

# Sustainable Business Council and Climate Leaders Coalition response to the Government's Draft Second Emissions Reduction Plan



# Sustainable Business Council



**WBC** Global Network

# CLIMATE LEADERS COALITION

ON A MISSION TO REDUCE EMISSIONS IN NEW ZEALAND



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# Executive Summary

The Sustainable Business Council (SBC) and Climate Leaders Coalition (CLC) welcome the opportunity to respond to the Government's draft second emissions reduction plan (ERP2).

The companies and organisations represented – over 40% of New Zealand's current GDP – are committed to working together to play an active role in meeting New Zealand's emissions budgets and targets, setting our economy up for a low-emissions, climate resilient, future.

This response represents the experience of members in reducing their emissions and draws on previous submissions, reflecting SBC and CLC's ongoing engagement with climate policy and action.

SBC and CLC's submission **focuses on the key strategic areas** where the ERP can be strengthened.

The draft ERP2 provides a useful foundation. SBC and CLC welcome the Climate Change Minister's [Government's climate strategy](#) and invitation to work with Government to create the policy detail, and partnerships required for the transition.

The SBC and CLC review notes that the package of initiatives that make up ERP2 is only within a very slim margin of meeting the second emissions budget and contains a high degree of risk in the successful deployment of some policies. This could undermine New Zealand's ability to meet its climate commitments, lead to significant financial liabilities, and mean we fall behind our key trading partners.

There are several actions Government can take with business over the next few years which will mean that New Zealand can more confidently meet its second and third emissions budgets. These are outlined below.

The SBC and CLC membership are conscious of the economic conditions New Zealand is operating in, the vision and the objectives of the Government and the levers it wishes to use. Most of the priorities raised are policy options to set the context for private sector action.

**Specific recommendations are outlined here and further options are provided throughout the submission.**

## Recommendations 1 and 2 – Options to improve comprehensiveness

1. **Support proven, commercially viable emissions reduction technologies**, like electric vehicles, alongside investment in emerging solutions to increase the likelihood of meeting budgets.
2. **Create a regulatory framework that will enable the growth of private sector deployed initiatives, and public private partnerships, which use nature-based solutions to address climate change.**

Policy options within the transport and energy sectors could leverage an abundant and affordable energy system to reduce emissions or help to deliver that system. Suggestions across the sectors to increase the uptake of low emissions solutions can be found in the body of the submission.

There is an opportunity to learn from a decade of crowding private finance into climate investments to incentivise similar investment in nature-based solutions. The Government can work with business to develop the regulatory frameworks and actions that build on the key factors for success – transparency, credibility, governance.

## Recommendations 3, 4 and 5 – Options to improve New Zealand's ability to meet budgets

3. **Establish cross-party consensus on key climate policies** in finance, agriculture, nature, energy and transport to ensure long-term stability and boost investor confidence.
4. **Adopt a dual consideration of net and gross-based emissions**, focused on the mechanisms that will deliver a transition to a low emissions economy.

5. **Implement a broader range of policy mechanisms**, such as market creation for renewable freight certificates, to address non-price barriers to emissions reduction and to address the risk of under-delivery of emissions budgets.

Unlocking private investment through stable policies and an efficient regulatory environment will lead to greater innovation and investment, particularly from the private sector. Investors need policy stability to invest the billions of dollars that will be necessary to transition New Zealand to a net zero economy.

This will require the Government to reach consensus, for example as was achieved with the Zero Carbon Act, to ensure policy stability through multi-party support. With this approach New Zealand will be in the best position to take advantage of the productivity and economic benefits of the transition.

SBC and CLC are guided by the principle that New Zealand's 2050 target requires a strong and stable carbon price to drive investment and behaviour change that will reduce gross emissions as well as incentivise forestry. CLC and SBC members support gross emissions reductions alongside a net based outcome.

#### **Recommendation 6 – Emissions Trading Scheme**

6. **Revise the ETS settings** to ensure alignment with emissions budgets and consider mechanisms to maintain price stability. Allow the ETS to drive gross emissions reductions, through a steadily increasing price trajectory.

The Government has indicated it will use the ETS price as a primary mechanism for delivering emissions reductions, using the price signal to drive investment towards low emissions alternatives. SBC and CLC support this approach.

To achieve gross emissions reductions the price of carbon will need to be higher than the \$50-75/t range set out in the draft. Some changes are likely to be required to manage the balance of supply and demand of New Zealand Units. This could be either constraints on the number of units entering the scheme, management of any surplus, or the generation of additional demand for units.

SBC and CLC are aware of the release of the revised auction settings on 20 August 2024. Members have not been able to review these in time to inform this submission. However, SBC and CLC welcome moves to strengthen the settings, by reducing the volume of units available through auction.

#### **Recommendations 7 and 8 - Improving cost effectiveness and the economic impact**

7. **Adapt the concept of 'least cost' to one of highest future-value**, taking a longer term and broader view of the opportunities of the transition.
8. **Ensure private finance is able to play its part through:**
  - Accelerating capital, for climate-aligned, nature-positive projects which are already investable.
  - Helping innovation, for projects where bespoke or novel financing regimes can help support their development.
  - Developing credible markets, for investment opportunities without existing commercial pathways to investability<sup>1</sup>.

The transition is best framed not as least cost but "*highest future value*" opportunity, where New Zealand may stand to gain, for example, from exports, productivity and healthier lives. Taking this intergenerational perspective may change the cost-benefit analysis for action.

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<sup>1</sup> CSF submission to the 2024 ERP2 consultation.

# 1. Introduction

The Sustainable Business Council (SBC) and Climate Leaders Coalition (CLC) are pleased to submit a collective response to the Government's draft second emissions reduction plan.

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 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
- an effective combination of pricing and complementary policy measures
- reductions in gross emissions
- removals focused on native afforestation and appropriate nature-based removals
- policy stability across Governments, giving investment certainty for business.

The combined emissions reduction achieved by current CLC signatories between signing up to the Coalition and November 2023 is 3.6 million tCO<sub>2</sub>e, a cumulative 29% reduction achieved during their membership period<sup>2</sup>. 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 tCO<sub>2</sub>e before 2035. The average target ambition per signatory is 42 percent of their base year emissions.

This response draws on our previous publications:

- [Submission on the Climate Change Commission's Pathways Consultation, May 2024 | SBC](#)
- [Briefing for incoming Ministers, November 2023 | SBC](#)
- [Submission on Review of the New Zealand Emissions Trading Scheme, August 2023 | SBC](#)
- [2023 Pre-election policy priorities paper, April 2023 | SBC](#)
- [Emissions Reduction Plan discussion document response, November 2021 | SBC](#)
- [Submission to Climate Change Commission, March 2021 | SBC](#)
- [Briefing to Incoming Government on Climate Action Priorities, October 2020 | SBC](#)

SBC and CLC members are committed to supporting New Zealand's climate change response, ensuring that New Zealand is on a pathway to meet its emissions budgets and targets which provide a clear signal to the private sector about the path to a net zero emissions, climate-resilient economy by 2050. It is increasingly important that Aotearoa consider the twin crises of climate and biodiversity within the same frameworks.

Emissions reductions plans (ERPs) are an important opportunity to set the context which guides public and private efforts and investments. The ERP needs to recognise the roles of different actors and consider policy coherence across different levers. Neither Government nor business can achieve the emissions reductions required alone – this needs to be a joint effort across society.

SBC and CLC will continue to work with the Government on additional policies that could enable the Government to have more certainty about hitting its emissions targets and that may help bridge the gap to meeting the third emissions budget. Members will be submitting directly to the Government consultation on these too.

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<sup>2</sup> <https://climateleaderscoalition.org.nz/wp-content/uploads/2023/11/CLC-5th-Anniversary-Snapshot-Report.pdf>

## 2. Options to improve comprehensiveness

### Recommendations 1 and 2

1. **Support proven, commercially viable emissions reduction technologies**, like electric vehicles, alongside investment in emerging solutions.
2. **Create a regulatory framework that will enable the growth of private sector deployed initiatives, and public private partnerships, which use nature-based solutions to address climate change.**

### *Sectors that would benefit from inclusion in ERP2*

A number of **sectors have the potential to reduce emissions using proven technology.**

There are options across buildings, energy efficiency and other sectors that would reduce emissions cost-effectively and with numerous spillover benefits in the next two emissions budgets as well as a range of co-benefits, such as reducing the current account deficit and increasing energy sovereignty. The ETS will have some, but limited effect in these areas. For example, households may not have the upfront capital to choose an electric vehicle, even if the ETS helps make the total cost of ownership beneficial.

Greater emissions reduction across the sectors can be supported by proportionate, well-designed, complementary measures. Awareness and the ability to internalise a carbon price may not be a tool many New Zealanders have to hand. New Zealand will lose out in terms of tax revenue, productivity gains, avoided purchase of oil, and domestic reliance by failing to capitalise on these opportunities.

There are industrial electrification projects which can result in significant emissions reductions in a short timeframe. This can be achieved via tax incentives, public private partnerships for supporting network infrastructure (one of the largest costs in any project), or use of the Government's green investment funding. In the building sector, a better building code to raise standards, and energy labels on buildings to overcome an information deficit are both options to improve outcomes.

Recent analysis found that up to 42 percent of New Zealand's 2030 emissions budget targets could be met by actions enabled by digital technology<sup>3</sup>. SBC and CLC recommend that the Government give this issue further consideration and engage with the technology sector on this subject.

The draft ERP contains limited information on the potential policies and mechanisms that would deliver emissions reductions from the transport sector or urban design. The transport sector is responsible for 17 percent of New Zealand's emissions and under the previous plan was set to reduce emissions by 41 percent by 2035. Under the current plan for the second emissions budget transport will contribute just 1.3 percent of the emissions reductions in the second budget.

There are known technologies, and behaviour change options, within the transport sector that could deliver significantly more emissions reductions. Some ideas are outlined below:

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<sup>3</sup> <https://nztech.org.nz/wp-content/uploads/sites/8/2024/04/Technology-for-Emissions-Reduction-Report.pdf>

## Transport

- Government support for the SBC member-led effort to create a market for renewable freight certificates in the form of assistance with the feasibility study. This will enable the establishment of a market-based mechanism by the private sector. Assistance to underpin the additionality, credibility and transparency around the scheme so that capital can confidently be deployed.
- FBT exemption for low emissions vehicles to incentivise the uptake of EVs in the light passenger fleet. This will help address the barriers to purchase, in the same way the EV charger policy addresses range anxiety. It will also create a pipeline of second-hand EVs.
- Designing the proposed congestion charge scheme with parameters that act as an incentive/reward for low emissions outcomes, like shared transport or EVs.
- An extension of RUC exemption for the heavy fleet, helping the business case to purchase low emissions heavy vehicles.
- Ensure infrastructure and regulatory decision-making that prioritises decarbonisation targets and enables their achievement.
- Introduce a low emissions jet fuel obligation in line with New Zealand's commitment through the International Civil Aviation Organisation.
- Implement tax incentives for BEV/low emissions heavy and light vehicle uptake by allowing accelerated depreciation of BEV vehicles.
- A levy on diesel – recirculated to the Low Emissions Vehicle fund.
- Consider a carbon intensity fuel standard.
- Co-funding a pilot BEV/low emissions heavy fleet refuelling or charging network, to determine barriers and opportunities for rolling out BEV charging network or refuelling.
- Partnering with business to develop work on overcoming barriers to EV charging rollout. Some barriers relate to process (e.g. consenting requirements and timeframes), some to financial rollout costs (e.g. network connection costs, contractor and traffic management cost components) and cost recovery implications to private investors, and others to agency costs (e.g. asymmetry between land lease term and asset economic lifetime). These barriers are well known to public charging companies and are currently dealt with on a case-by-case basis, causing significant inefficiencies (e.g. the transaction costs associated with dealing with 29 network companies, with different connection pricing and processes). There is a role for the government and regulators to take a centralised approach to removing some of these barriers, in partnership with the private sector.
- The majority of New Zealanders will charge their electric vehicles at home. Getting the settings right to encourage the adoption of smart charging technologies will deliver economic benefits to the household and manage peaks in electricity usage. There are a range of settings here that can be explored with the private sector.

Aviation is an area where the ETS in isolation will not enable any change. It is important to implement policies in the period 2026 to 2030 to support long-term access to a continuous supply of alternative jet fuel. This will lay a foundation for decarbonisation to 2050.

The Government should consider working with industry to implement an enabling policy framework for aviation decarbonisation by opening a consultation on the most effective elements of a New Zealand alternative jet fuel policy package and implementing core elements of the package.

Signals to producers are critical as the infrastructure investment will need to be made ahead of the offtake agreements coming to life both for aviation and maritime solutions. Government bridging the risk is required, which could be done by requiring universal industry offtake, both in relation to alternative jet fuel and green hydrogen. Policies the Government could consider include market measures, such as alternative jet fuel requirements, that send a clear demand signal to producers, as



well as measures to address the price premium alternative jet fuel commands (and minimise the cost impact on passengers). This applies to both imported and domestically produced alternative jet fuel.

New Zealand is well suited to next generation aircraft technologies. These technologies require access to sufficient volumes of additional renewable electricity, a suitable transmission and distribution system, a functioning green hydrogen industry and fit for purpose regulations designed for novel propulsion aircraft concepts. The ERP2 period will require significant development to occur across all these areas.

## Energy

- Welcome the EECA amendment to give it powers to regulate for smart solutions that will enable demand response and smarter electrification. This will reduce costs to consumers long-term and means less new generation will need to be built.
- Consider extending the EECA amendment to also include regulation on smart solar inverters so that New Zealand can enable uptake of rooftop solar without causing electricity network issues.
- Consider tax exemptions as a mechanism to incentivise greater investment in process heat or industrial decarbonisation.
- Consider designating areas as a form of special economic zone, or “Low emission industry zones.” This will allow industry to co-locate with low emissions energy sources, like geothermal or hydrogen, providing benefits like accelerated regulatory processing, and incentives around innovation and collaboration. The mechanism could also include infrastructure opportunities, around aviation or ports.
- Review part 4 of the Commerce Commission Act to recognise climate change outcomes as part of its mandate. This will enable greater energy security, as it places the Commission with a future-focused view.
- Continue to enable EECA to support tech innovation through information disclosure and support for feasibility studies. This research can help businesses without the internal capacity to understand what globally leading New Zealand appropriate technology options there are, or how to build a business case.
- Increase New Zealand’s fuel security and domestic resilience by supporting the production of alternative jet fuel in New Zealand.

## Waste

- Amend regulation so that landfills no longer in use, and smaller, older landfills, are encouraged to reduce their emissions through, for example, landfill gas capture systems.
- Amend how the ETS is applied to different classes of landfills. Class 1 landfills are exposed to the ETS, but Class 2 landfills are not included. The perverse outcome of this is a commercial incentive to own and operate a Class 2 landfill under the current legislation, with a lower levy and currently no ETS obligations.
- Amend governance requirements to include industry representation and consider additional waste investment priorities to reduce the environment footprint of the waste sector, using a greater proportion of the waste levy.

In the area of nature-based solutions some options are outlined below, additional to what is included in the executive summary (taken from the Deloitte report for MfE, 2024):

## Nature

- Work with the private sector to determine actions to align with international biodiversity markets and/or design a New Zealand based system. International private investment is likely to require the same parameters as climate finance (for example, around credibility and transparency) and

standardisation with global norms. It could also realise global scale finance. A bespoke New Zealand scheme is likely to recognise the specifics, for example, the role of Iwi/Māori within projects.

- Determine and design a trusted mechanism to reward and incentivise greater private sector investment around non-exotic forestry nature-based removals. Use a standardised approach based on science.
- Regulatory support<sup>4</sup> is important. A legislative framework for Aotearoa New Zealand could provide clarity and enforceability, enhancing compliance and consistency.
- Consider who is best placed to develop a biodiversity metric given accurate and consistent use of the biodiversity metric is essential. The metric could consider the biodiversity ecosystem unique to Aotearoa New Zealand.
- A national registry process to streamline the biodiversity unit process is required. Consistent standards, monitoring and enforcement are key.
- Flexible mechanisms to accommodate different types of projects and geographical variations across the country.
- International research has highlighted the importance of the involvement of indigenous peoples and values in the development of biodiversity markets.

These omissions are significant, as the sectors play vital roles in achieving overall emissions reduction goals and driving sustainable economic growth. SBC and CLC recommend that the Government consider options across these sectors, as well as what can be achieved through their own procurement options<sup>5</sup>.

#### *Strategic, system-level analysis and resource availability*

There is an opportunity to **enhance investment confidence by providing more information on system-level aspects of the plan**. SBC and CLC advocate for ensuring New Zealand takes a high-level, system-wide view to ensure the ERP is robust to potential disruptions and to ensure that it provides 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, forestry, transport, energy, and waste sectors. Information and pathway resilience becomes important as New Zealand moves into these later budgets and there may be more competition for resources. Barriers may be too high for individual players in some areas, for example biofuels. The government could play a valuable role in bringing together players to overcome some of the barriers.

SBC and CLC foresee two potential risks:

- The transition pathway/s may become unviable if resources are unavailable.
- 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.

SBC and CLC consider this systems risk issue to also be apparent within the urban environment – it applies to the assumptions underpinning public transport, walking and cycling, urban design, housing stock and infrastructure. SBC and CLC foresee a risk of perverse outcomes if these interdependencies are not considered and a potential disruption to pathways. This is an area where the Government could help the transition by addressing an information shortage and asymmetry.

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<sup>4</sup> Drawing on the work undertaken by Deloitte for MfE (2024)

<sup>5</sup> <https://www.carbonandenergyfund.net/>

### 3. Options to improve New Zealand’s ability to meet budgets

#### Recommendations 3, 4 and 5

3. Establish cross-party consensus on key climate policies in finance, agriculture, nature, energy and transport to ensure long-term stability and boost investor confidence.
4. Adopt a dual consideration of net and gross-based emissions, focused on the mechanisms that will deliver a transition to a low emissions economy.
5. Implement a broader range of policy mechanisms, such as market creation for renewable freight certificates, to address non-price barriers to emissions reduction and to address the risk of under-delivery of emissions budgets.

#### *Policy stability*

SBC and CLC would like to reiterate the call for **policy stability**, which is crucial for building credibility in these plans<sup>6</sup>. Businesses require a degree of policy stability to take meaningful action and make the large investments required. Significant shifts in policy direction can undermine momentum and introduce sovereign risk. Attracting the level of investment for a number of our members requires stable and credible policy settings. New Zealand also risks failing to take advantage of the productivity, economic and holistic benefits that a transition will provide.

SBC and CLC welcome 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. This is especially important across the sectors with significant emissions reduction potential (electricity, transport, and agriculture for example) and where there are potential key policies New Zealand is relying on.

Business undertakes a significant amount of the investment, operational change, and asset replacement work within supply chains, required to meet New Zealand’s emissions reduction targets. Longevity is particularly important in infrastructure investments, where lead times affect what is possible. Significant fluctuations in policies between Governments can increase the risk of sunk costs, loss of investor confidence, and delays – all important given timing matters.

SBC and CLC note that the ERP2 details a long list of ceased policies, while introducing new approaches. SBC and CLC recommend that the Government seek, where possible, to agree its key policies across parliament to minimise the risk of changes in direction. A backdrop of regulatory clarity and certainty will allow for investment to flow.

#### *Pathway to meeting budgets*

SBC and CLC welcome the Government’s ambitions **to meet the second emissions budget**. However, members are concerned by the 2Mt CO<sub>2</sub>e projected surplus, and associated margin of error, around the policies to meet the second emissions budget. This indicates a high probability that policies will not deliver the required emissions savings and new policies will need to be introduced later.

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<sup>6</sup> [ASB NDC1 Target](#)

An alternative would be to introduce more measures now to help bridge the gap, and allow for under-delivery in some areas.

The draft ERP2 also lacks a comprehensive plan to meet the **third emissions budget**. Relying on more stringent budgets to be delivered in the future, without concrete planning in the present, is effectively postponing critical action. Evidence consistently shows that immediate action and investment yield better long-term outcomes<sup>7</sup>. The risk of pursuing a steeper and more disruptive path in the future should not be underestimated. Labour availability and other constraints place a limit on transition speeds, and evidence suggests that a rapid transition can be more disruptive to people and the economy.

SBC and CLC recommend that the Government revise its plan so that New Zealand is on a trajectory to meet all of its climate commitments.

### *Net and gross emissions reductions*

SBC and CLC have previously advocated for **absolute reductions** in emissions within a net framework. The draft ERP proposes a reframing of efforts to a strategy that prioritises a net-based least-cost approach, with the ETS as the primary tool.

SBC and CLC remain in favour of gross emissions reductions partially because of the risks associated with removals. The low-cost removals option available in New Zealand is exotic forestry. Exotic forestry carries risks (outlined in this document) and so removals come with a trade-off – lower cost in the short-term, but steeper reductions at potentially higher costs needed later.

The absence of policies to deliver gross emissions reductions puts at risk the transition to a low emissions economy, which will help New Zealand thrive over the medium to long-term. A focus on net emissions reductions risks losing our access to markets and competitive edge. For example, some exporters are more heavily exposed to European markets, where food miles and higher standards mean that market access issues are more material. Some members have international investors with overseas commercial pressures (from customers, investors and regulators) to meet.

A net-based, least-cost approach may increase demand for land-use conversions to monocrop pine forestry and means ongoing conversions of land to forestry every year that Aotearoa doesn't bring gross emissions down, including post-2050. A scarcity of available land will increase prices to the point it makes more sense to reduce gross emissions - but the consequences for food production costs in the meantime could be severe.

### *Role of complementary policies*

SBC and CLC have previously noted that there are **barriers the ETS cannot address**, necessitating complementary policies, something that is supported by international best practice. The draft EPR2 sets out an approach that relies on emissions pricing at a relatively low level (\$50-\$75/t) to deliver a fundamental shift in our economy, with limited complementary policies.

SBC and CLC have numerous concerns about the risks of this approach (set out below in the *risks* section). The ETS does not address any number of barriers to action<sup>8</sup>, for example, information asymmetry and access to capital<sup>9</sup>. There is evidence<sup>10</sup> to suggest that carbon pricing alone will not be effective or sufficient given the pace and scale of transition required. By under-valuing the potential of complementary policies,

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<sup>7</sup> [https://scholar.harvard.edu/files/stock/files/cost\\_of\\_delaying\\_action.pdf](https://scholar.harvard.edu/files/stock/files/cost_of_delaying_action.pdf)

<sup>8</sup> [View of Why Emissions Pricing Can't Do It Alone \(victoria.ac.nz\)](#)

<sup>9</sup> [DETA-Non-cost-decarbonisation-barriers-for-process-heat.pdf \(climatecommission.govt.nz\)](#)

<sup>10</sup> <https://www.climatecommission.govt.nz/our-work/advice-to-government-topic/advice-for-preparation-of-emissions-reduction-plans/2023-advice-to-inform-the-strategic-direction-of-the-governments-second-emissions-reduction-plan-april-2023/>

New Zealand risks missing out on the benefits of a transition which delivers gross emissions reductions and an economy fit for the future.

### *Alignment with advice on revising the emissions budgets*

SBC and CLC understand from the document that the Government has not yet decided on whether to adopt the Climate Change Commission's recommendations around **revising future emissions budgets**. The Government does not need to announce its decision until December 2024.

However, SBC and CLC expected that the draft plan would account for the potential outcome of revised budgets. If the advice is taken, budgets might become more stringent to maintain the same level of ambition as when they were set in 2019 by Parliament. SBC and CLC supported the Commission's advice in its consultation process.

SBC and CLC believe it is in the best interests of all stakeholders for the Government to plan in accordance with this advice. This would mean providing business (and others) with information about the policies and actions that would deliver further emissions reductions over those set out in the plan. SBC and CLC are aware that the final budgets will be set at the same time the Government releases its final ERP for the second emissions budget.

### *Reliance on unproven technology*

There are significant concerns regarding the credibility of a plan that heavily relies on **technologies that are either unproven** or may struggle to meet the outlined timelines, especially given the limited complementary policy support and a relatively low ETS price. The plan's dependence on Carbon Capture, Utilisation, and Storage (CCUS) to remove 1.4Mt CO<sub>2</sub>e in 2026-2030 and 3.2Mt CO<sub>2</sub>e in 2031-2035 raises questions about feasibility and does not align<sup>11</sup> with the Government's ambition for a 'least cost' approach. With ETS prices expected to peak at \$75/t and maintain a long-term average of \$50/t, it's crucial to critically assess whether it's realistic for industry to deliver the necessary levels of emissions reductions using novel technologies such as CCUS in this timeframe under this carbon price.

The document also suggests that new technologies and innovations in agriculture will deliver emissions reductions. SBC and CLC welcome the Government's investment through AgriZeroNZ to deliver the innovation required. Members note that agricultural emissions pricing is not set to commence before 2030.

SBC and CLC recommend, regarding the technological dependence and associated risk, that the **Government consider some additional complementary policies** to support known technology that can deliver emissions reductions within budget and beyond. This would balance the risk placed on unproven, potentially uneconomic, technologies to deliver EB2 and EB3.

SBC and CLC recommend that the Government consider policy mechanisms which are proven, evidence-based solutions to the emission reduction required. Some sectors where opportunities exist are outlined in this response.

### *Role of the ETS as a primary tool*

In preparing our submission, SBC and CLC have been guided by the principle that New Zealand's 2050 target requires **a strong and stable carbon price** to drive investment and behaviour change that will reduce gross emissions. A rising carbon price is important for incentivising gross emissions reductions, but it also risks impacting hardest on lower income households, or SMEs, if they're unable to access the same low emissions, lower cost opportunities as others.

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<sup>11</sup> [11 Ara-Ake-Report-Carbon-Dioxide-Removal-and-Usage-in-Aotearoa-New-Zealand.pdf \(araake.co.nz\)](https://www.araake.co.nz/11-Ara-Ake-Report-Carbon-Dioxide-Removal-and-Usage-in-Aotearoa-New-Zealand.pdf)

SBC and CLC do not consider the ETS as functioning with sufficient certainty to drive the transformation of the economy needed to remain competitive and meet New Zealand's domestic and international commitments. For some sectors, such as aviation, the ETS alone will not facilitate the change required for New Zealand to give effect to its international commitments. Policy inconsistency between what the Government is signalling around the transition and the required outcomes for budgets and targets may be driving market uncertainty.

The addition of CCUS and other removal sources, like wetlands, to the ETS, without tightening other settings, could potentially lead to an excess of units in the system and a collapse in the carbon price. SBC and CLC recommend analysis of this risk is done by the government and outcomes incorporated into its work to ensure the ETS is effective. This surplus may impact the carbon price, and it's unclear whether this potential effect has been adequately accounted for in the current plans.

## 4. Emissions Trading Scheme

### Recommendation 6

6. **Revise the ETS settings** to ensure alignment with emissions budgets and consider mechanisms to maintain price stability. Allow the ETS to drive gross emissions reductions, through a steadily increasing price trajectory.

### *Reliance on the Emissions Trading Scheme as the primary mechanism for delivering the transition*

#### *ETS Price*

The draft ERP contains information which suggests the Government's intention to maintain an ETS prices remaining of between \$50/t - \$75/t. This raises significant concerns about the financial viability of numerous emissions reduction and removal activities, as previously noted.

This price range may be insufficient to incentivise crucial initiatives included within the draft plan, potentially leading to a shortfall in achieving the targeted reductions or removals. For example, SBC and CLC are keen to understand the assumptions around the delivery of Carbon Capture, Utilisation, and Storage (CCUS) within this price range.

The limited price range indicated could result in either the non-occurrence of relied-upon activities or their implementation at a reduced scale, causing New Zealand to miss other valuable opportunities for emissions reduction.

SBC and CLC note that due to non-cost barriers, New Zealand may also miss out on beneficial activities. Complementary policies can bring actions to decarbonise forward in time, addressing urgency. Leaving emission reductions to the ETS alone at a relatively low price may significantly delay the transition to a low carbon economy, which could increase future business costs.

#### *Market confidence in the ETS price*

The heavy dependence on an ETS-led approach to reducing emissions can create problems, particularly given the current lack of assured market confidence, as evidenced by recent price fluctuations and auction results.

The plan fails to address some of the more fundamental questions surrounding the functioning of the ETS, such as the risk of a price collapse in the 2030s<sup>12</sup>. These issues could significantly undermine the effectiveness of the ETS as a primary tool for emissions reduction.

There is significant risk in relying on the ETS due to the high number of surplus credits in the ecosystem with the potential to flood the market, and absence of a hard cap on emissions because of the production of units through forestry.

SBC and CLC note that if the ETS price is not set at a high enough level to incentivise action - it seems unlikely that gross emission reduction will occur led by private investment, especially at the pace which is required.

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<sup>12</sup> <https://www.climatecommission.govt.nz/public/Advice-to-govt-docs/ERP2/final-erp2/ERP2-Final-Advice-for-web.pdf>

### *Additional removals and price implications*

The introduction of additional removals via the ETS, such as through CCUS or other newly recognised removals activities, may increase the availability of units. This would necessitate careful consideration of unit supply settings by the Government to avoid exceeding its budget(s). This may also have implications for other settings, such as the volume of free allocation. This delicate balance highlights the complexity of managing the ETS effectively while meeting emissions targets.

### *Reliance on removals to meet targets*

The increased reliance on removals in the Government's proposed approach to meeting budgets and targets, particularly through forestry and especially exotic monoculture, carries risks to the permanence and credibility of action. This approach may provide short-term gains but could lead to long-term vulnerabilities in our emissions reduction strategy. These risks have been set out by the Climate Change Commission and include the risks of pests, fire, and weather events which may reverse the removals and cause significant damage.

The short-term nature of forest removals means that sequestration will plateau and there is a risk of a shortage of low-value land post 2050, or a decline in social licence for ongoing conversions of land into permanent exotic forestry. This could cause New Zealand's emissions to bounce back, a concerted effort on gross emissions is required either way.

SBC and CLC also note the risks here around New Zealand's international reputation as a credible actor on climate change, with associated trade risks if there is overreliance on removals as opposed to gross emissions reductions.

### *Dependence on immature technology*

As noted previously, there is a heavy dependence on technologies that are only partially proven to deliver significant emissions reductions/removals. Where technology may be available it is not guaranteed to be commercially viable in near timeframes. This reliance comes at the expense of alternative technologies that are proven and viable today, but may not receive adequate support to achieve the scale and speed of deployment required. This imbalance in technological focus could hinder our ability to achieve emissions targets effectively and efficiently.

There is opportunity to increase momentum by focusing on sectors and technologies where there have been positive signs of change, such as uptake of low and zero emissions vehicles. Increased effort on measures that have proven effective could improve chances of meeting future budgets.<sup>13</sup> Removals via forestry will only reduce net emissions over the medium-long term as trees take time to sequester.

### *Delivery of the second and third budgets*

Creating new policies in EB3 to deliver within the budget period may prove challenging. Policies implemented in EB2 are crucial for setting the country on a path to meet EB3 targets.

The current approach risks necessitating a more extreme plan in the future. This potential for policy swings creates a volatile policy environment that is detrimental to business operations and long-term planning. A steady, agreed-upon approach would be far more beneficial, providing the stability and predictability that businesses need to make long-term investments in emissions reduction technologies and practices.

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<sup>13</sup> [https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/cc2f075f/user\\_uploads/monitoring-report---emissions-reduction---july-2024--final-web-ready.pdf](https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/cc2f075f/user_uploads/monitoring-report---emissions-reduction---july-2024--final-web-ready.pdf)



SBC and CLC notes that in other jurisdictions with a similar approach to emissions budgets and reduction plans, such as the UK, legal challenges have been made to plans that are perceived as inadequate<sup>14</sup>. For investment to flow, business needs to be confident that the actions in a plan are sufficient, and not subject to legal challenge or amendment by the Government at short notice.

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<sup>14</sup> <https://www.theguardian.com/environment/article/2024/may/03/britain-climate-action-plan-unlawful-high-court>

## 5. Improving cost effectiveness and the economic impact

### Recommendations 7 and 8

7. **Adapt the concept of 'least cost' to one of highest future-value**, taking a longer term and broader view of the opportunities of the transition.
8. **Ensure private finance is able to play its part through:**
  - Accelerating capital, for climate-aligned, nature-positive projects which are already investable.
  - Helping innovation, for projects where bespoke or novel financing regimes can help support their development.
  - Developing credible markets, for investment opportunities without existing commercial pathways to investability.

While SBC and CLC are not in a position to re-run the government's modelling and assessments, the review of the plan has raised several important questions that warrant further consideration.

### *Overall economic impact*

SBC and CLC are concerned that the analysis suggests this plan costs the same as previous ones in terms of GDP impact by 2050, yet achieves less in terms of emissions reduction. This raises questions about the efficiency and effectiveness of the proposed measures, and SBC and CLC are keen to understand the Government's rationale behind this discrepancy.

The Climate Change Commission analysis in its recent monitoring report notes that:

"Aotearoa New Zealand's gross domestic product (GDP) has risen by 147% since 1990, while gross emissions have only risen by 14% over that time... While Aotearoa New Zealand's gross emissions-per-GDP ratio since 2014 has been lower than the global average, it is still the third-highest ratio of all advanced economies, behind only Australia and Canada."<sup>15</sup>

SBC and CLC members are confident that it is possible to target gross emissions reductions and grow the economy.

SBC and CLC are interested in whether the Government has accounted for the missed opportunities resulting from a heavy reliance on forestry to meet our targets. For instance, electrifying households or businesses brings financial benefits both directly and more broadly, but this may be out of reach for many under an ETS/market-led approach, particularly for households or SMEs.

### *Least cost approach*

SBC and CLC agree with the Government that prioritising emissions reductions based on their cost-effectiveness may minimise costs to community welfare, retain flexibility, and allow for New Zealand to adapt its approach to changing circumstances (e.g. technology). However, it is important to consider least-cost holistically.

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<sup>15</sup> [https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/cc2f075f/user\\_uploads/monitoring-report---emissions-reduction---july-2024-final-web-ready.pdf](https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/cc2f075f/user_uploads/monitoring-report---emissions-reduction---july-2024-final-web-ready.pdf)

SBC and CLC acknowledge that the Government's CGE modelling shows a minor gain (or avoided loss) in GDP by 2050 under its revised path. However, SBC and CLC note that the emissions reductions are less than under the previous plan and the Government is not on track to meet its third emissions budget. This suggests that some actions that will need to be taken are not costed in its analysis. Members would like information as to whether this approach has also costed the potential purchase of offshore credits to meet New Zealand's international commitments.

SBC and CLC also note that CGE modelling is not well set up to provide output information regarding transition to the economy. It cannot model disruptive technology well, or a change in economic activities. The modelling may be underestimating the benefits of a transition to a low emissions, resilient economy<sup>16</sup>.

SBC and CLC understand that the Government has considered **least cost as a function of GDP**, including consideration of total economic costs in the long term. It is unclear whether in the context of the estimated health and social impacts of air pollution at \$15.6b per annum<sup>17</sup> and congestion at nearly \$1b per annum<sup>18</sup> the full value of co-benefits associated with the gross emissions approach<sup>19</sup> has been captured. The Government might wish to consider a broader set of analysis and move away from a short-term, narrow definition, focused on least cost. The choice to opt for a least-cost net-based transition could push action and cost onto future generations.

The transition is best framed not as a 'least cost' exercise but one where New Zealand may stand to gain, for example, from exports, productivity and healthier lives. There is an opportunity to reframe towards a **'highest future value' or net present value transition** instead. The transition is a 25-50 year process, so cost should be considered over the entire timeframe, accounting for savings and benefits from investments.

Action will likely be required to remain competitive and to maintain our current levels of trade. In the face of uncertainty, the value attributed to opportunity cost needs careful consideration. Failing to reduce gross emissions now, and relying on converting land to exotic forestry, may mean that future generations have less choice about land use that is permanently locked up in exotic forestry. Future generations and businesses may also need to take faster and more disruptive action to meet targets, which carries a cost.

It may also not be possible to deliver the infrastructure upgrades needed to transition to a lower carbon economy in time to meet our 2050 target if action is left too late. For example, without ongoing investment in the 2020s, the rail network may not be in a state to rapidly upscale and carry more freight or passengers after 2030. A similar story is true for aviation and the transmission and distribution networks. Infrastructure investment will also be compounded by the increasing impacts of climate related damage in the 2030s and 2040s.

**Some actions have not been costed** – for example, the risk that this ERP places New Zealand on a pathway to a disorderly transition.

### *Provision of private finance*

The draft document includes a chapter on private finance leading the funding of the transition. As stated previously, SBC and CLC seek **greater cross-party consensus and policy certainty between political cycles to ensure the policy stability required for long-run and large-scale investment.**

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<sup>16</sup> <https://www.deloitte.com/content/dam/assets-zone1/nz/en/docs/about/2023/nz-turning-point-report.pdf>

<sup>17</sup> [Study reveals health impacts and social costs of air pollution | Ministry for the Environment](#)

<sup>18</sup> [road-pricing \(nzta.govt.nz\)](#)

<sup>19</sup> Noted on p24 of Ministry for the Environment. 2024. New Zealand's second emissions reduction plan (2026–30): Discussion document. Wellington: Ministry for the Environment

Placing orders for vehicles or significant pieces of equipment (e.g. boilers) takes place 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.

The removal of the Climate Emergency Response Fund (CERF) means a call on the consolidated fund to fund the transition. This change risks reduced business and public buy-in, given the removal of this pool of capital available to fund the transition. The Government can stimulate private climate finance by identifying and implementing reforms to attract private capital in priority areas and by incorporating climate perspectives into its work programme.

SBC and CLC note the work of the Centre for Sustainable Finance in this area and their recommendation that “A durable sustainable finance strategy from the Government, which supports and enables substantial flows of private finance, should help to alleviate the demands on Crown spending.” The CSF have suggested a **framework that focuses on roles for Government** through:

1. Accelerating capital, for climate-aligned, nature-positive projects which are already investable.
2. Helping innovation, for projects where bespoke or novel financing regimes can help support their development.
3. Developing credible markets, for investment opportunities without existing commercial pathways to investability.

## 6. Options to improve information provision

### *Level of detail provided*

The draft ERP2 would benefit from the inclusion of more detailed information regarding policy options it outlines. The ambiguity makes it difficult to judge the adequacy of the proposed measures and hinders businesses' ability to make informed investment decisions.

SBC and CLC note that the price levels of around \$50/t are not likely sufficient on their own to incentivise transport and industrial decarbonisation. As a result, New Zealand would expect less electricity demand growth overall and therefore less opportunity to build new renewable generation and achieve the doubling of renewables outlined in the plan.

Such gaps in information create uncertainty and potential barriers to achieving the plan's objectives. SBC and CLC recommend that the Government update the plan as more information becomes available, and use the policy information provided by the Climate Change Commission as part of its monitoring work to inform revisions.

### *Nationally determined contribution*

SBC and CLC acknowledge the gap of 93Mt identified in the ERP between what the second emissions budget will achieve and the Nationally Determined Contribution (NDC). While members recognise the need for some overseas reductions, SBC and CLC strongly believes that more detailed **information on how New Zealand plans to meet this commitment** is essential for maintaining international credibility.

SBC and CLC urge the Government to provide a comprehensive strategy for addressing this gap, ensuring that New Zealand remains a responsible global actor in the efforts to address climate change. SBC and CLC recommend further transparency about what is required for this obligation to be costed on the Government's balance sheet. Failing to adequately cost and account for the NDC could lead to future financial and policy challenges which could affect New Zealand taxpayers and businesses.

### *Social aspects of transition*

SBC and CLC recommend the Government provide further information about how it intends to manage the social aspects of the transition. The plan provides limited insight into where the costs will fall and who will be most affected by the approach to least cost or who will benefit most. Costs may disproportionately affect marginalised communities, lower income households and Māori. This omission raises concerns about the equitable distribution of both the benefits and burdens of the transition.

The consultation document acknowledges the **disproportionate impact of emissions pricing on lower socioeconomic groups**. Petrol prices are a driver of this inequity, SBC and CLC recommend further consideration of transport policies to support a just transition. The proposed congestion charging scheme is a welcome opportunity to address productivity, emissions and equity. Members support the investment into public transport projects and suggest that work to make better use of existing public transport infrastructure includes considerations of equity and affordability. This can be further enhanced through investment into active transport<sup>20</sup> which can play a key part in not just replacing short car journeys but also addressing the last mile in combination with public transport, a challenge recognised by NZ Transport Agency Waka Kotahi.<sup>21</sup>

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<sup>20</sup> Benefits of investing in cycling in New Zealand communities - 2 March 2016 (nzta.govt.nz)

<sup>21</sup> [Integrating low emission first-and last-mile travel solutions | NZ Transport Agency Waka Kotahi \(nzta.govt.nz\)](#)

Likewise, improvements in residential building standards, particularly for rental houses, would support low-income families in reducing electricity demands to offset the expected rising costs of electricity. Some policies suggested may be more easily accessed by more affluent New Zealanders, for example, an EV charging network. SBC and CLC recommend the Government consider how to balance this so New Zealand's transition benefits all.

A number of actions that addressed the social implications of economic transformation from ERP1 have been removed without replacement or assessment of the consequences. SBC and CLC anticipate that this could have negative impacts, with increased welfare costs, and potentially a drag on the economy.

#### *Non-climate policy impacts on emissions*

SBC and CLC note that there are policies that sit outside ERP2 which have the **potential to also address emissions reductions or to counter it via increased emissions**. SBC and CLC welcome the Government's transparency to date around these, for example, on the emissions consequences of further block offers for oil and gas exploration. SBC and CLC recommend that the Government continue this transparency, so that the business community and others understand the future emissions trajectory.

#### *Exotic and native afforestation*

The draft ERP2 contains information provided about the expected relative areas for planting in native and exotic forestry. SBC and CLC welcome the initiative outlined in the document for the Government to partner with the private sector to plant trees. There is no financial incentive currently to use native trees for afforestation. The benefits of biodiversity are not just around carbon sequestration, but also flood and sediment mitigation, increased native species habitats, and improved soil health (and therefore 'locked in' carbon).

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# Sustainable Business Council



# CLIMATE LEADERS COALITION

ON A MISSION TO REDUCE EMISSIONS IN NEW ZEALAND

