

Submission from Straterra

To the Ministry of Foreign Affairs and Trade

Trade, Environment and Climate Change Discussion Paper

June 2021

Key Points

- The contribution that minerals make to New Zealand’s export sector must not be overlooked by trade negotiators and policy makers.
- New Zealand’s trade partners must not misuse environmental policies and standards (including climate change policy) for protectionist reasons.
- We are concerned that Principles 10 and 12 could pave the way for the countries to introduce protectionist policies and concepts like food miles and carbon tariffs on imports in the name of reducing emissions.
- We strongly support MFAT’s role in facilitating the development of international carbon markets as raised in Principle 10.
- We support strengthening Principle 6 to deter private sector trade discrimination and “greenwashing”.

Introduction

1. Straterra is the industry association representing the New Zealand minerals and mining sector. Our membership is comprised of mining companies, explorers, researchers, service providers, and support companies.
2. We welcome the government’s review of the 2001 Trade and Environment Framework and the opportunity to comment on the Discussion Paper, [Trade, Environment and Climate Change](#).

General Comments on Trade, Environment, Climate Change and the Minerals Sector

3. Minerals are an important part of the global economy and the New Zealand tradable sector. We make these general comments here about how the minerals sector in New Zealand fits into the discussion on trade, the environment, and climate change.

Trade and Investment

4. Minerals are a key component of manufacturing supply chains and global trade. New Zealand minerals make a major contribution to New Zealand export receipts. For example, gold is New Zealand's second-biggest export to Australia according to Statistics New Zealand. Coal as an industrial heat source has an important role in maintaining the international competitiveness of our agricultural sector – dairy in particular. Coal is a key input into / an important contributor to the energy-intensive export sector i.e., for steel making (as a mineral and heat source). Mineral producers in New Zealand e.g., coal miners compete with imported products as do cement manufacturers.
5. The minerals sector also features heavily in New Zealand's inward and outward investment and in cross border flows of services. New Zealand companies and people are active in the minerals sector offshore and many mining companies in New Zealand have overseas shareholding contributing to productivity improvement and job creation locally.

Environment

6. Like most human activities mineral extraction has an impact on the environment. New Zealand's robust environmental legislation ensures that mining in New Zealand meets high standards in terms of mitigation and compensation.

Climate Change

7. The products of mining will play an important role in reducing global emissions and New Zealand can contribute to this. Minerals are needed in increasing abundance to make wind turbines, solar panels, batteries, electric vehicles etc., as the world transitions towards a lower-carbon economy. Minerals and aggregates also have an important role in helping New Zealand adapt to the changing climate and increasing the resilience of infrastructure.
8. Coal is but one mineral mined in New Zealand that, as a fossil fuel, creates emissions when it is burned (not when it is mined other than a small quantum of fugitive emissions of methane) and note the contribution to a country's emissions account occurs when it is burned not where it is mined.
9. Straterra fully acknowledges the international imperative to reduce carbon emissions. We support the government's goal for New Zealand to achieve net zero emissions by 2050. But it is important that the goal is not achieved at the expense of increased global (as opposed to New Zealand) emissions, and it is important that New Zealand aims to take the least cost emissions reduction path.

Proposed Trade, Environment and Climate Change Framework

10. We support the government developing a Trade, Environment and Climate Change Framework to be used by New Zealand trade negotiators in shaping and informing New Zealand's trade agreements.
11. It is important that New Zealand trade partners do not misuse environmental policies and standards (including climate change policy) for protectionist reasons. Environmental standards and polices should be designed and implemented to meet countries' environmental objectives and not used as trade barriers or to discriminate between products on the basis of the country they come from.
12. Measures that focus on the ways in which products are manufactured or processed and the ways natural resources are extracted or harvested ("processes and production methods" or PPMs) are particularly relevant for the New Zealand minerals sector. These measures must not be allowed to be used to block trade.

13. The US, UK and European Union have, for example, all considered some form of carbon border charge to be applied to products from countries with weak climate change regimes. New Zealand has a relatively strong climate change regime, but it also has a strong interest in opposing such protectionist measures. Fortunately, carbon tariffs have recently been ruled out by the UK government.
14. Likewise, earlier this century UK retailers and others promoted the concept of food miles, which focused on the distance a product travels to market which was clearly of significant concern to New Zealand exporters who were prejudiced due to their location. The premise was faulty for a number of reasons not least because transport distances were less relevant than overall carbon emissions.
15. We fully support the aim and content of the Framework to address policies and concepts that ostensibly aim to protect the environment but are actually a means to protect domestic production over imported products.

Comment on Proposed Framework Principles

16. We have reviewed the paper and the principles proposed and fully support the intent and the approach adopted. We support most of the 12 principles and the arguments and discussion in support of them. We make comments on three of them, here.

Principle 6

Seek to ensure that regulatory measures that aim to enhance environmental performance and address climate change are designed to achieve the environmental objective that is being promoted, are non-discriminatory, and do not constitute unnecessary barriers to trade. Encourage private standards that aim to enhance environmental performance and address climate change also be designed in the same manner.

17. We fully support this principle. It is important that environmental regulations are non-discriminatory and do not create barriers to trade.
18. We note the second sentence which aims to address private sector practices creating trade barriers against imports given that private entities are not subject to WTO rules. The food miles concept referred to above would fit into this category. A related example the coal and fossil fuels sectors in New Zealand are facing is discrimination by banks against local production by not lending to these sectors. This is done to promote their environmental credentials but is hypocritical and misleading given they continue to support imported product that is consumed and burned locally.
19. Acknowledging that private entities are not subject to WTO rules, we agree it would be beneficial if trade discrimination by the private sector, as given in these examples, could be prevented.
20. Principle 6 does not do enough to prevent such private sector discrimination. Rather than simply 'encourage' private standards we ask that mechanisms with more teeth be identified including by getting commitments from trade negotiation partners to deter private sector trade discrimination and barriers by in their jurisdictions. We also believe that "greenwashing" (conveying a false impression that a company's practices are environmentally friendly) as given in the bank example above, has no place in the international trading environment and should be addressed by the Framework accordingly.

Principle 10.

Promote the use of trade policy and other policy tools to support emissions reductions and the transition to a low emissions economy.

21. We are concerned that this principle in itself could be used to pave the way for the countries to introduce protectionist 'trade policies and other policy tools' to discriminate against imports in the name of reducing emissions. Carbon tariffs and other such carbon border charges for example could be described as a trade policy tool and under this principle their use could be legitimized.
22. We support a non-discriminatory approach i.e., countries should not be allowed to apply penalties on imports of products with a high carbon content unless those same penalties were applied to local products also. New Zealand food exporters for example whose products are made using energy sourced from coal or from animals emitting methane should not be allowed to be targeted by trade policy tools such as carbon tariffs.

International Carbon Markets

23. Distinct from this issue, the discussion attached to Principle 10 refers to the facilitation of "cooperation among the Parties on the development of international carbon markets with environmental integrity". We fully support this. The relative lack of carbon pricing overseas acts as a non-tariff barrier to trade. It undermines New Zealand's international competitiveness, because local companies face a higher carbon price than their international competitors do. Developing international carbon markets to create an international carbon price is key to creating a workable and efficient way to reduce global emissions. Currently the global average carbon price is around USD\$1.30/tonne of CO2 equivalent (World Bank 2021, State and Trends in Carbon Pricing), compared with the New Zealand Unit price in the secondary market of \$37.

Fossil Fuel Subsidies

24. The discussion attached to Principle 10 also refers to phasing out fossil fuel subsidies which we also support for the reasons the government has provided in various documents and statements.

Principle 12

Seek opportunities to contribute to environmental, climate change and sustainability objectives throughout Free Trade Agreements (FTAs).

25. Although not as explicit as Principle 10, given the openness and vagueness of Principle 12, there is a risk that it could be used to pave the way for countries to introduce protectionist measures in their FTAs.
26. As argued throughout this submission it is important that countries are not allowed to use trade policy and other policy tools to restrict trade in the name of the environment or use the environment and climate change as a pretext to restrict trade for protectionist reasons.