

# **ACT New Zealand submission to the Climate Change Commission**

## **ACT supports the goal of reducing our greenhouse gas emissions**

ACT believes New Zealand must play its part on climate change. Any response must be simple to administer, politically durable, and effective. If we are forced to make significantly deeper emissions cuts than our trading partners, and if we set more aggressive targets than other countries, we will impoverish ourselves and push economic activity and emissions to other countries.

ACT believes the Commission's proposals for the government to directly intervene in each sector of the economy would not reduce emissions any more than the New Zealand's Emissions Trading Scheme (ETS) is already designed to achieve, and could only be implemented at great cost to the economy and communities.

ACT supports the goal of the Climate Change Commission in reducing New Zealand's emissions. However, we believe that the ETS is the most efficient, cost effective, and fairest way to achieve that goal.

Although ACT welcomes the focus the Commission places on an ETS in meeting that goal, we do not believe that additional sector-by-sector interventions will achieve any reductions in emissions beyond what can be achieved by the ETS.

The Commission's proposed interventions in the agriculture, transport and energy sectors will do nothing but impose greater levels of bureaucracy and cost for no reduction in emissions.

The ETS is New Zealand's best tool for reducing emissions. It provides a market-based mechanism to incentivise efficient emission reductions across every sector, has wide political buy-in, and renders most of the Commission's recommendations redundant.

## **Principles**

ACT's submission is organised around three primary ideas that we believe should anchor New Zealand's approach to climate change:

### **1. Prioritise the wellbeing of New Zealanders**

ACT believes that the policies which follow from the Commission's report must prioritise the overall wellbeing of New Zealanders.

### **2. The need to use a market-based approach**

The Emissions Trading Scheme, as opposed to government interventions by sector, is the most cost-effective approach to reducing emissions. In the Commission's own words:

*"Emissions pricing is one of the strongest and most flexible levers available for tackling climate change... There is extensive empirical evidence showing how effective emissions trading and other market-based measures are at helping to allocate financial resources efficiently and achieve reductions at low cost."*

### **3. The need to deliver sound regulation, where regulation is necessary**

Where government needs to intervene into the lives of New Zealanders, it must act in a way that justifies its intrusion. While New Zealand has committed itself to reducing emissions,

individual initiatives deployed by the Government must be assessed against a robust criteria for good law-making. In particular, any initiative adopted by the Government flowing from the advice of the Commission should adhere to the following:

1. *Not be made unless, to the extent practicable, the persons likely to be affected by the legislation have been consulted:*
2. *Not be made (or, in the case of an Act, not be introduced to the House of Representatives) unless there has been a careful evaluation of—*
  - a. *the issue concerned; and*
  - b. *the effectiveness of any relevant existing legislation and common law; and*
  - c. *whether the public interest requires that the issue be addressed;*
  - d. *any options (including non-legislative options) that are reasonably available for addressing the issue; and*
  - e. *who is likely to benefit, and who is likely to suffer a detriment, from the legislation; and*
  - f. *all potential adverse consequences of the legislation (including 10 any potential legal liability of the Crown or any other person) that are reasonably foreseeable:*
  - g. *produce benefits that outweigh the costs of the legislation to the public or persons:*
  - h. *be the most effective, efficient, and proportionate response to the issue concerned that is available.*

For reasons outlined below, ACT believes that a number of recommendations, if adopted, would not adhere to this standard and would deviate from more effective, market-based policies to drive emission reduction.

### **ACT's Approach**

The most cost-effective tool for reducing our emissions already exists in the form of the ETS. The ETS provides a pre-existing carbon market that incentivises cost-effective emissions reductions. Importantly, it leaves the pathway to achieving emission reduction goals to New Zealanders, rather than allowing the government to intervene sector-by-sector .

ACT believes that sector-by-sector regulation or subsidies as proposed by the Commission will result in invasive, unnecessary and costly policies that will ultimately fail to achieve major emission reductions. Instead, allowing the ETS to do its job and provide price signals to emitters is a powerful and effective way to reduce emissions without sacrificing the choices and freedoms of New Zealanders.

For example, the Government's ban on new offshore natural gas exploration doesn't make sense when the country remains reliant on imported coal, a more emission-intensive fuel. In contrast, the ETS imposes higher prices on more emission-intensive fuels, providing incentives to transition to lower emission alternatives.

The ETS encourages the most efficient emission reductions. This compares to relying on government which often makes poor-quality choices, like the ban on new offshore natural gas exploration.

### **Why the Emissions Trading Scheme?**

Our goal must be to reduce our emissions at the smallest possible cost. New Zealand already has a tool for doing this. We have a comprehensive ETS with a hard cap, a limit on total emissions across the economy. The ETS, free from government interference, allows businesses and households to make their own decisions and reduce emissions in the most cost-effective manner.

All sectors of the economy report their emissions, and just over 50 per cent of businesses are currently covered by surrender obligations, where businesses either buy NZ Units (carbon credits) through the ETS, or find other ways to reduce or mitigate their emissions to the atmosphere. Agriculture has other options available to mitigate their emissions, which we discuss in a later section.

ACT believes that any response to climate change must be administratively simple. The Commission's proposals, while well intentioned, would micromanage the agriculture, energy, and transport sectors. It proposes drastic interference in the daily lives of New Zealanders, with bans on new gas connections and imports of petrol and diesel vehicles, and eliminating up to 15 percent of the stock from our farms. ACT believes that this approach is likely to undermine the prosperity of New Zealand, restrict choice, and have a limited impact on New Zealand emissions compared with using the ETS.

When the Commission was established, New Zealanders were told it would provide independent advice to the government, and propose non-political proposals for reducing emissions. Yet, the Commission's report includes a wish list of bans and restrictions on the lives of New Zealanders which the current Government would not have dared to take to the election last year.

The evidence points towards emissions trading schemes being the most efficient way to reduce emissions. A study in the Journal of Environmental Economics and Management compared the effectiveness of the British ETS with German direct subsidies for wind and solar. It found that pricing emissions was superior to subsidising renewable energy and that even a moderate increase in carbon prices had a significant impact on the use of fossil fuels, encouraging providers to move to renewable energy without the need for subsidies. The ETS was the "least costly way to reduce emissions" and provided "better longer-term incentives than other climate policies do".

Bayer and Aklin (2020) found that, rather than direct subsidies, a carbon market reshapes incentives faced by firms and reduces the value of emissions even when carbon prices are low. A broader study comparing data from 142 countries over two decades showed that the annual growth rate of CO2 emissions from fuel combustion were around two percent lower in countries with carbon pricing mechanisms.

ACT notes the Commission largely agrees that an ETS is the most efficient way to reduce emissions when it states:

*"Emissions pricing is one of the strongest and most flexible levers available for tackling climate change. It works by making the businesses and people who make the decisions that create emissions feel the costs associated with those emissions.*

*The power of emissions pricing comes from how it allows those driving emissions to find their own ways of reducing emissions. Given they know their business, needs and capabilities best, this frequently leads to cost-effective outcomes as the price helps direct the allocation of resources towards lower emissions activities.*

*There is extensive empirical evidence showing how effective emissions trading and other market-based measures are at helping to allocate financial resources efficiently and achieve reductions at low cost."*

## **International carbon markets**

In keeping with our position that New Zealanders should be able to reduce their emissions at the lowest possible cost, ACT believes that New Zealand should be able to purchase credits

from international carbon markets immediately, in addition to those available from the New Zealand government and the secondary market. ACT attempted to amend the Zero Carbon Bill to allow for just this during the Bill's passage through Parliament. The Government rejected our proposal.

However, the Commission proposal for offshore mitigation is well aligned to ACT policy:

*“Offshore mitigation is where one country pays for emission reductions in another country and counts those reductions towards its own emissions reduction target. Offshore mitigation representing real, verifiable and additional emission reductions is a valid contribution to addressing climate change. The benefit to the atmosphere of an emission reduction is the same, regardless where it happens. Unlike emissions budgets under the Act, our NDC deliberately includes a contribution from international mitigation.*

*Contributing this way means that in addition to doing as much as possible domestically, Aotearoa would help other countries to avoid locking in high emissions and to develop more sustainably. The Paris Agreement recognises that international cooperation through market mechanisms can serve the goals of increasing ambition and of promoting sustainable development and environmental integrity. This is consistent with the value of whanaungatanga – the interconnectedness of the climate and global system, and tikanga – doing the right thing in the right way.”*

## **ETS versus government interventions**

The fundamental issue when combining the use of an ETS and government intervention, as proposed by the Commission, is that the net impact on reducing emissions will not change. That's because emissions are already capped by the number of permits issued under the ETS.

Almost all of the Commission's proposals are already covered by the ETS. Other policies cannot reduce emissions further. If the Commission's proposals reduce emissions in one sector of the economy covered by the ETS, they will be offset by higher emissions elsewhere. Our overall level of emissions will not change and will simply free up permits to be used elsewhere.

International experts are very clear in supporting emission trading schemes over ad hoc interventions. Indeed, according to the Intergovernmental Panel on Climate Change, if an effective ETS is in place, additional market interventions may have little to no impact:

*“...if a cap and trade system has a sufficiently stringent cap to affect emission-related decisions, then other policies have no further impact on reducing emissions”.*

The additional interventions proposed by the Commission will ultimately have little impact on emissions. Furthermore, the ETS approach is more compatible with the principles of a free society. Households and businesses, rather than politicians, are in the best position to make decisions about where emissions reductions should be made, because they have better knowledge of their own preferences.

The Commission makes the mistake of determining in which sectors emissions cuts should be made. Climate policies should be neutral on this question. Ignoring the ETS and determining for businesses and households where cuts should be made raises the cost of reducing our emissions. The Commission's plan is asking New Zealanders to make huge sacrifices and to spend billions of dollars. It proposes an unprecedented expansion of government's control over the economy and enormous disruption. But it will not deliver any emissions benefits over and above those from the ETS.

Ultimately, ACT believes that the most efficient, cost-effective and fair way to reduce emissions is through the ETS. This empowers households and businesses to make decisions about their own emissions without the need for large-scale and costly government interventions.

## **Sector Recommendations**

ACT's believes that the ETS should be the primary policy lever used to meet our climate change commitments rather than costly sector-by-sector government interventions. We do note that the Commission has made a large number of recommendations for various sectors, most of which ACT believes are better addressed through the ETS. However, there are a number of areas in which ACT has specific comments and recommendations which are expanded on below.

### **Agriculture and Forestry**

#### *Commission's Recommendations*

- Adopt low emissions practices on-farm
- Adopt low emissions breeding for sheep
- Ramp up establishing new native forest
- 25,000 hectares per year of new exotic plantation forests.

#### *ACT's Position*

ACT believes that the Commission has provided a positive overview of the progress being made in the agricultural sector and delivers a realistic case for how the sector can progress under the status quo, in particular with advances in farming practices and promising technologies that could both improve efficiencies and lead to substantial emissions reductions.

ACT does not agree with the Commission's analysis and recommendations for stock reductions, as we believe that would risk reducing New Zealand's agricultural production, which could simply result in higher emissions offshore. Many of the points made by the Commission regarding the way in which agricultural emissions could be reduced are likely to be taken up by farmers without requiring a government-led approach.

New Zealand dairy farmers are the most efficient in the world. A study completed by AgResearch showed that New Zealand has the lowest on farm emission footprint of any other country at 0.74 kg CO<sub>2</sub>e per kg FPCM (fat and protein corrected milk) as compared with the OECD average of 1.37 kg CO<sub>2</sub>e per kg FPCM, almost twice the rate. When including post-farm processing and transport which accounts for around 15.6 percent of total production, according to data from the Global Livestock Environmental Assessment Model (GLEAM), New Zealand's total dairy emission intensity is still the lowest in the world at 0.83 kg CO<sub>2</sub>-e per kg FPCM. Milk production in New Zealand is the most efficient and environmentally-friendly in the world.

The world's appetite for animal protein and dairy is growing. If it's not grown here, we will see carbon leakage to countries with lower environmental standards and less emission efficient farming practices. This would be a poor outcome economically and environmentally for New Zealand. It will increase global emissions while making New Zealanders poorer. Indeed, the overall impact of these policies would be a net increase in global emissions as global demand grows and more is produced overseas using less environmentally-friendly methods.

New Zealand agriculture operates in a global marketplace where New Zealand farmers respond to global trends and the need to maintain and care for their local environment already. Farmers frequently make choices about how they use their land based on soil type, slopes, the type of stock or crops they grow, which may change from time to time. These investment decisions are made with the environment in mind, because farming is the only business in New Zealand totally reliant on managing the environment well. The issue with a government-led approach is that it will often result in inflexible, impractical policies that fail to take into account the efforts farmers are already making.

ACT is concerned that the Commission's proposals encourage the micromanagement of farming by government officials. The Government's recent freshwater reforms are an example of impractical regulation, forcing farmers to plant crops by a certain date or face prosecution under the RMA. In Southland, there was snow on the ground when that date arrived in 2020 making the proposed regulation impossible to comply with. The one-size-fits-all rules failed to take into account regional differences and existing incentives to maintain land and improve practices.

ACT recognises the important contribution agriculture makes to reducing emissions with ongoing efficiency gains and changes in land use practice. ACT believes it is important that any actions New Zealand takes are viewed in a global context. New Zealand dairy farmers are the world's most efficient farmers and any fall in domestic production would result in an increase offshore with worse environmental outcomes.

#### *ACT's Key Recommendations*

- ACT supports the ongoing development of technologies and practices to continue improving efficiency and drive emission reductions
- ACT supports reforming current genetic engineering rules to streamline the development and application of innovative technologies that will help mitigate and reduce farm emissions
- ACT recommends that the proposal for the reduction in herd sizes be removed.

## **Energy**

#### *Commission's Recommendations*

- Phase out base-load generation from natural gas and diesel fuel
- Replace coal with biomass and electricity
- Ban on new gas heating after 2025
- Transmission and distribution grid upgrades
- Reduction of geothermal emissions
- Expand renewable generation base
- Achieve 95 percent renewable generation.

#### *ACT's Position*

ACT believes that the ETS already provides sufficient incentives for emission reductions. Emissions-intensive fuels such as coal attract higher costs through the ETS. New Zealanders who choose to fuel their homes with natural gas and LPG already pay their fair share through the ETS, and have the choice of alternatives such as low-emissions induction cooking, although at a higher upfront cost.

ACT believes New Zealanders should continue to have the choice to connect to gas from 2025 and that the Commission's proposal to ban new gas connections should be scrapped.

## *Natural Gas and Biogas*

Other countries around the world have made significant progress in reducing their emissions by using natural gas and by turning off old coal-fired power stations and industrial heating. The United Kingdom has reduced its emissions by 55 percent since 1990 by focusing on the removal of coal as an energy source. Coal represents the most environmentally damaging fuel and the most important step to reduce emissions.

A further reason for relying on market tools over government intervention is illustrated by the decision by the New Zealand Government to ban new exploration for natural gas in 2018. Instead of focusing on the lowest hanging fruit (i.e. coal) the Labour Government targeted energy sources that, if discovered, would provide a more environmentally-friendly option.

Natural gas should be seen as an important step in ending the use of coal. A 2015 study into the use of natural gas points to “the critical role that natural gas discoveries have played in reducing emissions”. The study described natural gas as a “bridge to a lower-carbon future, given its lower-than-coal-and-oil carbon content per unit of energy”.

This is especially relevant to New Zealand where the Government’s current response to energy instability was to import 1.1 million tonnes of coal last year. Instead of exploring for more energy efficient solutions, the Government’s ban has shut off options for supporting the transition away from coal.

Our international competitors are already well advanced in developing alternatives to natural gas, such as biogas, and in South Australia and Queensland, for example, intend to replace up to 20 percent of the natural gas supply with hydrogen. New Zealand is in a unique position to produce truly carbon neutral hydrogen with electricity, as we already have a high proportion of electricity generated from renewables. This compares favourably to international competitors which are proposing to generate hydrogen from natural gas or coal gas.

New Zealand currently landfills around 3.5 million tonnes of solid waste every year, in addition to five million end of life tyres which require disposal. International experience is that a large proportion of the landfill waste stream could be safely recovered for energy and biogas. Around 20 percent is construction and demolition waste, and another 20 percent is organic waste, which are both suitable waste streams to safely reutilise in recovery processes such as anaerobic digestion and pyrolysis, as are the huge volume of end of life tyres.

## *ACT’s Key Recommendations*

- ACT believes the ETS is the most effective tool for reducing emissions in the energy sector. Government interventions beyond this are likely to be costly and ineffective.
- ACT believes the ban on new offshore exploration of natural gas should be repealed. The emissions from natural gas are covered by the ETS and provide an effective pathway for reducing our reliance on high-emission fuels such as coal.
- ACT believes that, where regulatory barriers to waste-to-energy initiatives exist, these should be reduced or removed, given the potential to reduce emissions in the waste sector, and to replace part of the energy supply with carbon neutral biogas.
- ACT believes that as alternative carbon neutral gases like hydrogen are now becoming available at scale, there is no need to ban new gas connections, and remove this energy choice from New Zealand homes and businesses.

## **Transport**

### *Commission’s Recommendations*

- Accelerate EV uptake
- Improve efficiency of new ICE vehicles and phase out
- Electrify medium and heavy trucks
- Encourage switching to walking, cycling and public transport
- Electrification of rail
- Electrification of ferries and coastal shipping.

### *ACT's Position*

ACT is concerned that the Commission's proposals in the transport sector would impose higher costs than necessary to achieve emission reductions goals. The Commission's proposal to ban the importation of internal combustion engine light vehicles from 2032, for example, will have significant consequences for every household and business in the country.

It will remove the choice of purchasing the internal combustion cars, vans and utes New Zealanders rely on to get around and will force the country into an EV-only future, whether we can afford it or not.

While some New Zealanders can afford an electric vehicle, or don't travel significant distances, many rely on reasonably-priced, reliable and safe motor vehicles to get children to school and sport, do the shopping, and haul ladders and tools around worksites and farms.

Perversely, New Zealanders could choose to hold onto older, higher emission, vehicles for longer due to the relatively high prices of electric vehicles. The Commission itself accepts that there are unlikely to be reasonably priced electric vans and utes on the market by 2030. Of the 260,000 new and used light passenger cars imported into the country in 2019, just 2 percent were electric.

It is also not clear that such intervention is necessary as low-emission transport technologies come onto the market rapidly. This rapid advancement in technology is already leading to competition in the market which is likely to bring down prices. Coupled with the costs faced by motorists under the ETS, consumers are likely to take up EVs without the need for government intervention.

Finally, ACT is concerned that such an approach in a relatively expensive policy intervention for the level of emissions reduction it would achieve. We note that other stakeholders have raised questions on the underlying analysis relied upon by the Commission which, to date, has not been released.

### *ACT's Key Recommendations:*

- ACT believes that many of the desired outcomes in the transport and urban planning infrastructure system can be achieved within the current regulatory framework
- ACT believes that infrastructure procurement must undergo strict cost-benefit analysis, and resist political interference
- ACT believes that the transition to low-emission transport options will happen naturally, supported by the ETS, and does not require heavy-handed government intervention.

### **Conclusion**

ACT believes New Zealand must play its part on climate change. Any response must be simple to administer, politically durable, and effective. If we are forced to make significantly deeper emissions cuts than our trading partners, and if we set more aggressive targets than other

countries, we will impoverish ourselves and push economic activity and emissions to other countries.

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