

# Submission

by



to

**Ministry for the Environment**

on the

**New Zealand's Climate Change Target Discussion Document**

Via email: [climate.contribution@mfe.govt.nz](mailto:climate.contribution@mfe.govt.nz)

**3 June 2015**

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# NEW ZEALAND'S CLIMATE CHANGE TARGET DISCUSSION DOCUMENT SUBMISSION BY SUSTAINABLE BUSINESS COUNCIL

## 1.0 INTRODUCTION

### 1.1 Who is the Sustainable Business Council?

SBC is an executive-led group of companies that advocates a better way of doing business, one which creates a sustainable future for New Zealand. We provide a platform for collaborating on business solutions and enable our members to be leaders in sustainable practice. We do this because businesses can only be successful in the long term when people live well and within the limits of the planet.

The Sustainable Business Council has 79 members, including many of New Zealand's largest businesses across a wide range of industries. Their collective turnover is around \$69 billion. Our council members are senior executives and decision-makers. All members have made a commitment to the balanced pursuit of economic growth, ecological integrity and social progress within a business context and to report on their progress.

### 1.2 New Zealand Global Network Partner to the World Business Council for Sustainable Development

SBC is the New Zealand global network partner to the World Business Council for Sustainable Development (WBCSD). WBCSD is a CEO-led coalition of forward thinking businesses. It has global network partners in 66 countries.

WBCSD is focused on a business contribution to achieving a net zero emission society by the end of the century. It recognises it is a huge challenge and implies the transformation of energy, industry, agriculture and forestry systems.

WBCSD's Action2020 project has a societal must - have for climate change: "With the goal of limiting the rise in average global temperature to two degrees celsius above pre-industrial levels, by 2020, the world must have energy, industry, agriculture and forestry systems that simultaneously:

- Meet societal development needs.
- Undergo the necessary structural transformation to ensure that cumulative net emissions do not exceed one trillion tonnes of carbon [Peaking global emissions by 2020 keeps this goal in a feasible range].
- Become resilient to expected changes in climate".

WBCSD believes that business must take the lead in identifying business solutions to tackle climate change and the enabling conditions required. They envisage a portfolio of many solutions where companies – based on relevance, skills and leadership – can engage and help create action at scale. Companies can contribute by implementing enabled sustainable solutions in their own operations, products and services as well as in their supply chains. Collaboration is occurring on business

solutions including: carbon capture and storage, renewables, advanced low carbon fuels, nuclear, energy efficient buildings, forest and forest products as carbon sinks, climate smart agriculture, smart grids, low carbon passenger mobility, low carbon freight, materials and digitalisation. As part of this network, New Zealand business is implementing business solutions to contribute to Action2020.

WBCSD also advocates for business to understand new climate economics. In particular, the recent report from the Global Commission on the Economy and Climate called “Better Growth, Better Climate”<sup>1</sup>. It focuses on the economic opportunities that will emerge once we start to address climate change challenges.

## **2.0 WHAT MATTERS TO OUR MEMBERS**

Last time SBC surveyed all members, in October 2014, they prioritised a resource efficient economy and said that within three years they wanted to see:

- Business and Government collaborating to come up with a shared understanding of what a low carbon economy looks like, a clear plan for transitioning to a low carbon economy and the first steps underway.
- More urgency in providing analysis and discussion on the role pricing should play to reflect the true value of resources, and subsequent action.
- Government focusing on frameworks that encourage business to be more resource efficient.
- Businesses working strategically with Government on issues of infrastructure and funding that incentivise sustainable freight and transport options.

Moving to a low carbon economy was one of their top business priorities. Businesses are at risk if we cannot develop and implement a credible plan for transitioning to a low carbon economy.

## **3.0 WHAT ARE WE ALREADY DOING?**

### **3.1 Member commitments on measuring and reducing carbon footprints**

All SBC members make a commitment to begin to measure their carbon footprint within two years of becoming a member, and to report on plans to reduce carbon intensity within three years of becoming a member. We reviewed member performance across these, and other commitments, in 2014. At that time across the SBC membership 65% had completed a carbon footprint and 53% had a plan in place to reduce their carbon intensity. Within this group of members, 16% are carbon neutral and 16% report to the Carbon Disclosure Project (CDP) around their carbon performance. Remaining members who have not yet met these requirements are receiving support from the SBC in the form of resources, guides and sharing of exemplar practice. SBC will conduct another review in 2016. SBC and Enviro-Mark Solutions are currently working with BusinessNZ on its first carbon footprint.

### **3.2 Freight efficiency**

When our members looked at New Zealand’s emissions profile and saw that emissions from energy use were increasing and that tonnage from freight will increase by around 58% over the next 30 years, they decided to collaborate on a

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<sup>1</sup> <http://newclimateeconomy.report/>

freight efficiency project. They are exploring opportunities to reduce emissions from the transport sector and assist with more sustainable growth of the freight sector.

The working group is a cross-section of freight industry players, including freight operators, businesses, Ports of Auckland, Auckland Airport and KiwiRail. With this range of perspectives we are identifying opportunities to engage freight operators, look at freight movement through Auckland, shift to increasing use of rail freight and explore customer willingness to be flexible with delivery times.

### **3.3 Value Chain Guide**

Value chain management is an important mechanism for businesses to scale up business solutions that accelerate sustainable growth. The World Business Council on International Business (WBCIB) global network that we are part of is focused on mitigation and creating resilience within global supply chains. A large proportion of carbon emissions are outside a company's boundaries. A value chain approach helps companies to understand where their big risks and opportunities are and to develop strategies for reducing emissions along their value chain.

The Sustainable Business Council recently launched an updated guide on value chain management to support companies identify risks and opportunities along their value chain<sup>2</sup>.

### **3.4 Electric vehicles**

SBC has provided officials and Ministers with its members' experience of using electric vehicles and its position on what the business sector can do and the role of Government to accelerate uptake<sup>3</sup>. SBC supported the recent event that Drive Electric, EECA, Mighty River and Contact Energy ran to provide fleet managers from a range of NZ's largest companies with an opportunity to test drive electric vehicles.

### **3.5 Transitioning to a low carbon economy/new climate economy**

To further advance the conversation around the transition to a lower carbon economy business leaders from across the SBC and BusinessNZ's Major Companies Group have commenced a Business Leaders' Climate Change Dialogue. Business leaders from across the economy are starting to discuss their level of ambition for New Zealand and the role they can play in a transition to a low carbon economy/more sustainable society.

### **3.6 MOTU Economic and Public Policy Research – consumer research**

Our members are interested in what New Zealand consumers think about climate change. Recently we partnered with MOTU, Victoria University and Horizons Research Limited on a survey of 2200 New Zealanders aged 18 and over. What it found was that a majority of New Zealanders (63%) are concerned or very concerned about the societal effects of climate change and 58% are concerned about the effects on them personally. A strong majority intend to take common household actions that reduce emissions, with 39.4% already likely or very likely to consider energy or greenhouse gas emissions when making major purchasing

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<sup>2</sup> <http://www.sbcvaluechain.org.nz/>

<sup>3</sup> <http://www.sbc.org.nz/resources-and-tools/reports>.

decisions. Fewer reported intentions to reduce car or air travel or reduce consumption of meat.

#### **4.0 RESPONSE TO DISCUSSION DOCUMENT QUESTIONS**

##### **4.1 Question1: Do you agree with the objectives for our contribution? What is most important for you?**

SBC agrees with the three key objectives and considers they will all be important in guiding policy development. There are risks to our reputation and brand NZ if our contribution isn't seen as fair and ambitious by both international and domestic standards.

The costs and impacts on society will need to be managed appropriately if New Zealanders are to support whatever plan is adopted. SBC members recognise that business has a responsibility to contribute to emissions reductions and that there are costs associated with doing that. It will also be important to assess the costs to NZ's economy and reputation of doing nothing and the economic benefit from behaviour change, innovation and technology change if science based targets are achieved.

Objective three is the most important as a long term focus is needed if a global transition to a net zero emission society is to be achieved by the end of the century and a more than two degrees celsius rise in temperature is to be averted.

A key issue for the transition to a low carbon economy is how to manage the evolution of New Zealand's policy over the longer term as global policy and business action evolves. New Zealand needs to be thinking about what our longer term goals are (i.e beyond 2030) and ensure that action that we commit to now can be scaled up to achieve a longer term target. A 2030 target that is disconnected from a longer term carbon pathway risks policies that stop and start over the target's timeframe and this would act as a source of increased unpredictability that would be unhelpful to businesses considering large, long term investments.

To help further advance the conversation around the transition to a low emissions future and the role of New Zealand business in it, the Sustainable Business Council and BusinessNZ's Major Companies Group have commenced a Business Leaders' Climate Change Dialogue. Business leaders from across the economy are starting to discuss their level of ambition for New Zealand and the role they can play in a transition to a low carbon economy. Business leaders have suggested that the principles below will be useful for finding solutions. They will also be useful for guiding any conversation between Government and business.

- Non-partisan and de-politicised
- Take a systems approach
- Be for NZ Inc and take everyone along
- Be inspirational in what we do
- Focus on opportunities that leverage our strengths
- Strive for long term significant change and clever thinking on the steps to get there.

## **4.2 Question 2: What do you think the nature of New Zealand's emissions and economy means for the level of target that we set?**

Representing 0.15% of total global emissions, New Zealand alone will not change the course of any future climate scenario; however inaction will leave New Zealand exposed as other economies and business models transition to a low carbon future.

The nature of the New Zealand economy means that the following will be important considerations in the Government's target setting process:

- Whatever target New Zealand settles on needs to be accepted by all parties and outline New Zealand's contribution to meeting the IPCC target reduction in greenhouse gas emissions necessary to keep temperature change below two degrees celsius. We are a small country – if we have an agreed target for the long term we can galvanize action and investment for change.
- We need to take into account our national strengths as we structure our overall target and any associated sector targets. The INDC's allow flexibility so we have the opportunity to be clever about how we develop sector targets to meet all three of the Government's policy objectives and a New Zealand contribution to global emissions reduction. This might mean gross emissions reductions for some industries and others having reductions linked to emissions per unit of production or emissions per capita so that our internal targets do not introduce artificial limits to global competitiveness.
- Business leaders need be closely involved as they have the ability to play leadership roles in key elements of the change needed. That is already starting to happen on targeted pathways where there is economic and environmental alignment (e.g. freight efficiency, energy efficiency, renewables highway initiative). There is a strong desire in the business sector to work through the tough issues for the economy systematically, to understand the inter relationships across industries, and to align Government and business priorities.

Target-setting alone is not enough. We also need to invest across the board in capability so that industries and sectors can hold constructive dialogues about how to transition and implement strategies effectively. There also needs to be a credible story to sell the vision to New Zealanders. Business leaders aren't convinced that talking about a low carbon economy will achieve that. They are keen to explore the linkage with Brand NZ (as that story resonates with people) and identify what New Zealand can do to "punch above its weight" globally.

## **4.3 Question 3: What level of cost is appropriate for NZ to reduce its greenhouse gas emissions?**

Our members consider that business has a critical role to play in lowering New Zealand's emissions and accept that there is a cost associated with that. As the Government considers the appropriate level of cost for New Zealand to reduce greenhouse gas emissions it needs to consider:

- The current realities of the New Zealand economy and our emissions profile.
- Our strengths and the associated potential to leverage these to make a contribution to emissions reductions elsewhere.
- The impact imposing costs now, for example on methane emissions, would have on overall global emissions reductions.

Sixty five percent of New Zealand's emissions are from agriculture and transport. We are a highly efficient agricultural producer by world standards and a significant investment is going into solutions to reduce methane reductions. Scientists estimate these will be commercially available in ten to twenty years. Are there opportunities for the business community to support faster commercialisation of what scientists are developing as new technologies? This innovation will have a big impact here and globally. A policy that results in increased dairy production in other places where producers are less efficient than in NZ would not contribute effectively to global emissions reduction.

There are opportunities in the transport area. SBC strongly supports the Motor Industry Association's submission which outlines the policy settings that contribute to substantially reducing emission levels in the transport sector. This includes policy settings that:

- Accelerate the uptake of new technology.
- Influence buyers to purchase low emission vehicles (eg FBT exemptions and accelerated depreciation rates).
- Influence how a vehicle is used or driven (eg review of fuel excise duty and RUC rates to a full ERUC system).
- Increase uptake of fast emerging cooperative intelligent transport systems.

NZ needs to play to our strengths. We have a high level of renewable energy so fully exploring the potential of electric vehicles and whether we can export our renewable energy makes sense.

Forests planted in 1990 have played a key role in offsetting emissions. In the next 15 years much of this forest is expected to be harvested and will no longer provide a significant carbon sink. Policies that provide the right incentives to maximise carbon sinks will be important. The discussion document talks about "the additional emissions reductions for targets would need to be met by buying international carbon offsets from overseas which has negative flow on effects on the economy". NZ has a world class Permanent Forest Sink Initiative which enables landowners to receive carbon units through the creation of permanent forests. Rather than buying international carbon credits, offsets from this scheme could be bought and contribute to climate and biodiversity gains for New Zealand.

The government has successfully implemented an investment approach in the welfare portfolio. Is there potential to do this on climate issues?

#### 4.4 Question 4: Of these opportunities which do you think are the most likely to occur or be most important for NZ?

SBC supports the opportunities outlined in the discussion document:

- Fuel and energy efficiency: Many businesses are already implementing comprehensive programmes to manage energy and fuel. SBC and the Energy Efficiency and Conservation Authority (EECA) have been strategic partners for two years. Through this effective partnership, SBC members are introduced to EECA Business's dedicated account management offering. We are also working together to scale up impact. For example, Auckland Airport is soon to complete the first year of a three year energy management programme which includes energy metering across the 127 businesses in the airport district. This metering data will be used to identify and work collaboratively with businesses on the precinct to drive further own energy reduction initiatives.
- New technology such as electric vehicles: Mighty River Power and Contact Energy are already playing a key role in establishing a renewables highway in New Zealand and a number of SBC members have integrated electric vehicles into their fleets. The transport sector can play a critical part in reducing emission levels if the right policy settings are in place.
- Biofuels: Biofuel technology is emerging. Z Energy is due to start production of biofuel from tallow feedstock at its Wiri fuel terminal around the middle of 2016. They are doing trials and working with key commercial businesses they supply to. Long-term policy certainty is important for this sort of initiative. There are also opportunities for further discussions on how the government could enable scaling-up of innovative projects like this. SBC is exploring how biofuels fits within our Auckland Airport Green Precinct project. A number of SBC members are very interested in breaking through the costs and reliability barriers of fossil fuel alternatives at scale.
- Co-benefits of water quality efforts and reduced climate emissions: There are environmental benefits associated with afforestation of marginal hill country, such as erosion control and water quality. There are also likely co-benefits associated with improved nitrogen management and reduced n-leaching which in some instances is likely to reduce nitrous oxide emissions. However further work is required to understand these inter relationships and SBC encourages the Government to support further research in this area.
- Increasing focus on emissions intensity of our products and services: This is starting to happen. The Consumer Goods Forum has just released its climate change commitments and achievement document. Increasingly businesses are starting to ask their suppliers questions on their carbon management.

New Zealand currently has one of the highest levels of renewable energy production as a percentage of total energy in the OECD. It will be important to continue to support renewable energy development, for example the re-consenting of hydro schemes (which face re-consenting risks), and new renewable energy projects that will be required as demand is forecast to continue to grow in line with GDP. This will allow New Zealand to retain its world leading position in renewables as well as enabling new technologies like electric vehicles to take advantage of this point.

The strengths of business see them regularly collaborate to lead solutions across multiple industries, through strong innovation, the ability to take solutions to scale and measuring what works. SBC considers that more opportunities can be identified if Government and business leaders work together on climate issues. There is a desire in the business sector to work through the tough issues for the economy systematically and to understand the inter - relationships across industries. SBC members want to see integrated government and business priorities and real, integrated long term solutions (i.e beyond 2030) that tackle New Zealand's unique emissions profile.

The New Climate Economy Report (September 2014) by the Global Commission on the Economy and Climate examined whether it is possible to achieve lasting economic growth while also tacking the risks of climate change. SBC advocates for the recommendations made in this report being considered in depth in New Zealand. Some key points are outlined in the box below.

The report concludes that:

- Countries at all levels of income have the opportunity to build lasting economic growth at the same time as reducing the immense risks of climate change.
- The capital for the necessary investments is available and the potential for innovation is vast.
- What is needed is strong political leadership and credible, consistent policies.
- The next 15 years of investment will determine the future of the world's climate system.

The report recommends the potential to invest in greater efficiency, structural transformation and technological change in three key systems of the economy:

- Cities – they generate 80% of global economic output and around 70% of global energy use and energy related GHG emissions.
- Land use productivity – food production can be increased, forests protected and land use emissions cut by raising crop and livestock productivity using new technologies and comprehensive approaches to soil and water management.
- Energy systems - greater investment in energy efficiency in businesses, buildings and transport to cut and manage demand.

The report suggests that across all these systems three drivers of change need to be harnessed to overcome market, policy and institutional barriers to low carbon growth:

- Raising resource efficiency is at the heart of both growth and emissions reduction. A strong and predictable price for carbon will drive higher energy productivity and provide new fiscal revenues which can be used to cut other taxes. Well-designed regulations, such as higher

performance standards for appliances and vehicles are also needed.

- Investment in infrastructure underpins modern economic growth. Low carbon forms of infrastructure are essential to reduce current emissions trajectories. Financial innovations including green bonds, risk sharing instruments and products which align with the risk profile of low carbon assets with the needs of investors can reduce financing costs.
- Stimulating innovation in technologies, business models and social practices can drive both growth and emissions reduction. Clear policy signals including the reduction of market and regulatory barriers to new technologies and business models are needed.

The report proposes a ten point plan which includes:

- Accelerate low carbon transformation by integrating climate into core economic decision making. Systematic changes to policy and project assessment tools, performance indicators, risk models and reporting requirements in government and business are needed.
- Introduce strong, predictable carbon prices as part of good fiscal reform and good business practice to send strong signals.
- Reduce capital costs for low carbon infrastructure investments.
- Scale up innovation in key low carbon and climate resilient technologies.
- Make connected and compact cities the preferred form of urban development.
- Restore at least 500 million hectares of lost or degraded forests and agricultural lands by 2030.

#### **4.5 Question 5: How should NZ take into account the future uncertainties of technologies and costs when setting its target?**

Ongoing uncertainty about the future of climate change policy is having an impact on the speed that businesses adopt sustainable practices. Businesses leading the drive for greater efficiency are often being placed at a disadvantage, bearing costs that other businesses are not. SBC wants to work with government to explore the different approaches to transition to a low carbon economy, how that transition will affect New Zealand's economy and how to implement phased change. Government needs to provide long-term certainty by outlining an approach that has cross-party support. This issue needs to be depoliticised. SBC members want to see a longer term target that all parties agree on developed.

It will also be critical for government to work closely with the key industry sectors that will need targets, strategies and enablers to transform. Having these targets in place will make it easier for business to innovate through or plan around technological uncertainty. This will also enable a stronger ecosystem of advisory and intermediaries that can help and fund industries in their shift to a low carbon future.

SBC looks forward to working with the Government in this important area. As business leaders from across the economy work together to increase the role business plays in a transition to a low carbon economy, SBC will provide stronger recommendations on where Government policy action can support and accelerate this.

Yours sincerely

A handwritten signature in blue ink that reads "pnelson". The signature is written in a cursive, lowercase style.

Penny Nelson  
Executive Director - Sustainable Business Council