

## Submission from Straterra

### To Environment Committee

# Climate Change Response (Zero Carbon) Amendment Bill

July 2019

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## Introduction

1. Straterra is the industry association representing the New Zealand minerals and mining sector (including coal). Our membership is comprised of mining companies, explorers, researchers, service providers, and support companies.
2. We welcome the opportunity to make this submission on the Climate Change Response (Zero Carbon) Amendment Bill (the Bill).
3. Straterra acknowledges the international imperative of reducing carbon emissions, and New Zealand's obligations as a signatory to the Paris Agreement. We support efforts to reduce emissions provided; a) the competitiveness of effected sectors of the economy is maintained and b) reduction of emissions in New Zealand does not lead directly to increased global emissions.
4. Moving ahead of our trade partners in the energy intensive trade exposed sector will lead to carbon leakage<sup>1</sup>. Investment lost and energy intensive industries moving to those countries without similar imposts will achieve little or nothing for an overall reduction in global emissions. New Zealand is a very efficient producer of many energy intensive products that we export and any loss of investment, economic activity and jobs in these sectors would typically result in a negative global contribution.
5. Notwithstanding this caution, we support New Zealand adopting a responsible climate change response. It is important that response is elevated above politics as much as possible. We support and encourage the bipartisan approach that is being sought by the main political parties. This will help provide the long-term certainty required to support and encourage business investment.

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<sup>1</sup> This can take the form of international investment relocating offshore, or production moving offshore as business downsize or close, allowing international demand to be met by producers in other countries.

## Submission

6. This Bill:
  - Sets a greenhouse gas emissions reduction target and a series of emissions budgets to act as stepping-stones towards that target.
  - Requires the government to develop policies for climate change adaption and mitigation.
  - Establishes a new independent Climate Change Commission to provide expert advice and monitoring.
7. We support the provisions in the Bill relating to adapting to climate change and the establishment of the Climate Change Commission. However, we do **not** support the approach of the Bill in terms of a target to reduce our emissions.

## Part 1A - Climate Change Commission

8. We support the establishment of a Climate Change Commission which would provide independent, expert advice to government on issues around climate change.
9. We broadly support the proposed design elements of the Climate Change Commission as set out in the Bill. The requirement to consult with the public and to provide its recommendations to government transparently is particularly important.
10. The make-up of the Commission is very important. The Commission should have independent experts to ensure robust debate and decision making. We support the process of appointment and the role of the nominating committee, as set out in Subpart 1 but we note the term of members is not specified (New Section 5I). The Chair of the Commission should be a businessperson. This is particularly important as most CO<sub>2</sub> reductions over time will be achieved through the actions of business.
11. We agree the Commission's role should be advising and monitoring. It should not have decision making powers.
12. When it comes to the factors that must be considered by the Commission when providing its advice, we think there needs to be more emphasis on economic and energy security issues. These will be impacted by the target and government policies to achieve it and must be considered.

## Part 1B – Emission Reduction

### Part 1B, Subpart 1 - 2050 Target

13. New Section 50 of the Bill sets a target to reduce all greenhouse gases to net zero by 2050 with a separate path to reduce emissions of biogenic methane to within the range of 24-47% below 2017 levels by 2050.
14. Straterra does not support this targeted approach adopted to reduce New Zealand emissions. The targets are, by necessity, aspirational. There are significant ‘unknowns’ and uncertainties that will influence, to an unknown extent, the final target that is deemed appropriate. These ‘unknowns’ and uncertainties would include but not be limited to technology options and costs, global progress, sector developments and progress, improving understanding of climate science and predictions of warming over future decades.
15. While, we accept that having a target can have merit through the signal it provides, domestically and internationally, about New Zealand’s intentions and the direction of travel, a target without a plan causes significant uncertainty to New Zealand businesses and consumers.
16. The Bill requires the government to develop policies for climate change mitigation, but these seem to be outside the scope of the Bill. The main opportunity to reduce emissions lies in technology and this should be the focus of New Zealand efforts.
17. Any target that New Zealand adopts should be conditional on how other countries particularly our trading partners and competitors are progressing. This condition is required if we are to maintain our competitiveness. Of course, we can’t know now what emissions reductions will be achieved globally over the target period and it is noteworthy that other jurisdictions [including the EU](#) are finding adoption of their proposed targets challenging.
18. Notwithstanding our opposition to the target approach, comments in the rest of this submission on the targets are made with best intentions to achieve best outcome.

### A legislated target

19. If there must be a target, it should not be enshrined in legislation.
20. Rather than have a legislated target, we think there is merit in a written agreement between the Minister and the Climate Change Commission – somewhat like the Reserve Bank’s Policy Target Agreement. This would provide transparency and accountability but ensure the desired level of flexibility is maintained given the difficulty that would be involved in changing legislation.

21. While legislating would make it harder to change - in response to short term political considerations etc, there are enough political pressures to discourage and prevent the target from being unnecessarily changed. The written agreement suggested above would add to these.

## Separating out Biogenic Methane

22. The emissions reduction target is to:
- reduce all greenhouse gases (except biogenic methane) to net zero by 2050
  - reduce emissions of biogenic methane within the range of 24–47 percent below 2017 levels by 2050, including to 10 percent below 2017 levels by 2030.
23. We agree with the proposal to separate out biogenic methane, but we do not agree with the targets proposed. Any target should require appropriate conditions to be met such that New Zealand reductions are not simply transferred overseas. This is particularly important where New Zealand activity has a lower carbon footprint than other jurisdictions.
24. Each gas is a different technical challenge. Not only is methane a relatively short-term gas, the technical challenge to reduce methane emissions is unique. These issues argue for methane to be treated separately.

## Review of Targets

25. The Bill provides for the target to be reviewed regularly by the Commission to ensure it remains fit for purpose. The Commission can recommend a change to the target but only if there has been a significant change of circumstances.
26. We support this. Ability to re-assess the target, as better knowledge is developed and conditions change, must be available. It is important that recommendations for revisions are made independently of politicians. Political changes around the electoral cycle would magnify the level of uncertainty created by the Bill.
27. We support new Section 5P of the Bill which requires the Commission to undertake a review of the target at regular intervals. The Commission has the ability to make recommendations for a change in the target (and the budgets – see below) following these reviews. The Commission can recommend a change to the target but only if there has been a significant change of circumstances. The factors which would determine this are listed in New Section 5Q. We broadly support these factors but think there should be more explicit emphasis on global progress in reducing emissions. For example, Clause (2)(a)(i), could more usefully say lack of global action. It

would not be in New Zealand's interests, nor have any impact on global emissions if New Zealand achieves reductions in emissions through undermining our competitiveness.

28. We agree the government should have the ability to accept or reject the commission's recommended target but the provisions around transparency ie the requirement for the recommendation and the government's response to be made public (New Sections 5P ad 5R) are essential here.

## Part 1B, Subpart 2 - Emissions Budgets

29. The Bill establishes emissions budgets that form stepping-stones to the 2050 target. Essentially these describe the path taken to reach the target in terms of quantity of emissions over a defined period.
30. Notwithstanding our opposition to the target approach, if there is to be a target, this approach is supported and the specific proposal of three emissions budgets of five years each makes sense.
31. The responsible minister would set the emissions budgets. We support the provisions in the Bill which require the Climate Change Commission to give (non-binding) advice to the responsible Minister on what the emissions budgets should be and the transparency which comes from the requirement for the Minister to table that advice in Parliament and publicly explain any departure from it
32. As with the overall target, it is essential that enough flexibility is provided in the system to adjust the emissions budgets as circumstances change. Under 5ZB(2) this can only occur if the Commission recommends the revision, and we support this.
33. Again, such revisions must be made transparently and so we support the process as set out in New Sections 5X and 5Y in Subpart 3 of the Bill which requires making the advice public, a full explanation and public consultation if the Minister ignores the advice.
34. We broadly agree with the list of factors, specified in new Section 5Z, that must be considered when setting budgets.

### International access

35. The Bill says emissions budgets will primarily be met through domestic action. Although New Section 5W does not rule it out, the explanatory note says that reductions sourced from overseas to meet emissions budgets will only be allowed in limited circumstance.

36. We think it is essential any target should be able to be met by using emissions reductions from overseas (as long as they have strong environmental safeguards).
37. A fully functioning international market, which opens New Zealand users to be able to purchase emissions reductions with appropriate environmental integrity, would provide the necessary link to the international carbon markets. This is fundamental to a sound emissions trading scheme. If a country/ industry/business can reduce emissions at a lower cost than another, it is economically rational for the economic activity to occur at that location.
38. Provided the market is working properly, it should not be seen as a cop out if New Zealand users purchase emissions from offshore as much as or instead of investing in reducing emissions here as it is, after all, global emission which matters the most.

## Part 1C - Adaptation

39. Adapting and preparing for the effects of climate change i.e. increased risks of flooding, sea level rise, increased drought etc. is important for central and local government as well as the private sector. We note that nothing New Zealand does will influence the climate in any way. We are therefore at the mercy of global action and so adaptation considerations are as important as emissions reductions.
40. We support the focus in the Bill on adaptation although we question whether the Climate Change Commission is the right entity to be responsible for this massive job when it is so different from its core role of advising on mitigation i.e. New Zealand's policies to achieve emissions reductions.
41. The approach of requiring the government to develop national adaption plans that prioritise actions based on regular risk assessments is supported and the transparency attached to the regular risk assessments (i.e. the requirement that the government will table them in Parliament) is positive.
42. The public consultation attached to the National Adaption Plan is welcome as are the monitoring and reporting requirements attached to these which will improve accountability.

## Mining and Climate Change

The products of mining are essential for modern society. Aggregates for infrastructure, housing, concrete; coking coal for steel; gold, copper, cobalt, rare earth elements (REEs), lithium and vanadium for electronics, electric vehicles, solar panels, batteries - this list goes on.

A recent report by the World Bank predicted increased demand for many minerals as we move to a lower carbon economy. New Zealand has the potential to supply some of these.

The use of fossil fuels is driving climate change. All of us – collectively, globally, including the coal industry – face the challenge of reducing CO2 emissions to stabilise average surface temperatures, as agreed by 195 countries (including New Zealand) in Paris in late 2015.

### **That's the problem definition. How to do this is the hard part.**

Fossil fuels, including coal, remain the fuel of choice for many developed countries, and for developing countries where reducing poverty and raising living standards are frequently prioritised over climate impact and environmental cost more generally.

Progress is being made in the transition from fossil fuels but, globally, the development and take-up of current and new technologies such as solar, battery, nuclear, carbon capture and storage needs to accelerate if we are to achieve the emissions reductions required to meet the Paris commitments. Demand for oil, gas and coal remains strong because for many applications, technologies that do not rely on fossil fuels are simply not available, or not at scale.

Steel for example, cannot be made at scale without coking coal. Substitute technologies, and/or substitute materials will solve this problem, but over decades, not years.

Fuel for transport is being replaced by electric and battery power, but more global progress is required in the transition from coal electricity generation to maximise leverage for this option. This is a very complex problem that is not helped by 'ban fossil fuels' slogans.

For New Zealand, we need to understand the costs and trade-offs of what we do, and benchmark global progress, so we make well-informed decisions – decisions that ensure we do our share, we lead where it makes sense to lead, but we don't simply export investment and jobs for no global emissions reduction. New Zealand's low electricity generation carbon footprint gives us a real advantage now over almost every other country. Our use of hydro, geothermal and wind, with energy security provided by fossil fuels, including coal, gives us positive options not available to most countries. This makes our electric vehicle strategy particularly important. Also, our premium products, high standards in environmental management,

health and safety and operational efficiency mean that we can meet global demand for many products with a lower carbon footprint than many of our competitors.

## Coal in New Zealand

Thermal coal in New Zealand has an important role in maintaining the international competitiveness of our agriculture sector – dairy in particular – and in domestic food production. This will change as technology advances allow and as competitors take on the cost of reducing emissions.

Thermal coal plays an essential role in providing energy security in New Zealand – in dry years, when gas shortages occur and as a result of adverse weather events. Over the past three years the Huntly power station used an average of 310,000 tons of coal a year from local production and imports.

New Zealand mines premium grade coking coal to meet demand from international steel manufacturers. At present, there are no commercially viable technologies to make steel, at scale, without coking coal. This demand will reduce, over decades, as new technologies and new materials allow. These exports do not count to New Zealand's emissions liability.

### Reality Check



Fossil fuels currently provide  
**80%** of global primary energy.

Coal makes up **38%** of global  
electricity generation.

Coal use in New Zealand contributes  
around **5%** of our emissions.