

Submission

By

**THE
NEW ZEALAND
INITIATIVE**

To the Environment Committee

on the

Climate Change Response (Zero Carbon) Amendment Bill

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Prepared by:
Matt Burgess
Research Fellow
The New Zealand Initiative
PO Box 10147
Wellington 6143
matt.burgess@nzinitiative.org.nz

1. INTRODUCTION AND SUMMARY

- 1.1 This submission on the Climate Change Response (Zero Carbon) Amendment Bill (the Bill) is made by The New Zealand Initiative, a think tank supported primarily by chief executives of major New Zealand businesses. The organisation undertakes research to contribute to the development of sound public policies in New Zealand.
- 1.2 This submission is focused on how the Bill can best support delivery of the government's emissions targets through effective policies, taking those targets as given. New Zealand can only make progress towards its emissions targets through policies and approaches that actually reduce emissions.
- 1.3 The Bill embeds a strategy for emissions reduction based on:
- Multi-year fixed emissions budgets signalled well in advance to provide certainty;
 - Sector-level planning and multi-sector strategies for mitigation;
 - National risk assessments and planning for adaptation;
 - Assessments of emissions budgets, of how well planning has contributed to meeting;
 - emissions budgets, and of the effectiveness of the national adaptation plan; and
 - Monitoring and reporting of progress towards targets.
- 1.4 This is an approach that is exclusively top down. It creates no obligation to discover which policies and initiatives within a plan or strategy are working, or to do anything with that information. Assessments are required only of plans, not the policies and initiatives within those plans. Without visibility of what is working, there can be only limited accountability for results.
- 1.5 Our submission is that the Bill should embed a commitment to effectiveness as the organising principle for the proposed Climate Change Commission and for all emissions policies.¹ We recommend three changes to the Bill:
1. Change the purpose statement in section 5B to include an overarching objective of “promoting effective and efficient emissions reduction”. Both the Minister for Climate Change and the Climate Change Commission should be subject to this purpose statement in executing their functions under the Bill;
 2. Remove the non-neutral treatment of domestic and offshore mitigation, and remove its preference for top down sector-specific planning over non-planning alternatives. These elements of the Bill increase the cost of abatement for no environmental benefit; and
 3. The proposed Climate Change Commission should be made responsible for the independent testing of all emissions policies.

We next consider each of these points.

¹ In this submission, we use ‘policies’ in a broad sense to include individual pilots, initiatives, funds and emissions pricing, but to exclude plans, which we treat as collections of policies.

2. THE BILL SHOULD ONLY AUTHORISE MITIGATION ACTIONS THAT WILL, OR BE REASONABLY EXPECTED TO, REDUCE EMISSIONS

2.1 Legislation can be organised around a simple, clear and important principle. For example, Section 5 of the Public Finance Act 1989 declares, “Public money must not be spent unless in accordance with statutory authority”. This idea is the organising principle for the entire Act.

2.2 The Bill contains no equivalent statement, but could be improved by a new section that declares:

“Emissions policies must reduce emissions effectively and efficiently”

2.3 Alternatively, or additionally, amend Section 5B to declare:

“The purpose of the Commission is to promote effective and efficient emissions reduction.”

2.4 We also suggest introducing a section which declares the same purpose for the Minister for Climate Change.

2.5 Section 5B of the Bill provides the Commission with functions but no objective. Neither the Minister for Climate Change nor the Commission are given an objective. Without an objective, the Commission and the Minister are given no principle or objective for decision making, no way to trade off the various matters that each must either consider, have regard to, or take account of in different sections of the bill.² Both the Minister and the Commission are free to exercise their own judgment.

2.6 We consider the Bill is an opportunity to embed an expectation that policies are either effective, or fixed, or abandoned. An “effective and efficient” objective gives most direct effect to the government’s goal of reducing emissions. Efficiency is a term that is widely used in legislation. Its value here is to encourage the evaluation of policies and initiatives according to their actual incremental effects on emissions. It is on this margin that the environmental benefits of emissions policies are revealed. Efficiency is also consistent with a preference for policies that are cost effective, capable of achieving the maximum reduction in emissions for any given commitment. Implicit in “effective and efficient” is a commitment to neutrality with respect to technology, sector and location, a matter of some significance which we consider in the next section. We consider the term “efficient”, a word that is widely used in legislation, should be preferred to “economic effects”, a vague term that invites a broad interpretation. Efficiency requires that policies and recommendations are assessed at the margin, that is, based on the expected emissions effects and costs of the policy or recommendation. Evaluating policies “at the margin” does not mean a policy’s indirect global or cross-sectoral effects are excluded.

2.7 Including these terms in the Commission’s purpose statement, rather than in matters the Commission must consider, means the statement will likely place an onus on the Commission to demonstrate the effectiveness and efficiency of its recommendations. That is the effect of Section 1A of the Reserve Bank Act 1989, which makes the Reserve Bank responsible for “promoting the maintenance of a sound and efficient financial system” among other things.

² The ZCB lists matters the CCC must consider when performing all its functions in sections 5L (6 matters). In addition, the ZCB gives Commission and Minister matters they must consider when setting emissions budgets in section 5W (3 matters), or have regard to in section 5Z (12 matters), or the matters that must be taken into account when doing a risk assessment in section 5ZN (9 matters) and adaptation plans in section 5ZQ (7 matters).

In practice, this purpose statement means the Reserve Bank is obliged to demonstrate how its decisions promote both soundness and efficiency. Putting an onus on the Climate Change Commission to demonstrate its advice is consistent with “effective and efficient” will encourage the Commission to organise systems capable of testing the expected and actual performance of emissions policies and its recommendations to the Minister.

- 2.8 The introduction of an “effective and efficient” objective can also act as a catch-all mechanism that prevents actions being taken that have nothing to do with reducing emissions. The Bill should not authorise any actions which will not, or cannot reasonably be expected to, give effect to lower emissions. Yet it is not clear whether the Bill currently prevents sectoral emissions plans from being used for other purposes. Requirements for the Minister and the Commission to consider/have regard for/take account of certain matters may offer only limited protection.
- 2.9 It is especially important that decision making is constrained by the Bill in view of its economy-wide scope. The Bill requires the Minister to prepare sector-specific policies and multi-sector strategies for emissions reduction (section 5ZD), which he or she can do for any sector and at any level of detail. We consider it desirable that when the scope of decision making is broad decisions are constrained.
- 2.10 If there is doubt that the emissions performance of policies can be estimated, those doubts should have been subdued by the Interim Climate Change Committee’s analysis of the 100% renewables policy, and of green technologies. The committee calculated the expected cost per tonne performance of policies and technologies including indirect cross-sector effects, and used the findings to inform its recommendations.
- 2.11 In summary, we recommend either a new section that declares:
- “Emissions policies must reduce emissions effectively and efficiently”
- 2.12 Alternatively, or additionally, amend Section 5B to declare:
- “The purpose of the Commission is to promote effective and efficient emissions reduction.”
- 2.13 We recommend introducing a section which declares the same effective and efficient purpose for the Minister for Climate Change.

3. REMOVE NON-NEUTRAL TREATMENT OF LOCATION, TECHNOLOGY, SECTOR AND PUBLIC POLICY MECHANISMS

- 3.1 Rather than allow emissions reduction to occur through whatever channels are most effective, the Bill embeds a preference for domestic over offshore emissions reduction:
- Section 5W (1): “Emissions budgets must be met, as far as possible, through domestic emissions reductions and domestic removals.”
 - Section 5X (1): “...the appropriate limit on the amount of offshore mitigation that may be used to meet the emissions budget, including the reasons for the proposed limit and how the limit meets the requirement of section 5W(1).”

3.2 Constraining choices in this way raises the cost of emissions reduction for no environmental benefit. The cost of preferring domestic mitigation is potentially high. A report to the Ministry for the Environment in 2018 estimated the cost of achieving net zero emissions in 2050.³ The New Zealand Institute for Economic Research (NZIER) estimated access to international emissions would raise GDP by 5%, wages by 8%, and employment by nearly 2% in 2050. Although the Bill's domestic preference is not a hard ban, NZIER's analysis suggests a high cost to even partly forgoing access to international units. We note that the Bill defines offshore mitigation to exclude access to units that are not robust, meaning the Bill's non-neutral treatment of offshore mitigation is not based on differences in the integrity of units.

3.3 Another example of counterproductive non-neutrality in the Bill is the decision to embed a top down approach to emissions reduction, rather than permit discovery of which approaches are most effective and where:

- Section 5ZD: ... (1) The Minister **must** prepare and publish a plan setting out the policies and strategies for meeting an emissions budget... (3) (a) sector-specific policies to reduce emissions and increase removals; and (b) a multi-sector strategy to meet emissions budgets and improve the ability of those sectors to adapt to the effects of climate change [**emphasis added**]

3.4 Locking in a top down sectoral approach seems especially unwise in view of the government's ambitious emissions targets, as well as the findings of the Interim Climate Change Commission on the 100% renewables policy. Sectoral policy carries inherent risks of significant unintended consequences. It is simply unnecessary for the Bill to embed any rule favouring sectoral policies over non-sectoral alternatives, including emissions pricing. Rather than locking in legislation a permanent requirement for sector-specific planning, the Bill could instead support discovery and use of the most effective and efficient mix of approaches.

3.5 We recommend:

- Section 5ZD is amended to change the rule from requiring sectoral planning to allowing sectoral planning.
- Section 5W (1) is amended to remove any preference for domestic over offshore mitigation.

4. MAKE THE CLIMATE CHANGE COMMISSION RESPONSIBLE FOR INDEPENDENTLY TESTING THE PERFORMANCE OF EMISSIONS POLICIES

4.1 This week, the Government announced it had accepted the recommendations of the Interim Climate Change Committee and would prioritise emissions policies that are more effective than the commitment to 100% renewable electricity by 2035. That renewables target is now aspirational.

4.2 The Government deserves credit for its decision. The 100% renewables policy, while superficially attractive, is especially counterproductive in that it raises the cost of electricity at the same time as potentially making it harder for New Zealand to achieve its emissions targets.

³ NZIER (2018), "Economic impact analysis of 2050 emissions targets," 18 June. Available from <https://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/NZIER%20report%20-%20Economic%20impact%20analysis%20of%202050%20emissions%20targets%20-%20FINAL.pdf>

The Government's decision to pursue other more effective policies is a win for the environment and for New Zealand households and businesses.

- 4.3 More importantly, the Interim Committee has shown the value of testing all emissions policies before they are implemented. The case for testing is based on: the performance of emissions policies varies widely; only testing can reveal a policy's performance in most cases; testing is usually cheap relative to the cost of the policy being evaluated; evidence suggests policy mistakes are common; and governments are usually reluctant to drop policies after they have been announced or implemented. Just by not doing ineffective or counterproductive policies like 100% renewables, and redirecting resources into other more effective measures, the government could potentially double the overall performance of its emissions policies through testing.
- 4.4 The results of testing must also carry the necessary weight to get the attention of governments. That weight comes from a combination of independence, credibility, rigour and transparency – all desired characteristics of the proposed Climate Change Commission.
- 4.5 We therefore recommend:
- To the list of Commission functions in Section 5J add: "Independent evaluation of the emissions performance of government policies, including the Emissions Trading Scheme, on the basis of cost effectiveness (cost per tonne avoided CO₂-e emissions) and on any other measure."
 - To Section 5N add a statement that specifically protects the right of the Commission to choose which government policies are evaluated, but allows the Commission to accept requests for evaluation by the Government
 - The Bill should also include an obligation to publish the results of all evaluations within certain timeframe.

I welcome the opportunity to present to the Committee.

Matt Burgess

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