

Submission to the Climate Change Commission on:

Draft advice on the fourth emissions budget (2036–2040)

Review of the 2050 emissions reduction target

Review on whether emissions from international shipping and aviation should be included in the 2050 target



Sustainable
Business Council



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ON A MISSION TO REDUCE
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Executive summary

The Sustainable Business Council (SBC) and Climate Leaders Coalition (CLC) are submitting a collective response to the Climate Change Commission's consultation on three critical documents: the 2050 emissions reduction target, the fourth emissions budget, and the potential inclusion of international aviation and shipping emissions in the 2050 target.

This document represents the collective views of the members of SBC and CLC, a group of more than 160 businesses who contribute more than 40 percent of New Zealand's GDP. SBC is part of BusinessNZ, New Zealand's largest business organisation.

SBC and CLC members are committed to supporting New Zealand's climate change response architecture, which has provided a clear signal to the private sector about the path to a net zero-emissions, climate-resilient economy by 2050.

This submission draws on previous publications and highlights the need for targets and policies aligned with the Paris Agreement, a focus on gross emissions reductions, consideration of the role of nature-based solutions, removals through native afforestation, an effective policy mix, and stability of policies across governments.

Tackling the nature crisis alongside the climate crisis is essential and creates a virtuous circle of co-benefits that amplifies any investment.

2050 Target Review

SBC and CLC support a potential change to the 2050 target to increase ambition, if warranted by evidence.

Any change should serve to strengthen New Zealand's ambition and contribution to addressing climate change.

SBC and CLC members firmly state that we would not support any step back from the country's Paris Agreement contributions, as this would be detrimental to New Zealand's global reputation and the ability of businesses to operate within the global marketplace.

The bar for changes to the 2050 target should be high, and changes should be infrequent to maintain buy-in from those who will contribute to delivering the necessary outcomes. SBC and CLC suggest that the Commission consider the significant changes in the insurance market since 2019 under economic and fiscal circumstances. These changes have increased New Zealand's exposure to insurance risk and cost, impacting economic and potentially fiscal circumstances, and underscoring the urgency of mitigation efforts.

Fourth Emissions Budget

SBC and CLC support the proposed level of the fourth emissions budget and agree with the Commission's assessment of the considerations that have informed the budget level. SBC and CLC members emphasise the need for an explicit focus on gross emissions reductions, aligning with the commitments made by their members.

Policy stability across governments is crucial for providing investment certainty to businesses. SBC and CLC highlight the need for more ambitious assumptions around public transport, walking, and cycling infrastructure, as well as the potential of global standards and regulations to drive change in New

Zealand. A high-level, system-wide view is necessary to ensure that transition pathways are resilient to potential disruptions.

While methodological changes warrant revising previous emissions budgets, SBC and CLC stress that the ambition around gross emissions reductions should be maintained at the level set when the budgets were initially established.

International Aviation and Shipping Emissions

SBC and CLC support the inclusion of international aviation and shipping emissions in the 2050 target. However, we emphasise the importance of differentiating between the rationale for considering the inclusion and the consequential treatment of aviation and shipping. The members believe that aviation and shipping should be considered separately due to their distinct decarbonisation trajectories and the different levers available to each industry.

When determining the methodology for counting emissions, SBC and CLC caution against approaches that would unduly disadvantage the competitiveness of national operators compared to international operators not subject to the same measures. We recommend including these emissions in the net zero component of the 2050 target, while incorporating separate gross emissions reductions expectations for aviation and shipping in the supporting emissions budgets to reflect the unique circumstances and technologies of each sector.

SBC and CLC emphasise the need for more detailed information on the pathways for shipping and aviation to meet any proposed target and the policy mix that would support achieving a revised 2050 target before recommending that the government adopt such a change. This information should include the costs and implications for those responsible for implementing the changes and any spillover impacts and benefits.

Conclusion

SBC and CLC remain committed to advocating for ambitious climate action in New Zealand.

We support targets and policies aligned with the Paris Agreement, a focus on gross emissions reductions, removals through native afforestation, an effective combination of pricing and complementary policy measures, and policy stability across governments. It is increasingly important that we consider the twin crises of climate and biodiversity within the same frameworks.

As the Climate Change Commission continues its work on these critical issues, SBC and CLC stand ready to engage and contribute to the development of a robust, evidence-based approach to achieving New Zealand's climate goals while ensuring a thriving, sustainable economy.

1. Introduction

The Climate Change Commission has released three documents consulting on the 2050 target, the fourth emissions budget and the inclusion of international aviation and shipping in the 2050 target. The Sustainable Business Council (SBC) and Climate Leaders Coalition (CLC) are pleased to submit on these three documents – offering the collective views of our members.

This document represents the collective views of the members of SBC and CLC, a group of more than 160 businesses who contribute more than 40 percent of New Zealand's GDP. SBC is part of BusinessNZ, New Zealand's largest business organisation. SBC is also a Global Network Partner of the World Business Council for Sustainable Development.

SBC and CLC members continue to advocate for ambitious climate action, highlighting the need for:

- targets, budgets, policies, and action aligned to the intention and objectives of the Paris Agreement
- reductions in gross emissions
- removals focused on native afforestation and appropriate nature-based removals
- an effective combination of pricing and complementary policy measures, and
- policy stability across Governments, giving investment certainty for business.

CLC and SBC members are on a journey to reduce their emissions. The combined emissions reduction achieved by current CLC signatories between signing up to the Coalition and November 2023 is 3.6 million tCO₂e, a cumulative 29% reduction achieved during their membership period. The Coalition was launched in 2018.

The future committed reduction by signatories who have set short-term absolute contraction scope 1 and 2 targets is a further 1.6 million tCO₂e before 2035. The average target ambition per signatory is 42% of their base year emissions.

This response draws on our previous publications:

- [Briefing for Incoming Ministers \(November 2023\)](#)
- [Submission on Te Arotake Mahere Hokohoko Tukunga - Review of the New Zealand Emissions Trading Scheme \(August 2023\)](#)
- [Pre-election Briefing Paper: Policy priorities for accelerating climate action and building a resilient Aotearoa \(April 2023\)](#)
- [Submission to the Climate Change Commission on Draft Advice on the second emissions reduction plan \(2026-2030\) \(June 2023\)](#)

SBC and CLC have submitted a response via the Commission's portal – hence following the format of the questionnaire below. We have also summarised our responses in Annex A of this document for our members.

2. 2050 target review

Do you have one big thing to tell us?

Any change to the target should strengthen our ambition and contribute to addressing climate change. We would consider any weakening of the target to be detrimental to New Zealand's global reputation and to the ability of our businesses to operate within a global marketplace.

It is critical the long-term signals that set the direction for Aotearoa remain clear. SBC and CLC expect there to be a high bar for any change to the 2050 target, and that the rationale for any change is transparent and evidence-led. We welcome the work of the Commission to establish and publish clear parameters for change, if any, through its consultation and discussion documents.

SBC and CLC would not support a step back from our Paris Agreement contributions. We could not support a change to the target that would lead to worse outcomes for the climate and nature while increasing the need for significant adaptation efforts.

SBC and CLC support a potential change to the target to increase ambition, if warranted by the evidence base.

We remain in favour of a split-gas target.

Do you agree with our approach to looking for significant change? Why or why not? (Chapter 3)

Yes. SBC and CLC welcome the work of the Commission in establishing a clear and transparent process for considering what New Zealand's 2050 target should be and what a fair contribution would be to our obligations under the Paris Agreement.

We support transparent and clear processes for review and change that allow for contributions from across Aotearoa as an effective way of achieving buy-in from those who will have to contribute to delivering the outcomes required to meet the target.

We support:

- Criteria for opening the target for review
- Logic flow between rationale for change to the target and the design of the change.

The target is intended to be a guiding light for our efforts to reduce emissions, and so the bar for changes should be high and changes infrequent. Altering the direction frequently reduces buy-in.

Are there any other approaches or pieces of evidence you think we should include in our final review?

Yes. SBC and CLC suggest the Commission consider under economic and fiscal circumstances the significant change in the insurance market that has taken place since 2019.

New Zealand has greater exposure to insurance risk and cost than previously understood, impacting our economic and potentially fiscal circumstances.

Using the Commission's framework for "significant" – we consider this to be:

- Important (relevant to the 2050 target, and whether it could impact the ability of Government and society to take action to achieve it).
- Consequential (the change could impact the 2050 target's ability to achieve its intended purpose).
- Notable (reasonably foreseeable in 2019, when the 2050 target was first set).

Although changes in global insurance were underway in 2019, it was the events of Cyclone Gabrielle and Cyclone Hale that caused a shift in understanding and outcomes in New Zealand (making it notable).

These events have changed New Zealanders' understanding of the realities of the cost of adapting to climate change and have made the urgency of mitigating more immediate (important). It has the potential to shift the balance of capital available for mitigation as we come to understand the challenges and costs of adaptation to climate change.

In reality, it is not an either/or and there are numerous solutions that address both adaptation and mitigation, that we should be urgently considering and acting upon.

We urge the Commission to undertake an assessment of this issue.

Similar to the arguments used around our understanding of the science of climate change – the change in understanding around New Zealand's adaptation needs means there is a shift in the urgency of meeting our target (meeting the "important" criteria).

Do you agree with our initial findings related to significant change? Why or why not?

Yes. SBC and CLC support the Commission's findings.

We acknowledge the Act specifies the Commission must consider "scientific understanding", but we consider what has changed here is not understanding so much as scientific consensus.

Is there any other important information or evidence you think we should include in our final review?

Yes. SBC and CLC **recommend** the Commission consider:

- under technological developments – the rapid cost reductions being identified in batteries
- under social circumstances – a wider array of studies

SBC and CLC **recommend** the Commission consider under **technological developments** the rapid cost reductions being identified in batteries.

There is evidence that battery costs are falling faster and further than anticipated, reaching a key turning point for EV forecourt price parity. We understand the Commission may have considered this. We have provided some information from members on the latest available information¹.

¹ "CATL [a major Chinese battery manufacturing company] claims that it is optimizing its production lines as a major step in its continuous cost reduction efforts, as it aims to bring battery cell costs down to just \$56/kWh by the end of the year. This is nearly half what most battery cells cost today and – assuming pack costs remain stagnant – would mean its standard lithium-iron-phosphate (LFP) batteries for vehicles will be comfortably under the \$100/kWh mark on this timeframe. \$100/kWh is considered a key turning point for electric vehicles because it brings sticker price of the vehicle in line with internal combustion engine (ICE) counterparts, bringing total cost of ownership (TCO) down further over the lifetime of the vehicle, but also bringing the initial cost down low enough to convince a large chunk of consumers to make the switch" (Rethink, 2024).

A rapid reduction in battery costs could affect EV uptake and the use of batteries to support electricity networks, demand, and supply management. We understand this scale of price reduction or timeframe may be within modelled parameters, or may not meet the notable criteria, but raise it for awareness.

On **social and cultural indicators** that could indicate a change in circumstances, SBC and CLC agree with the Commission's finding that New Zealanders are more concerned about climate change than they were 10 years ago, but there hasn't been a dramatic change in behaviours. We **recommend** the Commission consider a broader array of data than was included in this report.

Any other comments?

SBC and CLC acknowledge the 2050 target must be met in that year and every year subsequently and note the Commission has stated New Zealand may need to move to net negative contributions.

We would consider it a valuable contribution if the Commission were to provide further information about what this long-term future means for business and New Zealand.

3. Draft advice on Emissions Budget 4

Do you have one big thing to tell us?

New Zealand has the opportunity to set a fourth emissions budget that has the requisite ambition and policies to reduce emissions, deliver infrastructure and resilience, and foster an economy that creates sustainable growth.

SBC and CLC support an explicit focus by the Government and the Commission on **gross emissions reductions**, which aligns with the commitments made by our members.

The New Zealand Emissions Trading Scheme (NZ ETS) is one of the key instruments to achieve net zero by 2050, and the budgets on the pathway to reaching 2050. We reiterate the ongoing importance of **complementary policy measures** at a sector level to support the pace and scale of transition required. These should be cost-effective, efficient and deliver sustainable economic growth.

A rising carbon price is important for incentivising gross emissions reductions, but it also risks impacting hardest on vulnerable New Zealanders and SMEs if they are unable to access the same low emissions and lower cost opportunities as others. Complementary policies are required to address barriers, for example, where alternative technologies are not available, or where capital cost constraints exist. Without these measures, the price of carbon would need to be at such a high level to achieve its primary purpose (reducing emissions in line with the Paris Agreement) that it would harm New Zealand's economy and cause significant social harm.

SBC and CLC maintain a preference for native afforestation (and other appropriate nature-based removals) and call for an explicit and more systematic recognition of the co-benefits of action on nature and climate together.

Proposed level of the fourth emissions budget - Do you agree with our assessment of the considerations that have informed our proposed budget level, including key judgements?

Agree. SBC and CLC agree with the assessment made by the Commission and with the proposed level of the fourth emissions budget.

SBC and CLC have a number of observations about the assumptions that underpin this budget – see next question.

Are you aware of any further evidence that the Commission should consider in making its assessment of feasibility, cost, and implications of potential abatement options in the fourth emissions budget period? Do you have any evidence or insights that could contribute to our analysis?

Yes. SBC and CLC recommend the Climate Change Commission consider the insights outlined below across:

- Cross-party political support for policies
- Global standards
- Foundational assumptions and data availability
- Likelihood of achieving assumptions
- Carbon capture and storage
- Process heat
- Role of technology
- Economic growth opportunities, and future modelling opportunities
- Nature-based solutions
- Strategic, system-level analysis and resource availability

Cross-party political support for policies

SBC and CLC welcome the cross-party support for the architecture addressing climate and the commitment from the Prime Minister to the emissions budgets. SBC and CLC seek greater cross-party consensus and policy certainty between political cycles to enable us to meet these targets.

Business undertakes a significant amount of the investments, retirement and replacement of assets, work with supply chains, etc. required to meet budgets. For this to be effective, business needs some degree of stability in the policy landscape.

Significant fluctuations in policies between Governments do not provide investment certainty and create risks of sunk costs, which is important in the context of needing urgent action.

For example, placing orders for vehicles, or significant pieces of equipment (boilers) are done with a time horizon that overlaps political cycles. It is challenging to make these investments when they rely on pricing, regulations, standards, or tax systems that may change with a change of Government, which suddenly make them an uneconomic proposition. It may also be more difficult for consumers to respond to the price signals on which they make long term decisions, for example about switching from gas to electric appliances, or ICE vehicles to EVs, when these alter frequently.

Businesses will continue to invest regardless because it will position them to succeed in the long term and because this is the global context in which they operate. However, policy instability may make the transition in Aotearoa slower than is optimal. This uncertainty may affect the pathway of the budgets and New Zealand's ability to seize opportunities.

We recommend the Commission include this as an uncertainty in its modelling work.

Global standards

SBC and CLC are interested in whether the Commission has considered the role of non-governmental led rules systems globally, like the increased uptake of the Science Based Targets initiative (SBTi) and shifts in ESG screening requirements by investors, in driving changes and outcomes. SBC and CLC members are

heavily engaged in these standards, which alongside domestic ones like Climate Related Disclosures, can lift ambition.

Similarly, SBC and CLC are interested in whether the Commission considered how to model and understand the impact of global regulation in driving change in New Zealand, for example, the increasing role of regulations and standards overseas like the Carbon Border Adjustment Mechanism (CBAM).

The export part of our economy and some parts of the domestic economy will be exposed to a certain rate of change regardless of domestic policies and change.

Foundational assumptions and data availability

SBC and CLC recognise the challenges for the Commission around data availability. However, we are aware the draft is based on government projections from policies as at July 2023 – i.e. prior to the general election and the removal of a number of policies that were delivering emissions reductions, such as the Clean Car Discount and the Government Investment in Decarbonising Industry (GIDI) fund.

We also note that the Coalition Government's agenda has the potential to introduce policies that could further reduce emissions, as well as policies that may lead to emissions increases.

SBC and CLC members are keen to understand, in the face of this uncertainty, what the potential pathways are for reaching and achieving a 2036-2040 emissions budget with the level of ambition set out by the Commission. Assumptions of policies from July 2023 may reflect a more positive starting place than the current trajectory or may not take into account policies that will accelerate emissions reductions, or a combination of both.

Likelihood of achieving assumptions

EV uptake

We note that the Electric Vehicle (EV) uptake assumption from the Commission exceeds that of some of our members. Projections in this area will be revised as new information arises, but we are aware of the importance of transport decarbonisation in meeting budgets. Emissions reductions in future budgets that rely on EV uptake will be sensitive to price reductions, supporting infrastructure, consumer preferences and several other variables – not least policy support or pricing. We have reservations about whether these assumptions will be achieved on the current trajectory and policy package.

Public transport, walking and cycling

SBC and CLC believe the assumptions around public transport, walking and cycling will require significantly more investment than we see under current policy actions. We do not believe this will happen organically given the trajectory New Zealand is currently on. This will require action at both the local and central government levels to actively support mode shift and micro mobility. This investment will need to happen urgently given the construction timelines, which will delay the public and business' ability to take up low-carbon transport options and subsequently any associated emissions reductions.

Energy efficiency assumptions

SBC and CLC have similar concerns about the CCC assumptions around the deployment of energy efficiency measures in new and existing buildings. The role of building standards, decarbonisation of, and electrification of residential and commercial stock is key. We **recommend** that the Commission refer to the work of the New Zealand Green Building Council for the latest information about potential for emissions reductions in this area.

Heavy freight mode shift

There is a significant opportunity for mode shift in heavy freight to support New Zealand's emissions reductions targets.

SBC and CLC are concerned that New Zealand will not achieve the modal shift modelled from road freight to rail and coastal shipping under current policy and investment settings. In their demonstration pathway, the Climate Change Commission modelled the required modal shift for rail freight being from 13% in 2022 to 18% by 2050. The current settings, as signalled in the draft Government Policy Statement for Land Transport, are unlikely to support the mode shift assumptions modelled by the Commission.

The assumptions for decarbonising the heavy road fleet are ambitious – the Commission have assumed a rapid adoption of electric/hydrogen options for heavy road vehicles, so that by 2050 81% of all heavy road freight VKT will be delivered by EVs (or equivalent). If it is not possible for heavy road freight to achieve this level of decarbonisation, then modal shift to other transport modes will become more important to achieve our emissions reduction targets and budget.

Finally, the Climate Change Commission's pathway also assumes that rail freight will decarbonise, with a 27% reduction in emissions intensity by 2030 from a 2020 baseline. This also will not be possible without further investment in electrification of our rail fleet, which is not signalled under current policy settings.

Carbon Capture and storage

SBC and CLC **recommend** that the Commission continue to closely monitor the development of geological carbon-capture and storage over the coming years. We recommend that this is reviewed as we progress through emissions budgets as a potential future significant change, and an additional removal tool along with forestry. Increasing ambition here could have more advantages than increasing forestry removals, for example, avoiding use of productive land.

Process heat

SBC and CLC are aware that significant investment and decarbonisation, including through the work of members, has taken place over the last few years. However, many industries are hesitant on taking up biomass as a means to decarbonise process heat due to the supply uncertainties. It was helpful to see the Commission analysis of the future supply/demand mismatch (page 89 of report). We note the risks to the pathways for decarbonisation over future emissions budgets, and **recommend** the Commission include this in their sensitivity analysis, if appropriate (page 80 of report).

Role of technology

Technology is pivotal in tackling the challenge of climate change and its potential may have been underplayed in the Commission's analysis of pathways to meet budgets.

We note the analysis includes the significant interventions such as EVs but may not include a systematic understanding of the potential of options like Artificial Intelligence (AI).

Recent analysis found that up to 42 percent of New Zealand's 2030 emissions budget targets could be met by actions enabled by digital technology². We **recommend** that the Commission give this issue further consideration and engage with the technology sector on this subject.

² [Technology-for-Emissions-Reduction-Report.pdf \(nztech.org.nz\)](https://nztech.org.nz/Technology-for-Emissions-Reduction-Report.pdf)

Economic growth opportunities, and future modelling opportunities

There is an opportunity for New Zealand to leverage its abundance of clean energy potential, and other resources, to grow the economy while meeting net zero 2050 targets. Failing to do so puts at risk our ability to support vulnerable New Zealanders as we transition and meet our net zero commitments.

Growth is critical to fund climate mitigation and adaptation, and our clean energy system offers a relative advantage. New Zealand has a renewable endowment can be leveraged to attract new business and investment.

To support an ambitious path, policy settings must be directed towards enabling confidence in investment and growth to deliver physical and economic resilience.

SBC and CLC suggest that the Commission further develop its economic and emissions modelling to better account for the potential interplay, if not for the fourth emissions budget, then for future budget setting exercises. In addition to developing its economic and emissions modelling around sector transformation and new economic opportunities, SBC and CLC members suggest that improved sub-sector analysis by the Commission would create a better understanding and more options for pathways and solutions within sectors. For example, a more granular analysis could reveal that the cost of abatement for farming varies significantly depending on the farm type, land use, and what is produced.

Nature-based solutions

Nature-based solutions (NBS) include large-scale coastal and freshwater wetland restoration, riparian planting, the re-wetting of peatlands, and the establishment of permanent indigenous forests in erosion-prone areas. NBS are often cheaper and more effective over the long-term than hard infrastructure, like seawalls.

We are concerned about the scale of exotic afforestation witnessed over the past years, and the misalignment between the incentives for exotics and achieving gross emissions reductions. In its advice to Government on the second emission reduction plan, the Climate Change Commission noted that the level of carbon dioxide removals by forests could exceed demand from NZ ETS sectors beyond the 2030s. Consequently, the weakened carbon price signal would jeopardise the NZ ETS' role in driving investment in gross emissions reductions and further afforestation. This afforestation, or other appropriate nature-based removals, may be needed to meet the 2050 target. We also note the implications for land-use change. We are currently seeing significant conversion of land use from sheep and beef to forestry, with implications for rural communities.

In addition, the extensive planting of exotics carries risk to meeting our climate, adaptation, and biodiversity objectives. Exotic forests will become increasingly exposed to risk, from pests, disease, and extreme weather amongst other threats. Cyclone Gabrielle was an example of the consequences combining extreme weather and exotic forestry can have on people and landscapes.

We note the potential for sequestration outside of forests, for example through wetlands or blue carbon, but believe that careful consideration needs to be given to the role these could play in meeting our targets, domestic and international. Considerations could include scientific basis, permanence, risk, and cost.

Strategic, system-level analysis and resource availability

SBC and CLC advocate for ensuring we take a high-level, system-wide view of the work of the Commission to ensure its pathway(s) are robust to potential disruptions and to ensure that they provide accurate signalling to businesses about the trajectory.

For example, if process heat, electricity, heavy transport, and aviation are all competing for the same (waste) biomass resource and making significant investments, there could be a risk to the pathway. This has implications across the land use, forest, transport, energy, and waste sectors.

Information and pathway resilience becomes important as we move into these later budgets and there may be more competition for resources. We foresee two potential risks:

- i. The transition pathway/s may become unviable if resources are unavailable.
- ii. Potential to cause disruption with the transition - if businesses invest in technology and solutions on the basis that resources are available, only to find in time that they are not.

We consider this systems risk issue to also be apparent within the urban environment – it applies to the assumptions public transport, walking and cycling, urban design, housing stock and infrastructure.

These require a strategic, connected, system-level approach, and supporting modelling. SBC and CLC foresee a risk of perverse outcomes if these interdependencies are not considered and a potential disruption to pathways. We think this would be an area where it would be beneficial for the Commission to add more evidence and consult across sectors, as well as within them.

Do you agree with our assessment of the impacts?

SBC and CLC **broadly agree** with the Commission's assessment of impacts. There are two areas where we think a reassessment or further work is required:

- household electricity bills; and
- limitations on pace given competition between competing infrastructure requirements in Aotearoa.

SBC and CLC would like to understand whether the electricity household bill modelling reflects the latest information regarding expected spend on infrastructure required to deliver the transition. Specifically, whether this reflects the required spend by the electricity distribution networks and transmission network. We seek to understand the Commission's modelling assumptions around policies to ensure the pathway can deliver a relatively smooth transition. Our concern lies around the potential for significant increases in bills, whether to households or businesses, to disrupt the electrification transition. Large cost increases could make electricity a relatively less attractive proposition, despite the emissions benefits.

We also expect there will be significant infrastructure expenditure across the economy that will compete with what is required for the transition – for example, updating water infrastructure. Has the Commission considered limitations on the pace of what New Zealand can achieve given work force, available capital, competition for resources (both finance and labour), and inflationary pressures that may occur?

SBC and CLC believe this highlights the need for long term planning, effective decision-making, and exploring a variety of funding models.

Proposed changes to emissions budgets 1, 2 and 3 – Do you agree that all set budgets should be revised to account for methodological changes?

Yes. SBC and CLC agree the budgets should be revised to account for methodological changes, abiding by the scientific protocols for the greenhouse gas inventory.

SBC and CLC support an explicit focus by the Government and the Commission on **gross emissions reductions**, which aligns with the commitments made by our members. Members are focused on gross emissions reductions first, before looking to removals, and would prioritise native afforestation and appropriate nature-based options for removals.

Do you agree with the Commission's assessment of the significant changes that have occurred?

Yes. SBC and CLC recommend that the Government maintain the ambition of the budgets around gross emissions reductions. We do not believe the ambition of the budgets in terms of gross emissions reductions should be lessened because the planting of exotic forests was more rapid than anticipated at the time the budgets were set.

SBC and CLC support an explicit focus by the Government and the Commission on gross emissions reductions, which aligns with the commitments made by our members.

We believe the ambition of the budgets in terms of gross emissions reductions should be maintained even if the planting of exotic forests was more rapid than anticipated at the time the budgets were set.

We therefore **recommend** the Government maintain the ambition of the budgets around gross emissions reductions.

SBC and CLC do not support reducing the overall ambition because of faster or more than anticipated removals, and believe that the same level of ambition around gross emission reductions should be maintained as was when the budgets were set in 2019.

We **recommend** that the Government recognise there may be co-benefits from some of the alternative forms of carbon sequestration from a nature perspective.

We **recommend** the Government consider preventing activities from taking place that would damage the sequestration potential of habitats or land uses. For example, seabed mining has the potential to reduce the sequestration of blue carbon through disturbing kelp forests.

Do you agree with our assessment that the Government should continue with the existing accounting approach?

Yes. CLC and SBC support the existing accounting approach.

Do you agree with our assessment of what the Government should be considering as it develops accounting methodologies for inclusion of additional sources and sinks in budgets and target accounting?

Yes, we agree.

CLC and SBC support the assessment of what the Government should be considering.

4. Review of whether to include international aviation & shipping in the 2050 target

Do you have one big thing you want to tell us?

SBC and CLC are in favour of incorporating international aviation and shipping emissions in the 2050 target. SBC and CLC would like to see a differentiation in the advice between shipping and aviation, and for it to acknowledge that what is suitable for one, may not be suitable for the other.

SBC and CLC are in favour of incorporating international aviation and shipping emissions in the 2050 target. However, we have a number of concerns about how this is done, in particular separating the rationale for considering the inclusion and consequential treatment of aviation and shipping.

SBC and CLC would like to see a differentiation in the advice between shipping and aviation, and for it to acknowledge that what is suitable for one, may not be suitable for the other. Nevertheless there should be alignment in the level of ambition to the Paris Agreement.

We believe there are different rationales for considering their inclusion in the 2050 target, and the industries are on separate tracks for their decarbonisation trajectories. This logic should flow through:

- a) Whether to include them in the target.
- b) How to include them in the target – i.e. how their emissions are counted?
- c) The form of any target.
- d) Levels of any reductions required.

Is there any further information or evidence the Commission should consider on the national and global context or technology opportunities for making decisions on including international shipping and aviation emissions in the 2050 target?

SBC and CLC support a balanced approach to the benefits and costs of including aviation and shipping in the 2050 target.

We note that only some of the levers and influence for decarbonisation sit within New Zealand.

SBC and CLC ask that the Commission give further consideration to the policy package that could support meeting the target, should it be amended.

SBC and CLC remain committed to decarbonisation, and a trajectory for emissions reductions from aviation and shipping that reflects our ambition.

Shipping

We support including these emissions in the target, assuming a transition pathway is aligned with a trajectory that reflects the reality of our role within global shipping supply chains and that signals New Zealand is moving to clean, low emissions shipping. This would mean including the emissions in the target in such a way that reflects the reality of the speed at which the shipping industry can transition domestically, given that the majority of the levers may not sit within Aotearoa.

Creating a target that is going to make us less competitive within international markets or make it more challenging to get sufficient capacity around international shipping lines into New Zealand, is a challenging prospect for businesses. Including shipping emissions in the target and requiring action could carry costs. Exporters are conscious of their exposure to these cost increases.

New Zealand is a very minor player in international shipping. SBC and CLC believe we should be ready to supply lower emission ships and have port infrastructure that can support newer vessels, but not seek to drive the transition from Aotearoa. This is not an area where we have competitive advantage.

That said, we do not want the southern hemisphere to be left as a dumping ground for polluting older vessels, whilst newer, lower emissions and cleaner vessels service northern hemisphere routes.

Aviation

SBC and CLC support the inclusion of international aviation emissions in domestic targets (based on refuelling calculation), so long as this results in the development of an enabling policy environment that focuses on supporting and accelerating the sector's transition away from fossil fuels, for example, through policy support for access to affordable sustainable aviation fuel (SAF) in New Zealand.

SBC and CLC note the risk of significant competitive distortions and disproportionate impact for the New Zealand aviation industry relative to competitors depends on choices around how we account for emissions and the policy choices to incentivise or support the transition. This may not set New Zealand up for a transition away from fossil derived jet fuel or build domestic fuel resilience.

The "how" part is critical and needs to be carefully managed to limit perverse outcomes. It is important that the international nature of aviation is recognised and respected. A regime in New Zealand that is significantly more onerous than that undertaken elsewhere, including the nations that have included international aviation in domestic targets in some forms, may have disproportionate impacts for New Zealand.

Export competitiveness and access to markets

SBC and CLC are concerned about the impact of a commitment to revise the 2050 target to include international aviation and shipping could have on export competitiveness, though we recognise there is evidence that failing to set targets and take action could also impact competitiveness and market access.

New Zealand is part of the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO) arrangements, and we assume New Zealand would continue to participate actively within these international agreements. We believe that efforts through these arrangements would maintain New Zealand's credibility to an extent – particularly for shipping.

SBC and CLC members believe the Commission may need to add more nuance to its language around market access issues. We are unsure whether setting a target(s) will create *more* market access for our businesses within the near term, or that failing to have one *restricts* market access in the near term. We believe that it could restrict market access or impact on other export products (such as access to tourists) in the medium to long term. The Commission may need provide more information about when these impacts would be felt, by whom and when.

Some exporters are more heavily exposed to European markets, where food miles and higher standards mean that market access issues are more material, which is why this is a significant issue for some of our major exporters.

Role of policies and co-benefits

Implementing a target, with the accompanying structure of emissions budgets and policies to support delivering it, could help businesses take the necessary actions.

We also note the co-benefits for energy resilience, energy self-sufficiency, and competitiveness that could come from developing a domestic alternative fuels market. For example, the inclusion of international emissions could allow us to achieve the economy of scale for our transition infrastructure (hydrogen, sustainable aviation fuels, alternative fuels for shipping and heavy freight, accompanying facilities), that might not be achieved, or as commercially viable, if we are seeking to address domestic emissions alone. Such infrastructure could draw on domestic renewable sources, and build energy independence as well as reducing the flow of payments out of New Zealand for oil.

SBC and CLC members are keen to understand firstly what the pathways are for shipping and aviation to meet any proposed target in more detail than is provided and subsequently, what the policy mix is that would support meeting any change to the 2050 target to include international aviation and shipping.

Policies would need to be introduced to support delivery of emissions reductions to meet the target. While businesses have a good understanding of the technologies and investment required, this carries significant cost implications and there are regulatory and non-cost barriers as well to deployment.

If the NZ ETS was used, this would have implications that have not been explored in this document, including those that flow through to domestic users of alternative fuels and other NZ ETS participants. If complementary policies were used instead of or alongside the NZ ETS, they could have positive and negative implications. It is challenging to engage with the potential inclusion of aviation and shipping emissions in isolation of a better understanding of *how* the emissions reductions would be supported.

SBC and CLC **recommend** that the Commission give further consideration to the policy package that could support meeting the target, should it be amended.

SBC and CLC also **recommend** the Commission provide further information about the pathway to meeting any target, prior to recommending that the Government adopt one. This should include information about the costs and implications for those who would need to implement the changes, as well as spillover impacts and benefits.

If international shipping and aviation emissions were included in the 2050 target, which of these options for counting the emissions would you support and why?

For **International Aviation** SBC and CLC consider **Refuelling (Option 1)** the preferred method.

For **International Shipping** SBC and CLC consider **To/from next port (Option 2)** the preferred method.

Note: If international aviation and shipping emissions were to be included in the 2050 target, SBC and CLC would not support a methodology that is unduly punitive in its design to national operators in a way that sees it damage their competitiveness against international operators that would not be similarly exposed to equal measures.

(a) International Aviation

SBC and CLC consider **refuelling (Option 1)** is the preferred method for counting the emissions for international aviation. This is because it is manageable for operators to report against and applies as

equally as possible to all operators. It is also the approach most likely to prevent material competitive distortions arising.

Refuelling offers the opportunity for spillover benefits to accumulate to other industries in New Zealand who require scale investment and consumption for an alternative fuels industry to become viable. This allows for the decarbonisation of other sectors and domestic shipping and aviation to become more economically possible.

Supporting policies will still be required to enable both international and domestic aviation and shipping to adopt alternative fuels.

(b) International shipping

Relatively little refuelling is conducted within Aotearoa. We would not consider option 1 to be very impactful.

We therefore recommend the Commission consider a different option for counting emissions for shipping than aviation and suggest **to/from next port (Option 2)**.

If international shipping and aviation emissions were included in the 2050 target, which of these options for the structure of a target would you support and why?

We support option 1 (include in the net zero component of the target)

SBC and CLC **support** including aviation and shipping in the net zero component of the 2050 net zero target.

We **recommend** including in the supporting emissions budgets **separate and explicit gross emissions reductions expectations** for both aviation and shipping. This reflects the different circumstances, technologies, and control over levers each sector has.

As stated in previous submissions, we **support** an explicit focus by the Government on gross emissions reductions, which aligns with the commitments made by our members.

We recognise the role of removals in helping New Zealand meet its target and would not expect aviation and shipping to shoulder more of the burden share of effort in reducing emissions to reduce global warming than other sectors.

SBC and CLC note that both shipping and aviation are expected to have residual emissions in 2050 and so will be relying on removals and a net zero target.

We therefore support option 1.

If international shipping and aviation emissions were included in the 2050 target, are those more ambitious levels of gross emissions reductions appropriate to target or are there other circumstances that should be considered?

SBC and CLC do not have evidence upon which to recommend specific levels for the target. We suggest an option to consider would be to adopt the IMO and ICAO ambition and translate this into domestic legislation.

If the international shipping and aviation emissions were included in the 2050 target, should the existing net zero component of the target's level of emissions reduction be changed to match any residual international shipping and aviation emissions?

Yes. SBC and CLC would support understanding the trajectory for gross emissions reductions possible across aviation and shipping, setting a corresponding goal for gross emissions reduction for these sectors and increasing the removals required to remain net zero in 2050 and every year after.

If aviation and shipping were to be included in the 2050 target, we recognise that this would increase the total volume of gross emissions in the target, and therefore increase the amount of removals required. Or it could require more gross reductions from other sectors, high ambition for gross reductions from aviation and shipping, or allowing more gross emissions under the 2050 target.

If New Zealand were to bring international aviation and shipping emissions into the existing 2050 target rather than create a separate target for these emissions, SBC and CLC would advocate for the net zero component of the existing target to be amended to reflect the change.

The current target is for net zero emissions for long-lived gases by 2050 and for every year after. Bringing these sectors in would add gross emissions to the target, making it harder to achieve if nothing else changed.

About the Sustainable Business Council

The Sustainable Business Council (SBC) is a CEO-led membership organisation with nearly 130 businesses from all sectors, ambitious for a sustainable New Zealand. Members represent more than \$158 billion of collective turnover, 41% of GDP, and nearly 290,000 full-time jobs. Our network gives members unparalleled influence and the ability to take large-scale collective action. SBC is part of the BusinessNZ network and is the New Zealand Global Network partner to the World Business Council for Sustainable Development. www.sbc.org.nz

About the Climate Leaders Coalition

The Climate Leaders Coalition (CLC) was launched in July 2018 and has a mission of having New Zealand business CEOs leading the response to climate change through collective, transparent and meaningful action on mitigation, adaptation and transition. Our signatories represent 32% of GDP, employ more than 213,000 people and have a collective turnover of \$126 billion. To be a signatory, organisations are held to account for delivering on a 'Statement of Ambition' which includes minimum commitments to measure and report emissions, adopt science-aligned emissions reductions targets to limit future warming to 1.5 degrees; assess and disclose climate change risk; and proactively enable employees and suppliers to reduce their emissions. www.climateleaderscoalition.org.nz

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