



New Zealand Business Council
for Sustainable Development

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NEW ZEALAND'S 2020 EMISSIONS TARGET

The Government has sought the advice of New Zealanders on what it should submit in Bonn this year as our emissions target for the period to 2020.

The New Zealand Business Council for Sustainable Development ("the Business Council")¹ was the first business organisation to call for a price on emissions, and for taking early action to reduce our emissions.

What position New Zealand takes should be a reflection of the environmental, economic, reputational, foreign policy, trade and ethical challenges we face.

IPCC Scientific Advice

The best outcome for both the planet and New Zealand from the Copenhagen talks later this year would be a very widely shared commitment to reduced global emissions sufficient to stabilise climate change gases at 450ppm by 2050. This is estimated to give us a 50% chance of holding global average temperature increases to 2°C.

The IPCC's 2007 Report suggested that to stabilise emissions at 450 ppm would require Kyoto Annex 1 countries to collectively agree to reduce emissions by 25% to 40% below 1990 levels by 2020, on the way to 80% to 95% reductions by 2050. Non-annex 1 countries need to make substantial deviations from business-as-usual (BAU) baselines.

Targets Are Getting More Ambitious Not Less

When National announced its 2050 target of a 50% reduction in emissions from 1990 levels, it was in the middle of the developed country pack. Since then the G8 has pledged to an 80% reduction by 2050, with some ambiguity around the base point. Some measure of how the debate is evolving is that Mexico, with a per capita income of less than one-third of that of New Zealand, has adopted a 50% reduction target below 2002 levels by 2050.

¹ This submission is the agreed view of the Business Council. Some member companies may have a differing view and reserve the right to make their own submissions.

Submissions from Emissions-Intensive Industries

It is unfortunate that the evidence from some recent local modelling has been misinterpreted to produce some alarming numbers based around the 40% reduction in emissions needed to achieve a cap on global average temperatures of 2°C.

The \$500 a tonne cost for emission reductions was the result of modelling, something that New Zealand is not being asked to do. The figure assumes that all emissions reductions had to be undertaken within our shores. The reason a cap and trade system will be an essential component of the collection of policies and regulations which will be required to encourage emission reductions, is that it allows emissions to be reduced at the global marginal cost of emission reductions. If New Zealand's marginal cost of emissions reductions is higher than the world price, then we will "buy" rather than "make" the emission reductions.

McKinsey and others have identified numerous opportunities to reduce emissions at far less than NZ\$500 a tonne.

The modelling also did not take into account the ability to use domestic greenhouse gas sinks, like forestry, to offset local emissions. The Crown's own numbers suggest our forestry growth will totally offset the growth in gross emissions since 1990.

It was unclear what the modelling assumed regarding the rest of the world. Clearly, the costs of adjustment are greater if New Zealand acts unilaterally, but that is why the Business Council has always backed transitional assistance for emitters who have competitors that do not face a price on carbon.

The Evolving State of Climate Change Negotiations

The most dramatic change in the climate change negotiations has been the arrival of a US President with an intention to lead, rather than delay, action on climate change.

It is likely that the USA will arrive at Copenhagen with the outline of an agreement with China, and a proposal that the rest of the world will share out the reduction commitments required to satisfy the USA-China proposals.

The Waxman-Markey Bill passed by the House of Representatives contains provisions for a carbon tax at the border for countries not considered to be doing enough on climate change. While the US ETS does not include agriculture within its cap, it does provide credits for agricultural initiatives that reduce emissions. It is most probable that these provisions will survive in any Bill jointly passed by the Senate. If that occurs, there is effectively a price on carbon in US agriculture that will be reflected in the world price for agricultural commodities.

Once this happens, US producers are likely to lobby for a carbon tax on commodities from countries which are not taking sufficient action on climate change or whose producers don't face a price on carbon.

Deciding on a New Zealand Target

Any New Zealand contribution to global efforts to reduce emissions will be miniscule, but we are not joining those efforts because of the size of our contribution. We are joining because free-riding is not appropriate, and because action by developed countries is required to get the developing world on board.

Any New Zealand offer must be credible and achievable.

Credibility is a matter of comparability with the offers of others, but the expectations of the developing world are important too. What consumers of our agriculture and tourism exports think also matters.

Credibility is also linked to achievability: there is no point in New Zealand making a bold offer that it has no prospect of meeting, or can only meet at unrealistic cost. Making an offer that is conditional on fixing those parts of the current international architecture that impose unreasonable costs on New Zealand is thus wholly appropriate.

Australia is a comparator country for New Zealand, but the UK and the EU – two of our key export markets – want more ambition than does Australia. Their consumers probably do as well.

Credibility would be enhanced if New Zealand's offer was supported by a broad political consensus, was enshrined in legislation, and progress towards the target and the policies put in place to achieve it, were subject to regular, independent monitoring. All of these measures would make it harder for the Government of the day to abrogate our offer. The UK's Climate Change Act is a useful model here.

Business Council Recommendations

The Business Council would recommend that, given all the matters that should be considered, New Zealand in Bonn should make a two-tier proposal based on unilateral action for a reduction of 20% in gross emissions by 2020, and a possible reduction of 30% or more by 2020, provided that:

- Competitors of our trade-exposed, emission-intensive industries are exposed to a price on carbon;
- There is overwhelming participation by developed countries in taking responsibility for 25 – 40% reductions in emissions by 2020 from a 1990 base;
- Major developing economies, including China and India, agree to significant reductions in the growth of their emissions below BAU;
- The rules for forestry and soil carbon be amended to recognise:
 - that equivalent replanting can occur for pre-1990 forests in locations other than the site of the felled forest;
 - that the carbon in trees does not immediately return to the atmosphere on felling;
 - the potential for soil to sequester carbon.
- The factors used to estimate equivalence of climate change gases are reviewed to recognise the differing breakdown rates for methane when compared with CO₂ and other gases.

These targets allow that New Zealand may have to meet part of its responsibility target by purchasing credits from other countries. That is the right answer if those countries have lower cost opportunities. It will also encourage developing countries to participate in a global cap and trade scheme that will lower the cost of adjustment for us all.

Kind regards



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c.c. Hon John Key, Prime Minister
Hon Bill English, Minister of Finance
Hon Gerry Brownlee, Minister for Economic Development