies, such as hydrogen fuel cell vehicles which many offer good long term solutions for trucks and buses;
- Reviewing the impact of setting an emissions budget on including a true cost of carbon into the petrol price;
- Addressing the current regulation affecting the cost of imported ethanol, making it cheaper than locally produced biofuel;
- The Government Policy Statement (GPS) on Land Transport revision should support integration and investment in all freight modes, with a long-term view on its role in a low emissions future. This would give freight owners more certainty when structuring their distribution;
- The GPS 2015 and Auckland Transport Alignment Plan cite a need to build a sound knowledge base on how the freight system is currently performing. The importance of data has been discussed earlier. Assumptions used for modelling future scenarios and the outcomes of investment need to capture economic, social and environmental benefits. Building better stakeholder engagement and collaborative forums such as those demonstrated by the Upper North Island Freight Accord model would enable access to data and information;
- The Infrastructure Sustainability Council of Australasia (ISCA) has developed a framework to deliver better outcomes over the whole life of an asset. The ISCA framework can be applied at the design, construction and operation stage, and could be used on all types of infrastructure. Not only will be the asset maximise its sustainability performance over its full-life, it will also ensure resource efficiency, responsible materials, stakeholder needs and biodiversity outcomes are considered and assessed accordingly. There is strong capability in New Zealand to

utilise this framework at the design, construction and operation phase of the major freight corridors and the broader transport network; and

- Reviewing The Land Transport Act 1998 and the Land Transport Management Act 2003 is recommended, with the aim of strengthening interconnectivity, intermodality and emissions reductions. Other legislative frameworks such as the Resource Management Act should also be considered with these priorities in mind.

### 6.3.2 Energy Management

The Energy Efficiency and Conservation Authority (EECA) works directly with large energy-using companies to implement emissions reduction targets and plans. Their work is essential to tackling the two biggest barriers to businesses wanting to undertake this work: time and resource constraints. Businesses sign agreements with EECA, which include support for installing or upgrading data collection systems and implementing energy efficiency projects that the business will invest in.

EECA currently works with the top 200 energy users in New Zealand. For EECA to support medium and smaller business sizes at different stages of the transition, their model will need to be scaled-up. This will involve increasing EECA's resources as the number of businesses voluntarily seeking assistance grows.

### 6.3.3 Leveraging the supply chain

Customer demand is a major driver of sustainability in business. When the customer is a business, these requests are typically for evidence of sustainability policies and initiatives during the tender process. This has become more common in the last two years, according to SBC members, as well as organisations participating in Enviro-Mark Solutions CEMARS® and CarboNZero$^{CertTM}$ programmes.

The government spends $30 billion a year on products and services. They are a key customer for business in New Zealand. Strengthening government procurement practices to drive sustainable business practices would inevitably reduce emissions across a wide range of businesses.

### 6.3.4 Agriculture

SBC believes it is critical for government, business and people to recognise all sectors are embracing the transition to a low emissions economy. There is steady progress being made to reduce emissions, with some sectors finding solutions and success faster than others.

The agriculture sector is not unique in the challenges it faces to reduce emissions. Like other businesses it has to write convincing business cases for change or investment in operational practices. It also relies on research and technological breakthroughs. Emissions reduction from animals will require changes to biological process.

SBC member Fonterra has included details about the Dairy for Climate Change Action Plan and a pilot programme to measure and report on-farm emissions in its submission to the Productivity Commission.

### 6.3.5 Energy-intensive businesses

SBC agrees with the Commission when it says there is a strong interaction between economic, environmental and social outcomes. Decision-makers need detailed analysis on the interplay between these outcomes.

This analysis would help form the basis of robust discussions at all stages of the transition, especially when we are developing our ambition, strategic direction and action plans.

SBC members that have energy intensive operations include: OI-NZ, New Zealand Steel, Silver Fern Farms and Fonterra. Their transition pathways need to be developed with consideration of the global markets they operate in, and their exposure to competitive carbon markets.

We also need to consider their readiness for new regional and international sector market models, which address the issue of carbon leakage. We should ensure we create the conditions that allow for rapid investment and uptake of technologies. This will determine how easy it is for energy intensive businesses to adopt technologies like Carbon Capture and Storage.

SBC's definition of a successful transition is underpinned by cross-sector collaboration between businesses, government, academia and the community. We think collaboration, open dialogue and transparent analysis is critical to shaping a successful framework of policies, incentives and legislation.

## 6.4 Technology will only take us so far

SBC frequently talks to businesses from a broad range of sectors that say technology will be the 'answer' to climate change.

However, SBC has seen that new technologies will only be adopted at scale when they have strong supporting frameworks. A good example of a supporting framework is the Electric Vehicle Partnership Programme pilot, developed by the private and public sector. It saw business fleet managers work closely with government officials to help shape the programme. There are a number aspects that make it successful, including: -

- a 'leadership group' of cross sector industry representatives who oversee progress of the programme;
- a target of 64,000 EVs by 2021; and
- several supporting initiatives including a joint public/private sector procurement model and a contestable fund.

SBC's advocacy work on EV uptake began in January 2015[12]. Businesses wanted to include EVs in their fleets, but they couldn't easily access models that were fit for purpose. They also struggled to make the numbers stack up, using their existing financing models.

This led to a series of conversations with government officials about approaches to overcome barriers and provide incentives for EV uptake. Importantly, SBC facilitated discussions between fleet managers from SBC members and officials from various government departments. This enabled a better understanding of the challenges, and what could usefully be put in place to address the barriers. The private sector representatives insisted on the inclusion of annual targets, which would provide a justification for changes to the supporting package of measures if New Zealand begins to fall behind.

The next logical step would be to quantify the contribution we can expect from EVs towards delivering New Zealand's emission reduction target under the Paris Agreement, as discussed earlier. This will help determine the next range of targets and introduce new programme or policy levers in the coming years. The EV leadership group of cross-sector stakeholders has an important role to monitor progress and make recommendations on the supporting levers to encourage their ongoing uptake.

It is important to note the impact of the UK and France banning the sale of cars using the internal combustion engine by 2050. This has caused car manufacturers to respond by introducing their own incentives for switching to low emissions vehicles[13]. EVs are still only 1% of global car sales but in most countries, sales are heavily subsidised. In New Zealand we are getting good uptake despite having no real subsidy, because of strong corporate leadership, collaboration between the public and private sector and positive storytelling. This combination of factors is creating a real momentum for change.

That said, a greater uptake of EVs will require costs to come down and that is largely dependent on global volumes and the development of technology. Fast-tracking electric vehicle uptake may required more intervention at scale.

Electric vehicle uptake in the coming years is likely to be affected by the availability of models that are fit for purpose. SBC member Waste Management has used EECA funding to establish a vehicle conversion and service facility in Auckland. If we embraced this opportunity to grow a market around EV conversion for cars and trucks New Zealand could stand to gain multiple benefits, including: fuel resilience, skills and employment opportunities, regional development and emissions reduction in a significant area of our emissions footprint.

[12] www.sbc.org.nz/__data/assets/pdf_file/0006/99420/SBC-Paper-Electric-Vehicle-Uptake.pdf
[13] https://www.theguardian.com/business/2017/sep/01/five-more-carmakers-launch-uk-scrappage-schemes-sales-falter-renault-nissan-toyota-kia-vw

## 6.5 Financing mechanisms have an important, ongoing role to play

Businesses that have seriously considered what it will take to transition to a low emissions economy have realised a new longer-term approach will require a new way of planning and making investment decisions. The traditional model is based primarily on payback, with returns on investment expected within two years. Capital approval and budget allocation takes place on an annual basis. The 'business case' sometimes captures the associated co-benefits of the project outcomes, but they are rarely quantified and captured at an ongoing operational level.

The transition will require using new business, financing and investment models.

SBC members Westpac and BNZ have identified their role as financial enablers to different aspects of the transition. This includes several customer support initiatives,[14] including: financing energy efficiency, CleanTech and Green and Sustainability Bonds[15].

The existing financial initiatives would see greater uptake if there were stronger signals from all sectors of society about the need to transition. Both BNZ and Westpac have made public statements in support of carbon budgets and a climate commission, on the basis they would bring great certainty and predictability.

Westpac believes increased investment will come if there is more certainty about the short-term actions required to drive long-term goals. Short term certainty can be achieved by: -

- ensuring policy transcends the three year political cycle;
- forecasting the price signals and investment needed to reach the target; and
- monitoring and commenting on progress and policy options, giving business and investors better information on which to base decisions.

Similarly, the financial models that support our management of climate change impacts will need to evolve and be able to adapt quickly to a rapidly changing environment. SBC member IAG is thinking about the insurance sector's role in readying us for the future. This includes customer services that consider the impacts of climate and weather impacts, signalling risk and supporting resilience.

Already, New Zealand regulators and financial institutions are introducing new finance and investing models. The New Zealand Stock Exchange has revised its Corporate Governance Code to include a "report or explain" section, which asks companies to disclose their environmental, social and governance issues. The New Zealand Super Fund now has a strategy to reduce climate change risk for its $30 billion of existing investment, and

[14] www.westpac.com.au/about-westpac/sustainability/initiatives-for-you/customers-products-services/
[15] http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11895874

identify opportunities for potential long-term investors[16]. And offshore, the G20's Financial Security Board Task Force on Climate Related Financial Disclosure predicts the "transition to a lower-carbon economy is estimated to require around $1 trillion of investments a year for the foreseeable future, generating new investment opportunities[17]". They have recommended the compilation of better information that will support investment, lending, and insurance underwriting decisions on climate-related risks and opportunities. This will allow investors to better engage with companies on the resilience of their strategies and capital spending.

## 6.6 Policy and legislation will support, not drive, the transition

Policies and regulation to achieve low emissions must align with an overall ambition for our transition, and the identified pathways to get us there.

Regulation and policy settings will provide the framework that businesses can innovate within. The regulatory environment has to be flexible enough to respond and enable the adoption of new technologies and innovation. The pace of technological change is often at odds with the current policy framework, and the speed with which it can flex to support innovation and remove barriers to uptake. Current regulation has prevented Auckland Council delivering initiatives in the Low Carbon Auckland Plan relating to Green Building design and certification, which would substantially reduce emissions in the region.

SBC outlined the key characteristics of an ideal ETS in our 2016 submission[18]. They are:

1. Full obligations – everyone paying for a tonne. All sectors, all gases, no free units
2. Some restriction on access to international markets with credible units, for example a restriction of 50%
3. An absolute cap on emissions (i.e. a New Zealand emissions budget)
4. Auctioning – to find an economy-wide cost curve
5. No price floor or cap with the market-determining price

SBC would like to see the government prioritise work that establishes how we evaluate the cost of carbon in offshore economies. Our competitiveness in global markets relies on us maintaining alignment with international competitors. New Zealand needs to monitor other international carbon trading markets, so we are able to adopt future market mechanisms with speed and minimal disruption.

We would like to see government work closely with business on what the changes to these markets will look like, and the appropriate timeframes.

[16] www.nzsuperfund.co.nz/news-media/nz-super-fund-announces-multi-faceted-climate-change-strategy
[17] www.fsb-tcfd.org/publications/final-recommendations-report/#
[18] www.mfe.govt.nz/climate-change/reducing-greenhouse-gas-emissions/new-zealand-emissions-trading-scheme/reviews-nz-e-0

## 6.7 Emissions performance and projections should be more accessible

New Zealand's current and historic emissions data is currently available by sector. Some projections data is also available[19] [20]. The information is displayed mainly in table format – so figures are stated and do not give a sense of the bigger picture, or changes over time.

It is also difficult to get a sense of performance against New Zealand's Kyoto and Paris Agreement targets. New Zealand's Seventh National Communication is expected in December 2017 and will report on the policies and measures in place, and progress towards the targets.

As we transition, we need to be able to access robust information about past, current and projected emissions, in relation to our targets and trajectory. It needs to be in 'real time', if possible.

## 6.8 Our transition will require ongoing supporting factors that need to be adequately resourced

SBC's experience with systems thinking and design has shown there are a number of factors that drive change and maintain it. This includes dedicating resource to facilitate connectivity between different pockets of activity taking place. These resources will help goups share information and resources, and achieve more, faster.

This can be supported using digital platforms such as websites and apps, and creating physical spaces such as dedicated venues for people to convene and share experiences and knowledge.

Positive story telling is a powerful way to generate action and change. SBC believes people respond to stories of success better than they do to stories that are negative. The dialogue around climate change is often negative, which can bring a sense of hopelessness – is there anything we can do to prevent catastrophe?

We need to show there is plenty that can be done. Individuals, businesses and government must all take action now to mitigate the effects climate change. Clear, consistent messaging on the importance of emissions reduction, why it's good, and what practically can be done, should be developed and broadly distributed throughout multiple channels. These stories can be used across all sectors, to create a sense of everyone working together towards the same goal.

[19] www.mfe.govt.nz/climate-change/reducing-greenhouse-gas-emissions/emissions-reduction-targets
[20] www.mfe.govt.nz/climate-change/what-government-doing/new-zealands-emissions-reduction-targets/measuring-against-our

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