

Submission to the Ministry for the Environment on:

Second Emissions Reduction Plan Consultation

Submitted by the New Zealand Council of Trade Unions Te Kauae Kaimahi

22 August 2024



This submission is made on behalf of the 32 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (NZCTU). With over 340,000 union members, the NZCTU is one of the largest democratic organisations in New Zealand.

The NZCTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga), the Māori arm of Te Kauae Kaimahi (NZCTU), which represents approximately 60,000 Māori workers.

1. Introduction

- 1.1. The NZCTU welcomes the opportunity to comment on the discussion document for the Second Emissions Reduction Plan, 2026–2030.
- 1.2. We support a proactive policy to reduce emissions in Aotearoa New Zealand and to deliver a just transition for workers and communities who may be impacted by emissions reduction and the effects of climate change.
- 1.3. We view climate change as both a major challenge and a major opportunity for this country. Ambitious action is needed from the government to ensure New Zealand can meet this challenge and capitalise on the opportunities it provides us in terms of social and economic development.
- 1.4. Our view is that the government needs to significantly raise its ambition in the final ERP2. At a high level, the proposed approach set out in the discussion document relies too heavily on forestry offsets and speculative technological developments to reduce emissions. It also appears to be based on a faith in the ability of private actors, pursuing their own economic self-interest within the envelope of a carbon cap, to produce a transition to a productive, low-emissions economy. Given the scale of the transformation required in New Zealand over the coming years, and what the history of previous economic transformations tells us, this is exceedingly unlikely. We would like to see the government adopt an approach that focuses on reducing emissions at the source and investing at a large scale in supporting New Zealand to transition to a productive, low-emissions economy in which good work is available to all.
- 1.5. We would also like to see the government making a greater effort to establish a bipartisan consensus on how we reduce emissions in New Zealand (and how we address other aspects of climate change). Climate change is a long-term challenge, and bipartisan solutions have a greater chance of enduring through political cycles and therefore being more effective. Thus far, the government has taken the opposite approach. It has wholesale repealed many aspects of the previous government's climate change policy and is proposing a second Emissions Reduction Plan that has very limited support from opposition political parties.
- 1.6. Below, we comment on selected aspects of the ERP2 discussion document.

2. Comments and recommendations

The "least-cost, net-based" approach

- 2.1. The government has stated a commitment to a "least-cost, net-based" approach. This approach relies heavily on forestry offsets (in the form of large-scale radiata pine planting) and future technological developments (which may or may not come to pass).
- 2.2. The NZCTU strongly prefers an approach that focuses on reducing gross emissions through using currently available technology and carbon pricing, investing in mode shifts in transport, investing in electrification, incentivising behavioural change among both producers and consumers, and actively supporting the development of green industries. Although a gross-emissions approach may be a more difficult undertaking in the short term, it is ultimately a safer means of ensuring that New Zealand meets its emissions reduction targets and capitalises on the opportunities presented by the transition. The "least-cost" approach proposed by the government will only be "least-cost" in the short term. Over the longer term, failure to meaningfully reduce emissions will pass evergreater financial, social, and environmental costs onto New Zealanders.
- 2.3. To this end, we are concerned that the current modelling shows that New Zealand risks missing its net-zero 2050 target (Figure 2.1). We appreciate that this modelling is subject to many assumptions and very high uncertainty bands, and that much will change in the next 25 years. However, we view this as a warning signal that the government's proposed approach in ERP2 is not sufficient. The final ERP2 needs to set out a bolder plan for decarbonisation that sets New Zealand firmly on course for meeting the 2050 target. If anything, as a developed, high-emitting country, New Zealand should be looking to overshoot the 2050 target, rather than risk undershooting it.
- 2.4. In the discussion document, the government states that "A least-cost approach is economically efficient because it relies on markets, which leads to innovation and investment, rather than involving the Government in directing where and how to make decisions" (p. 24). In reality, the determinants of economic efficiency are not so clear cut: "market-led" approaches can produce more efficient outcomes in some instances, while in other cases active government intervention, oversight, and direction is needed to achieve efficiency (not to mention other desirable social outcomes). An apposite example is the poor outcomes produced by the market-led energy sector in New Zealand, which we discuss further below. We recommend that the government tempers its faith in market-led approaches to decarbonisation. At the least, simplistic statements such as that quoted above are misleading and should not be included in the final ERP2.
- 2.5. Relying on forestry offsets to the extent set out in ERP2 is risky. The discussion document acknowledges the need to ensure that quality agricultural land is not transformed into forestry plantation. We would like to see further detail in the final ERP2 as to how this will be achieved. It is a question of especial importance given the status quo centrality of the primary sector to New Zealand's economic resilience.

- 2.6. We also note that forestry only provides a means of "low-cost abatement" if it is correctly managed. The disasters in the East Coast in early 2023 were in large part due to poorly managed commercial forestry operations. This issue is touched upon in the discussion document, but no direction is given as to how government will work to ensure safe forest management in the future.
- 2.7. Permanent forestry is preferable to commercial forestry as a form of carbon capture. And in the case of permanent forestry, it is important to ensure sufficient native forest plantation. Native forests have many advantages, including supporting native biodiversity, higher inherent resilience to extreme weather and wildfires, and social benefits (such as community access to native bush). We would welcome a greater balance between native and exotic forestry than that suggested in the discussion document.
- 2.8. Finally, we draw the government's attention to the Climate Change Commission's advice that there are "significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target", with these risks concentrated in agriculture and transport. The CCC states that:

If there are insufficient reductions in gross emissions for the second emissions budget (2026–2030), this cannot be made up by increased removals of carbon dioxide through forestry. Additional forest planting can no longer make much difference to this period, because the rates of increase of carbon removal through trees is slow in the early stages of new planting.

Given that the proposed ERP2 rolls back many of the policies of the previous government that were targeted at reducing gross emissions, and is proposing the increased use of forestry offsets in their place, this risk of missing the second emissions budget may be heightened.

- 2.9. Taking a technology-led approach is also highly risky. Although some technological development will of course happen over the next 25 years, there are no guarantees that sufficiently affordable and scalable emissions-reduction technologies will come online that will enable business-as-usual economic activity to continue. Our strong preference is therefore for the government to take more concrete steps towards decarbonising the New Zealand economy now, rather than relying on future technological developments to do the heavy lifting in the future. At a minimum, the final ERP2 should discuss in more detail the risks with taking a technology-led approach.
- 2.10. We are also concerned by the misalignment between this stated preference in a technology-led approach and the government's actual decisions (its revealed preference) at Budget 2024 to cut large amounts of science funding. This included ending the National Science Challenges (cut of \$173 million) and reducing funding to the Strategic Science Investment Fund (cut of \$17.8 million), the Endeavour Fund (cut of \$9.8 million), and the Marsden Fund (cut of \$3.1 million), among other initiatives.
- 2.11. The government appears to have shown little interest in addressing New Zealand's very low levels of science/R&D investment. If it is serious about harnessing the potential of technology to help us address climate change, then the government needs to address this issue. We echo our affiliates in the Save Science Coalition and recommend setting a target

of lifting R&D investment to 2% of GDP by 2027; this would bring us closer to, but still short of, the OECD average of 2.7% (on 2021 figures).¹ Over the longer-term, New Zealand should look to lift its level of investment to match the OECD average.

2.12. We are also concerned that the government's large-scale cuts to the public sector will undermine our ability to understand New Zealand's climate change challenges and how we can respond to them – including through the development and roll out of new technology. We note in particular the very large cuts made to the Ministry for the Environment, and the reduction in funding to the CCC. There are many areas in which we need to further develop our understanding of how decarbonisation and climate change will affect New Zealanders – for example, distributional impacts – and the cuts that have been made to the public service will only make this harder.

Energy sector

- 2.13. The NZCTU supports bold government action to ensure energy security and affordability for all New Zealanders. At a high level, our view is that this requires government intervention in the failed electricity market, scaled up government support for improving the energy efficiency of New Zealand houses, and a workforce development plan for the energy sector. Below, we comment in more detail on the issue of the lack of investment in renewable energy.
- 2.14. Our view is that the lack of competition in the electricity sector is a significant cause of the lack of investment in expanding New Zealand's renewables capacity.² New Zealand's generating capacity has been essentially flat over the past decade, and the share of electricity generated from renewable sources has remained flat for more than three decades at 81% in 1990 and 82% in 2021.³ This is despite the handsome annual profits that the gentailers have enjoyed over this period i.e., a lack of capital is in no way the issue.
- 2.15. Instead of investing in expanding supply, the gentailers have focused on paying out huge dividends to shareholders (which includes the government). This underinvestment means that high-cost fossil-fuel generation continues to set wholesale prices at the margin. There is thus no incentive for the gentailers to reinvest profits in new renewable capacity, as this would bring down consumer prices and therefore profits. We view this state of "manufactured scarcity" as a clear case of market failure and a good candidate for government intervention. The likely closure of the Winstone pulp mill and sawmill due to the soaring cost of electricity demonstrates the wider social and economic costs of allowing the status quo to continue.
- 2.16. The government should also be looking to support large-scale solar installation across New Zealand households. Government subsidisation of solar installation would assist in

¹<u>https://scientists.org.nz/Save-Science-Coalition;</u> <u>https://www.oecd.org/en/data/indicators/gross-domestic-spending-on-r-d.html</u>

² NZCTU, 350 Aotearoa, and FIRST Union, Generating Scarcity: How the Gentailers Hike Electricity Prices and Halt Decarbonisation, 2022.

³ MfE and Stats NZ, Our Atmosphere and Climate 2023, 2023, p. 18.

shifting New Zealand towards 100% renewable energy and would also support energy affordability and security for households – a case of hitting multiple targets with one policy. We would welcome a plan to this effect in the final ERP2.

2.17. The government should also look to scale up the Warmer Kiwi Homes programme, which is another example of a smart policy that hits multiple targets at once in improving energy efficiency and affordability (with the associated benefits of improved health and lower health-care costs to the Crown). Again, we would welcome an expanded Warmer Kiwi Homes programme in the final ERP2. We would also welcome other initiatives aimed at boosting the energy efficiency and warmth of the New Zealand housing stock.

Transport sector

- 2.18. The proposed strategy for the transport sector continues New Zealand's overreliance on private transport and roading. New Zealand has a very high transport emissions profile, due to our high rates of car ownership, and bringing gross emissions from transport down is an important component of hitting our climate change targets.
- 2.19. We recommend that the final ERP2 puts far greater emphasis on investing in public passenger transport. This needs to be efficient and affordable relative to private transport, to incentivise people to use it. To this end, we note that the ERP2 consultation document currently has no consideration of the cost of public transport, which can be prohibitive for some.
- 2.20. The government should also be investing in building out New Zealand's rail and coastal shipping freight transport. Alongside supporting decarbonisation, this will also increase New Zealand's economic resilience (for example, coastal shipping can help to support logistics in the event of road closures) and will reduce road maintenance costs and accidents. With the increased road building planned by the current government, which will incentivise more cars and heavy vehicles on the road and more emissions, we appear to be moving in the opposite direction.

Forestry sector

- 2.21. We support efforts to improve New Zealand's wood processing capacity. New Zealand is a large exporter of raw timber, but not of higher-value-added wood products. In 2021, we exported approximately 60% of our total harvested logs as unprocessed logs. And since 2000, there has been very weak growth in the export of processed wood. In short, New Zealand has failed to move from a volume to value approach in forestry.
- 2.22. We refer the government to the Forestry and Wood Processing Industry Transformation Plan (2022).⁴ This was an industry-led plan that identified key challenges to be overcome in public perception of forestry, attraction and retention of skilled workers, low levels of R&D investment, over-reliance on radiata pine, exposure to a small number of export partners, low levels of new investment in wood processing technology, and minimal

⁴ Forestry and Wood Processing Industry Transformation Plan, New Zealand Government, November 2022.

growth in value-added wood exports. It also identified key actions to be taken to grow the industry and move from volume to value in forestry exports.

Equity issues

- 2.23. We are disappointed in the government's decision to end the development of the Equitable Transitions Strategy. As acknowledged in the discussion document, emissions reduction policies can have distributional impacts. Indeed, the government's approach of relying primarily on emissions pricing will disproportionately negatively affect lower-income households. We know also that decarbonisation will, in the long run, make certain economic activities non-viable, which, if not managed proactively, could lead to large scale job loss and the hollowing out of some communities. The impacts of climate change itself for example, extreme weather events will tend to be most heavily felt by vulnerable groups.
- 2.24. To support social licence for decarbonisation policies and ensure no workers or communities are left behind in the transition, the government needs to develop a clear plan for a just transition. This requires ongoing engagement with iwi, business, trade unions, and affected communities. It also requires ongoing analysis of how decarbonisation is impacting or expected to impact different groups and regions of New Zealand, which requires the public service to be sufficiently resourced.
- 2.25. As for specific policies to mitigate negative social and economic impacts of decarbonisation, social unemployment insurance and active labour market programmes (ALMPs) are considered international best practice.⁵ Compared to many other OECD countries, New Zealand lacks a social unemployment insurance system that can protect workers from the wage scarring and social problems associated with job loss. We also lack a comprehensive ALMP system that can support displaced workers to retrain and upskill. These systems will likely become more important in the future, as decarbonisation ramps up and the effects of climate change are more keenly felt.

3. Conclusion

- 3.1. The NZCTU thanks the MfE for the opportunity to submit on this important piece of work.We hope to see a stronger plan for decarbonising New Zealand through 2026–2030 in the final ERP2.
- 3.2. We would like to acknowledge the work of public servants in preparing and engaging on this discussion document in the context of job insecurity and stretched capacity.

⁵ See, e.g., ILO, Just Transition Policy Brief: Social Protection for a Just Transition, 2023; ILO, Just Transition Policy Brief: The Role of Active Labour Market Policies for a Just Transition, 2023.

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