



7 June 2018

Low-emissions economy
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143
New Zealand
via email: info@productivity.govt.nz

Dear Sir or Madam

New Zealand Productivity Commission Inquiry into the opportunities and challenges of a transition to a low-emissions economy

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the New Zealand Productivity Commission on its Low-emissions economy Draft Report (Draft Report). Appendix A provides detail on those recommendations where we believe the recommendations could be re-focused in relation to Chapters four to seven. Appendix B provides more information about Chartered Accountants Australia and New Zealand.

Key points

- We encourage the transition to a low-emissions economy to be considered as part of the broader vision for New Zealand in 2050 and not in isolation. The Treasury's Living Standards Framework with its four capitals approach and the forthcoming wellbeing budget in 2019 demonstrate the need for a broader systems based approach to these issues.
- We are strong advocates for the appropriate disclosure of climate risk, however we do not support mandating specific climate-related financial disclosures. We consider the biggest challenge to climate change disclosures is an understanding of how climate change is and will impact the organisation.
- Innovation is essential to New Zealand's transition to a low emissions economy and to realising economic and wider societal opportunities from this transition. We therefore support this being a high priority within the national innovation system.
- We consider it important for the Government to consider the interaction of the new climate change legislation with existing legislation, including in particular the Resource Management Act and not in isolation. Associated with the aims of the new legislation, there may be amendments needed to existing laws to ensure alignment.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely,

Liz Stamford
Head of Policy
Chartered Accountants Australia and New Zealand

Appendix A

Chapter 4 – Emissions pricing

R4.1 The Government should reform the NZ Emissions Trading Scheme rather than replace it with a carbon tax. The reforms should provide a good balance between control over unit supply (ie, an effective emissions cap) and protection against excessive volatility in the price of emission units. The reforms should also provide the institutional and regulatory underpinnings for a credible and efficient market in emission units, as well as transparency and forward guidance to incentivise long-term investments in lower emissions.

Given New Zealand already has an emissions trading scheme (ETS) and an ETS is an effective and efficient mechanism for reducing emissions, we support the recommendation to reform the scheme rather than replace it with a tax. We recommend that the Government should focus on reforms to the ETS with New Zealand's unique emissions profile in mind.

The ETS should provide the right market based incentives for organisations to reduce their emissions whilst enabling economic growth to continue. The reforms should be proportional, appropriate and allow sectors with high emissions profiles adequate time to transition to a low emissions economy. We note this is especially important for the agricultural sector, which is under significant pressure already and for which there are limited options for emissions reduction currently available.

We consider that prioritising domestic emission credits over international credits would better support New Zealand's transition and give New Zealand businesses an opportunity to develop low emission products and services for export. In particular, there will be opportunities for those sectors, which already have a global competitive advantage, to become world class in a low emissions environment.

We also consider it important for the Government to ensure that it does not seek to reduce emissions in isolation. This would be both costly and risk unintended negative consequences in other areas. Aligning emissions reduction with other potential benefits such as improved air quality and water quality, will be essential to support the transition and should be supported through policy interventions.

Chapter 5 – Innovation

R5.1 The Government should phase out all subsidies that support the ongoing production and use of fossil fuels.

We agree with this recommendation.

R5.2 New Zealand should establish the transition to a low-emissions economy as a high priority within its national innovation system recognising the importance of that goal and that it will require extensive economic transformation and restructuring. The Government should provide major public backing and funding support for innovation so that it can play a central role in the transition, alongside effective emissions pricing.

Innovation is essential to New Zealand's transition to a low emissions economy and to realising economic and wider societal opportunities from this transition. We therefore support this being a high priority within the national innovation system.

We consider it important for innovation support to be broad, covering products, services, financing and business models. It should also cover disruptive innovation rather than just focus on incremental innovation.

We recommend that support for innovation is not limited to areas which are only emissions focused. Innovation in areas which have multiple benefits and look to support whole systems changes should be championed as well such as those which also improve air and water quality and/or have a positive social impact. We also encourage the Government to consider Government procurement in addition to policy, as an opportunity to directly support innovative solutions.

R5.3 The Government should take steps to:

- **strengthen the national innovation system such as by clarifying its low-emissions objectives, and by improving linkages, the identification of relevant innovation opportunities, and knowledge transfer and sharing; and**
- **align the various complementary parts so they work well together in the transition to a low-emissions economy. The scope should include not only science and research, but broader innovation, knowledge dissemination and learning, skills, infrastructure, regulation and finance.**

We support the Government strengthening the national innovation system as proposed. In addition, we encourage the Government to give focus to supporting low emissions entrepreneurial thinking and to supporting much higher levels of collaboration across and within sectors to enable fast tracking ideas to market solutions.

We understand open innovation is increasingly being used internationally to support multi-sector co-development of systems level solutions. However no such mechanisms exist in New Zealand and we encourage the Government to give consideration to them as a priority. These approaches would involve the Government acting as one of many partners in innovation activities.

R5.4 The Government should investigate and implement any cost-effective institutional models for:

- **scanning new low-emissions technologies around the world to identify ones with promise for New Zealand but that may need adapting to suit local conditions; and**
- **helping firms to improve their absorptive capacity for external knowledge, including new low-emissions technologies.**

No specific comments

R5.5 Policy should keep the market environment competitive and flexible to allow “creative destruction” to take place, so that resources can flow from firms that lag in adopting low-emissions technologies to firms that lead.

We support the Government taking a holistic approach to low emissions policies, ensuring that there is a consistent approach to reducing New Zealand’s emissions across all policy areas. We encourage the Government to adopt policies which will incentivise the desired behaviour rather than penalise the undesirable behaviour. We also consider it will be important to recognise the composition of New Zealand’s economy to support key sectors as they transition to a low emissions economy.

Chapter 6 – Investment

Q6.1 Should the investment policy of the New Zealand Venture Investment Fund be updated to identify low-emissions investments as a sector of interest?

Yes. We recommend that the investment policy of the New Zealand Venture Investment Fund is updated to identify low-emissions investments as a sector of interest. Investment and innovation in this sector will be important in supporting New Zealand's transition to a low-emissions economy.

R6.1 The Government should clearly identify the market failure that the proposed Green Investment Fund (GIF) will address. Analysis should include, its mandate, financing approach and funding source, expected duration, institutional structure (including its degree of independence), desired minimum rate of return, relationship to existing infrastructure and clean technology funding sources, and scale of investment (wholesale or retail). The Government should also state how the GIF would work in conjunction with any other initiatives relating to the provision of infrastructure or low-emissions technology finance.

No specific comments

R6.2 The Government should officially endorse the recommendations of the Task Force on Climate-related Financial Disclosures.

We support Government endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures.

R6.3 The Government should incorporate mandatory climate-related financial disclosures into existing regulatory instruments as appropriate. The disclosures should be in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

We are a strong advocate for appropriate climate-related disclosures and reporting for decision making. We understand there are concerns that, despite the existing reporting framework enabling climate-related reporting, these disclosures are not being made in practice. However, we do not consider additional regulation and mandatory disclosures to be the appropriate solution to this concern. Further, the Task Force on Climate-related Financial Disclosures (TCFD) recommendations were intended to be voluntary with adoption encouraged by governments and investors, particularly in G20 countries.

In our experience, there is a general lack of awareness and understanding as to how climate change related risks and opportunities can impact organisations and particularly the short term, financial impacts. Once this is overcome, the existing reporting framework enables appropriate reporting by organisations.

Additionally, we have yet to see the full effects of the recent introduction of the NZX Code and the related ESG guidance note. Recommendation 4.3 specifically refers to *'including considering material exposure to environmental, economic and social sustainability risks and other key risks'*. Further, those businesses who adopt TCFD on a voluntary basis will start to demand more sophisticated information from their customers and the organisations they invest in to enhance their own disclosures. We expect these factors to increase the voluntary adoption of climate related disclosures in New Zealand.

Whilst we note that the recent Greening Finance report in the UK recommends mandatory TCFD disclosures by 2022 for large companies and asset owners, we recommend New Zealand wait to see the impact on climate-related disclosures of the introduction of the NZX Code and stakeholder action before implementing the TCFD recommendations on a mandatory basis. We do not consider mandating them to be the right approach. We suggest that the TCFD recommendations be included as guidance to help organisations report on their climate-related risks and opportunities. We also encourage the Government

and relevant regulators to increase awareness in business and the wider community of the climate-related risks and opportunities.

In addition to our comments earlier, we encourage the Government to take a systems view and approach to improving corporate disclosure of risks and opportunities. A focus on emissions and climate-related risks in isolation may not result in the desired reporting outcomes from business. Treasury's Living Standards Framework considers four capitals (human, social, natural and financial) and the Government have announced their intention to take a wellbeing approach to their budgets from 2019. Through these mechanisms, the Government will likely create a vision for New Zealand in 2050 and zero emissions will be one part of this vision.

We consider it important for business to also take a broader approach to its decision making and adopt a more integrated form of reporting, that demonstrates links to its strategy and business model. The TCFD recommendations provide specific guidance on climate disclosures where climate change presents a significant risk to the organisation's strategy and business model. The International Integrated Reporting Council (IIRC) has a framework for Integrated Reporting, which uses six capitals as its basis. We note a number of New Zealand organisations already use this framework for their reporting and Treasury have been actively engaging with the IIRC.

R6.4 The Government should develop, in conjunction with interested parties including the private sector, a low-emissions investment strategy for New Zealand. Relevant topics should include:

- **the strategic alignment of direct government investment intended to support the transition to a low-emissions economy (eg, grants, loans and other initiatives such as the proposed Green Investment Fund), as well as the interaction between policies such as disclosure requirements and direct government funding;**
- **the investment mandates of large public institutional investors (eg, ACC or the NZ Super Fund);**
- **the role of financial sector regulation in supporting the low-emissions transition; and**
- **what constitutes low-emissions investment, with the aim of identifying a clear taxonomy of measurable investment flows.**

We support the development of a low-emissions investment strategy. Additionally, a clear policy framework and improved disclosures will contribute towards a better investment environment.

Chapter 7 – Laws and Institutions

R7.1 The broad principles and framework of the United Kingdom's Climate Change Act should be used as a basis for designing a new architecture for New Zealand's climate change legislation. Yet such a legislative framework should be carefully tailored to fit the New Zealand context.

We consider it important for the Government to consider the interaction of the new climate change legislation with existing legislation, including in particular the Resource Management Act and not in isolation. Associated with the aims of the new legislation, there may be amendments needed to existing laws to ensure alignment.

R7.2 The Government should seek to achieve a high level of political support and consensus for new climate change legislation, with an aim of enacting legislation that has a strong prospect of policy and legislative durability regardless of the make-up of the government.

We also encourage the Government to seek wide community support for the new legislation. We consider it will be important that the Act be practical and have broad public support. As New Zealand transitions to a low-emissions economy, the community will have a role to play by changing their behaviours and reducing their consumption over time. We consider it is therefore critical for them to be part of this process.

Additionally, we consider it important that conversations with the community should not just feature low emissions in isolation but that this should be discussed as part of the Government's broader vision for New Zealand in 2050.

R7.3 A long-term greenhouse gas (GHG) emissions-reduction target should be set in primary legislation. Legislative emissions targets require careful design and should be formulated following a robust public policy process seeking broad agreement.

We consider that long term targets will provide some certainty for business and encourage investment in low-emissions technology and innovation.

R7.4 A new architecture for New Zealand's climate change legislation should provide for a system of emissions budgeting, whereby short-term limits on emissions are periodically set by government, and progress toward their achievement is reported publicly. To be credible and durable, an emissions budgeting system must carefully balance predictability and flexibility, and budgets should be set at a level consistent with achieving the long-term target while imposing least cost on the economy and society.

No specific comments

R7.5 Government should have a statutory duty to prepare and publish a long-term economy wide low-emissions strategy. The strategy should set out the Government's policies and proposals for meeting both current and future emissions budgets (and with a view to meeting the long-term target), and should be updated after each new emissions budget is set.

As noted under R7.3 above, we consider the publication of a long-term emissions strategy and budgets will provide certainty for business and encourage investment.

R7.6 Mandatory processes should underpin a Climate Change Act. Legislation should include clear reporting obligations, including requiring regular reporting to Parliament on key aspects of New Zealand's transition to a low-emissions economy (such as GHG emissions, progress towards budgets and targets, and the Government's low-emissions strategy). Timeframes for the suite of processes should be set so as ensure regular review and reporting, but avoid over-engineering procedural obligations.

No specific comments

R7.7 The regulatory framework to support New Zealand's transition to a low-emissions economy should include an independent climate change institution (a Climate Commission) that operates at "arm's length" from government.

The regulatory framework will need to consider the cross over between the office of the Parliamentary Commissioner for the Environment (PCE) and the proposed Climate Commission.

R7.8 A Climate Commission should take an advisory role. Decision rights should not be delegated to such a Commission.

No specific comments

R7.9 The Climate Commission should be responsible for:

- **providing advice on emissions budgets, targets and New Zealand Emissions Trading Scheme (NZ ETS) caps (based on clear statutory parameters for that advice), and other matters materially relevant to New Zealand’s low-emissions transition;**
- **reporting on progress towards emissions budgets and targets, including assessing the performance of policy instruments and identifying emerging risks;**
- **undertaking and publishing relevant research into transitioning to a low-emissions future; and**
- **(in carrying out its role) engaging in outreach and public communications.**

Legislation should oblige the government to have particular regard to the Climate Commission’s advice when making decisions on emissions budgets, targets and NZ ETS caps, and give clear reasons for any material departure from that advice.

No specific comments

R7.10 To properly perform its role, retain credibility over the longer term, and be viewed as independent, the Climate Commission should have a high degree of operational and institutional independence.

The Climate Commission should have:

- **broad discretion to exercise functions at “arm’s length” from the executive and legislative branches of government or industry; and**
- **formal distance, and security of tenure for governors and senior management.**

The Climate Commission should be set up as an independent Crown entity.

No specific comments

R7.11 The legislative framework for a low-emissions economy should provide for mechanisms for Māori to advise the Government on policy, process, and decisions relating to emissions budgets and the Government’s strategy to achieve them.

We recommend that legislative framework include mechanisms for Māori to provide their perspective on these matters to Government.

R7.12 Treasury should update the Regulatory Impact Analysis requirements to explicitly include consideration of climate change impacts, where relevant. The Cabinet Office should update its circular to require agencies making proposals for regulatory changes with climate change implications to consult with the organisation responsible for developing advice on the Climate Commission’s recommendations and ensure that the agency’s comments are fairly and accurately reflected in any final assessment.

We support this recommendation.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.