

Submission

To the

Ministry for the Environment

On

“Gazetting New Zealand’s 2050 emissions target: Minister’s position paper
(released on 29 January 2011)”

Introduction

1. Straterra Inc was formed in 2008 to be a collective voice for the New Zealand resource sector. Its membership represents 84% by value of New Zealand minerals production (excluding oil & gas, and geothermal), as well as exploration, research, service and support. Straterra works closely with the petroleum sector and has links to the geothermal sector.
2. The resource sector makes a significant contribution to the New Zealand economy. Oil, gas, coal, gold, aggregates and other minerals contributed \$2.15 billion to GDP in 2008, compared to the wine industry (\$0.45bn), and tourism (\$6.66bn). Resource exports in 2009 earned \$3.6bn (8.2% of total goods exports) while dairy in that year was \$10.0bn, and overseas tourism, \$9.3bn. In 2009 there were 6800 people employed directly in mining, and 8000, indirectly, flowing from the economic activity of the 6800. The median wage for a mining employee was \$57,320 in 2008, compared to the New Zealand median of \$33,530.
3. New Zealand’s response to climate change issues has strong implications for the resource sector. Changes in the price of carbon will affect the cost of production, primarily through increases in the cost of transport, electricity and process energy, and the cost and availability of investment capital.
4. Straterra welcomes the opportunity to comment on the position paper by Minister for Climate Change Issues Hon Dr Nick Smith. We do so from the perspective that businesses operating in New Zealand, or considering investment in New Zealand, may legitimately expect to be treated fairly, find clarity in legislation and regulations, and to find certainty of process and in the rules to be followed, or in the absence of that, certainty in being able to discover them. This is necessary to promote New Zealand’s attractiveness as a destination for globally mobile investment.

5. Properly encouraged and managed, the resource sector's contribution to the New Zealand economy will grow significantly. As a resource-rich country, and with new technologies and changing demands, New Zealand's mineral and energy resources will afford economic opportunities for many decades to come. This is the case for coal (including lignite), gas and petroleum, other minerals (gold, ironsands) and other potential fossil fuel-related resources such as coal-seam gas, gas produced from underground coal gasification and methane hydrates. Naturally, these opportunities will need to be developed in the context of New Zealand's response to climate change issues.

Discussion

7. Human-caused climate change is a real risk and the world, including New Zealand, needs to respond. To do that effectively, the world needs new strategies – in view of the uncertain future of the Kyoto Protocol, and the lack of a definitive plan of action agreed at Copenhagen or Cancun – and meaningful 2050 targets may qualify.
8. Section 224 (1) of the Climate Change Response Act 2002 requires the Government to set a target, which may be amended at any time under section 224 (2) of that Act. The Government is now proposing for net greenhouse gas emissions to reduce to half of 1990 gross emissions levels, by 2050, on the basis that we would be doing “our fair share”, to quote Minister for Climate Change Issues Hon Dr Nick Smith. A gazetted 50 50 target would be “credible and realistic” for New Zealand to offer the world as our contribution.
9. Straterra agrees with the Government that we in New Zealand need to do “our fair share” in responding to climate change issues. That said, we cannot possibly know, at this stage, whether or not it is realistic for New Zealand to meet a 50 50 target in a rational way. Such a target cannot, therefore, be “credible and realistic”; it can, at best, be aspirational.
10. The Government's position paper can be interpreted to support this view. In it, the Government has qualified its intention to set a 50 50 target in three ways: it is assumed New Zealand will develop or adopt “major technological innovations in areas like agriculture and transport”; the Government will strike the right balance between having an economically-sound and an environmentally-sound target; and the Government will review the target, on the basis of developments in climate change science, other nations' progress and in new technologies.
11. Stated another way: unless there are major technological breakthroughs and unless other key countries take significant action, New Zealand will be unable to meet a 50 50 target in a rational way, one that is both economically sound and environmentally sound.
12. If New Zealand's key competitors in international trade do not introduce a carbon price or other “equivalent” measures, as the New Zealand Emissions Trading Scheme ramps up (being the

proposed key tool for change at home), the competitiveness of our trade-exposed industries would suffer, and reduce production and/or move offshore. The result for New Zealand is the risk of serious harm to the national economy, with no benefit for the world's climate.

13. There is also the issue of "comparability of effort" to consider. Treasury advice indicated in respect of the 2020 target that the cost to New Zealand per tonne of CO₂ equivalent reduced could be significantly higher than that of other Annex 1 countries. This imbalance needs to be taken into account when reviewing New Zealand's progress towards meeting a target.
14. The position paper argues that New Zealand is "well positioned to take advantage of the global transition towards clean energy", that we have "a wealth of cleantech innovation and technical expertise" and that some 250 companies and organisations are "researching, developing and commercialising clean technologies in New Zealand".
15. These are encouraging signs but are a long way from predicting that major technological breakthroughs will occur and be implemented between now and 2050.
16. Nor is there any likelihood of meaningful actions by key countries anytime soon. Australia is proposing to introduce a fixed-price scheme from July 2012 but there is continuing uncertainty on the detail as discussions continue between the Government, Independent MPs and the Greens. The US has no prospect of introducing an ETS during this presidential term because of the Republican majority in the House of Representatives. Canada has said it will pursue the same emission reduction target as the US. Japan has shelved its ETS proposal. Korea is delaying the proposed date for introducing an ETS by a further year, from 2013 to 2014.
17. Even though countries such as Australia, Canada, Japan and the US have made pledges for 2050, these have not been formalised. Just as these countries are unlikely to introduce a price of carbon into their economies any time soon, there is no indication they will be introducing legally-binding 2050 targets.

Concluding remarks

18. Climate change is a global issue and we understand absolutely New Zealand's need to do its fair share, and our need to support and build our "brand". A risk with setting a 50 50 target, heavily conditioned as it must be, is that it may be seen as a glib piece of marketing. This would be unfortunate, when the Government's intentions are honourable.
19. To avoid misunderstanding of the Government's intentions when setting a 50 50 target, the Government could make it clear that the target is aspirational, that it will be reviewed regularly against a set of criteria and performance measures, and that future governments could amend

the target, as necessary, to reflect progress in technology, climate change science and global efforts, and to provide for the responsible governing of New Zealand's interests.

20. Phrasing the Government's intentions in this way would provide to businesses the certainty they are looking for on the climate change issue, which is by its nature a field of great uncertainty.

Recommendations

21. Straterra recommends that the Government:

- a) Set an aspirational target; and
- b) Review the target regularly, on receipt of evidence of major technological breakthroughs, meaningful actions by other key countries and assessments of comparability of effort, as preconditions for New Zealand to meet a target, in an economically-sustainable way, and in a way that would benefit the world's climate; and
- c) Enable the implementation of recommendation (b) by defining: "major technological breakthroughs", and "meaningful actions by other key countries", and by specifying how progress towards each would be measured and reported.

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