SUBMISSION

Submission from Straterra

To the Ministry for the Environment

Our Climate Your Say: Consultation on the Zero Carbon Bill

July 2018

Introduction

1. Straterra is the industry association representing the New Zealand minerals and mining sector. Our membership is comprised of mining companies (including coal), explorers, researchers, service providers, and support companies.

2. We welcome the opportunity to make this submission on the *"Our Climate Your Say!" Discussion Document* (the document) which the government is consulting on as part of its proposed Zero Carbon Bill.

General Comments on the Discussion Document – Part 1

3. In this section we make general comments on the document before commenting explicitly on the document's proposals in the next section.

4. In our opinion, the tone of the document underplays the costs of the policy response to climate change and paints a falsely positive picture of the opportunities in moving to a zero carbon environment. There are a number of explicit instances where this is the case.

5. For example, the document cites the Westpac report[1] to support the notion that early action will reduce costs, whereas that report makes that assertion only on the assumption that global progress is aligned to NZ's progress – a situation that may eventuate, but could not be assumed.

6. The document uses terms like 'upgrading the economy' and 'with action comes opportunity'. Both these imply knowledge of what the world will look like in 2050 and a plan as to how we are going to get there that simply does not and cannot exist.

[1] Climate Change Impact Report, Westpac New Zealand, May 2018

7. The document paints an overly optimistic picture that reducing emissions is easy. For example, The Message from the Minister, says "*we now have many of the tools that we need to fix it. And, in doing so, we can grasp an extraordinary opportunity to upgrade our economy, not just to be 'clean and green' but also more productive, more resilient and better paid'.* The truth of the matter is that climate change is a global problem and is not easy to fix - certainly not something New Zealand can fix with its actions alone - and there will be significant adjustment costs for the country as well as energy users and sectors such as coal which we represent.

8. Of course we want to be clean and green and we want to be more productive, but the claim that decarbonising the economy will, in itself, achieve those outcomes, is baseless.

9. The document makes the claim that New Zealanders can be better off while taking action to reduce emissions. But the Ministry's own analysis, commissioned from the NZIER, highlights the significant costs to the New Zealand economy from adjustment which are even greater if other countries do not match New Zealand's actions.

10. Some households and sectors may be better off. Some will be much worse off and will face higher costs and more disruption than others. Some New Zealanders and their communities will be significantly worse off and this applies to one of the industries we represent, the coal sector, and the communities where that sector is highly represented.

11. The document makes a case for 'taking action now' rather than a 'keeping options open' approach. Of course there are many things we can do now that don't appear to carry a risk to the economy – an aggressive promotion of electric vehicles into the transport sector for example – but there are also many options that do carry an economic penalty such as imposing costs on our export sector ahead of our trade partners.

Discussion of the Proposals – Part 2

A Target

12. The Paris Agreement has set a target of global emissions of net zero by 2050 and the New Zealand government has proposed a target for New Zealand in line with this. There are a number of conditions that need to be met for this approach to get traction.

13. Our primary and overriding concerns with the target approach are:

    - The targets proposed are aspirational. There is no plan. There can't be a plan because we don't have the technologies to achieve the targets, and we don't know what progress will be made globally in reducing emissions.

    - At this time there is no functional international CO2 market. Will there be in the future? We don't know.

    - These 'unknowns' mean that our target must be conditional but the document is silent on this.

14. We accept the introduction of an emissions target could have merit as it would provide a signal about the direction of travel. However, business doesn't want the 'certainty' of a target that is, with current available knowledge, unattainable. Business wants the certainty that comes with a target that will be assessed and adjusted against criteria that are economically and environmentally rational.

15. The target proposed in the document is net zero by 2050 with three options suggested. For the reasons outlined above, we have concerns with a target approach. However, if there is to be a target, of the three options we would prefer "net carbon dioxide only by 2050" i.e. excluding methane. Each gas is a different technical challenge. Recent science progress supports the proposition that CH4 is a relatively short term gas and certainly the technical challenge to reduce CH4 emissions is unique. These issues argue for CH4 to be treated separately.

16. **Flexibility** needs to be built into the target to allow a re-assessment of the target as we develop better knowledge. Obvious issues include;:

    - Significant changes in the economy;
    - The development of disruptive technologies and, more generally, as we observe the rate of technological progress;
    - The presence of, and access to, functional international carbon markets;
    - Developing understanding of climate science particularly as that understanding informs and improves the accuracy of our climate models; and

- Global progress in reducing emissions

17. In terms of **how a target would be set**, the PCE proposal seems sensible i.e. the government would introduce a 'statement of ambition' in the legislation. This would work because this high level statement of ambition already enjoys cross-party support.

18. The Climate Change Commission would then recommend a target in response to the 'statement of ambition'. The government would have the ability to accept or reject the recommended target.

19. We don't think the target would need to be legislated for. Rather than have the target enshrined in legislation, we think there is merit in a written agreement between the Minister and the 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.

20. 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.

21. We think it is essential any target should be able to be met by using **emissions reduction from overseas** (international carbon units). These must have strong environmental safeguards.

22. A fully functioning international market, which opens New Zealand users to be able to purchase International Units with high 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.

23. 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 matter the most.

Emissions Budgets

24. Emissions budgets describe the path taken to reach the target in terms of quantity of emissions over a defined period. Notwithstanding our view of the target approach, if the is to be a target the proposal to have three emissions

budgets of five years each is supported. However, as with the overall target, it would be important to retain flexibility to adjust these as circumstances change.

25. As set out in paragraph 16 above, there would need to be flexibility for government to adjust the emissions budgets if circumstances dictate. Each incoming government should have the option to review the third budget in the sequence.

Climate Change Commission

26. We support the establishment of a climate commission which would provide independent, expert advice to government on issues around climate change.

27. It should have independent experts to ensure robust debate and decision making. The Chair of the Commission should be a businessperson. This is particularly important as most CO2 reductions over time will be achieved through the actions of business.

28. The Commission's role should be advising and monitoring. It should not have decision making powers.

29. We broadly support the proposed design elements of the Climate Commission as set out in the document.

Adapting to the Impacts of Climate Change

30. Adapting and preparing for the effects of climate change i.e. flooding, sea level rise, increased drought etc. is important. We note that nothing New Zealand does will influence global emissions, or the climate, in any way. We are therefore at the mercy of global action and so adaptation considerations are as important as emissions reductions.

31. This is particularly important for local government which doesn't have a role in setting New Zealand policy response to climate change but is in an important position to make communities more resilient.

32. We support the proposal of requiring the government to develop national adaption plans that priorities actions based on regular risk assessments. The Climate Commission would have a role in this. Consideration should also be given as to whether this is also applied to local government.

Answers to Specific Questions

2050 target

1. **What process should the Government use to set a new emissions reduction target in legislation?**

   Of the two options Straterra prefers that "the Government sets a goal to reach net zero emissions by the second half of the century, and the Climate Change Commission advises on the specific target for the Government to set later."

   We do not support the alternative option of setting a 2050 target in legislation now.

2. **If the Government sets a 2050 target now, which is the best target for New Zealand?**

   If the Government sets a 2050 target, Straterra prefers the option "**net zero carbon dioxide:** Reducing net carbon dioxide emissions to zero by 2050". This option is preferable to the other two options as set out in the body of our submission.

3. **How should New Zealand meet its targets?**

   Straterra prefers the option "domestic emissions reductions (including from new forest planting) and using some emissions reductions from overseas (international carbon units) that have strong environmental safeguards."

4. **Should the Zero Carbon Bill allow the 2050 target to be revised if circumstances change?**

   Yes. This is essential as set out in the body of the submission.

Emissions budgets

5. **The Government proposes that three emissions budgets of five years each (ie, covering the next 15 years) be in place at any given time. Do you agree with this proposal?**

   Yes, providing these budgets are appropriately linked to a measure of global progress, and are supported by credible and independent cost benefit analysis.

6. **Should the Government be able to alter the last emissions budget (ie, furthest into the future)?**

   Straterra supports the option "yes, each incoming Government should have the option to review the third budget in the sequence."

7. **Should the Government have the ability to review and adjust the second emissions budget within a specific range under exceptional circumstances?**

   Yes, under specified and exceptional circumstances.

8. **Do you agree with the considerations we propose that the Government and the Climate Change Commission take into account when advising on and setting budgets?**

   Yes. We agree with all of the factors on page 44 of the document. Most importantly, the Commission would also need to be able to take into account global progress towards emissions reductions.

Government response

9. **Should the Zero Carbon Bill require Governments to set out plans within a certain timeframe to achieve the emissions budgets?**

   Yes. The technology and global progress assumptions that underpin the plans should be clearly set out.

10. **What are the most important issues for the Government to consider in setting plans to meet budgets? For example, who do we need to work with, what else needs to be considered?** The plans should set out the actions required to meet the agreed targets. These actions will be 'delivered' by business principally and other stakeholders generally. Those responsible for implementing the actions, and those effected by the implementation should be included in the development and consultation on the plans. Again, business, particularly the EITE sector, will need to see the assessment of global progress and the relative 'burden' incurred by our trading partners.

Climate Change Commission

11. **The Government has proposed that the Climate Change Commission advises on and monitors New Zealand's progress towards its goals. Do you agree with these functions?**

    Yes

12. **What role do you think the Climate Change Commission should have in relation to the New Zealand Emissions Trading Scheme (NZ ETS)?**

    Straterra supports the option of the Commission "advising the Government on policy settings in the NZ ETS." Advising on the NZ ETS is one thing that should come under the mandate of the Commission.

13. **The Government has proposed that Climate Change Commissioners need to have a range of essential and desirable expertise. Do you agree with the proposed expertise?**

    Yes. The list is sensible. We think that the chair of the Commission should be a business person who understands the relevant market and investment issues

Adapting to the impacts of climate change

14. **Do you think the Zero Carbon Bill should cover adapting to climate change?**

    Yes. It is a fact that nothing we do in New Zealand will make any difference to global emissions and the net impact these emissions will have on the climate. So it makes sense to include adaptation in the Zero Carbon Bill.

15. **The Government has proposed a number of new functions to help us adapt to climate change. Do you agree with the proposed functions?**

    No. This should come under the mandate of the Climate Commission and the government should wait until it has received its advice on this.

16. **Should we explore setting up a targeted adaptation reporting power that could see some organisations share information on their exposure to climate change risks?**

    Yes. But this should be the role of the Climate Change Commission.

Appendix - Climate Change and Coal

Coal's commercial use in New Zealand and its impact on climate change is often misunderstood. This section provides some important background on this.

Electricity Generation / Security of Supply

Currently around 85% of electricity in New Zealand is generated from renewable sources with coal and gas playing an important role as a backup.

The technology does not exist to completely shift to 100% renewable or eliminate greenhouse gas emissions from electricity generation, without greatly increasing wholesale electricity prices and so the role of coal and other fossil fuels as a backup is likely to continue for the foreseeable future. In fact, it is possible that as electricity demand increases in New Zealand and gas supplies deplete coal's role increases.

Heat and Industrial Processes

Coal plays an important role in producing heat for industrial processes. In the South Island, schools, universities, hospitals, museums, laundries, hotels, offices, swimming pools, and other facilities are heated using coal.

Natural gas and geothermal energy are options for users in the North Island but there are currently few opportunities for businesses in the South Island to switch to lower-emissions energy sources.

Electricity is the lowest-carbon source of energy in New Zealand for industrial purposes, but it is an expensive substitute for coal.

Natural gas emits about half as much carbon as coal per unit of energy produced. As such, gas is a good substitute where it is available in the North Island. However, the recent decision to ban gas exploration means that coal is likely to be considered as an alternative to natural gas in the North Island.

Direct Coal Exports

It is often overlooked that coal production and exports are not counted in terms of New Zealand's emissions account - only consumption in New Zealand is. Around 50% of New Zealand's coal production is directly exported (in addition to the role domestically consumed coal plays as an input into export industries).

New Zealand reducing its coal exports has no impact on New Zealand emissions and will not reduce global carbon emissions either if customers purchase from another source.

Energy Intensive Trade- Exposed Industries

Coal's importance for New Zealand's export economy goes beyond that directly exported. It is a cost competitive source of energy and an important input for much of our primary sector export industries which are relatively energy intensive. These industries compete in international markets where our exporters are price takers who cannot pass on additional costs. Without cost effective energy, production costs for many of our industries would be higher and New Zealand less competitive.

As discussed, this is particularly the case in the South Island where there are fewer viable alternatives.

If these energy-intensive, trade-exposed (EITE) sectors are disadvantaged by the government's policy response to climate change making them less competitive in the international markets in which we compete, production may re-locate from New Zealand and increase in jurisdictions that do not have robust climate change policies – i.e. the carbon emissions would 'leak' to another country. While New Zealand emissions would fall, the net impact is global emissions will stay the same - or even increase if production in other countries is more emissions intensive than the lost New Zealand production.

Steel Production

Coking coal is an essential input into the production of steel, for which there are currently no substitutes at scale. This means as long as the world needs steel, coking coal will be produced. Given the coking coal market is global and demand-driven, demand will always be met by supply somewhere. Coking coal accounts for around a third of New Zealand's coal production - all of it from the West Coast - and virtually all of the country's coal exports. As stated above, as an export this coal does not register on New Zealand's emissions account.

Until technology develops coal will be burned to produce steel and so it is better for the global environment that the coal is sourced from a jurisdiction which has strong environmental regulations such as New Zealand.