

5 December 2023

Hon Simon Watts
Minister of Climate Change
Parliament Buildings
Wellington

Dear Minister

Your appointment and EDS BIM

Congratulations on your appointment as Minister of Climate Change. The Environmental Defence Society (EDS) looks forward to working with you over this term of government.

Who we are

EDS is an environmental non-government organisation, comprised of resource management professionals.

EDS was established in 1971 by Sir David A R Williams KC and a group of lawyers, law students and scientists. The intention was to bring together the disciplines of science, law and planning to advocate for the environment.

EDS has been active in legal proceedings on behalf of the environment over many decades, including in the seminal Supreme Court case *Environmental Defence Society v New Zealand King Salmon Co Ltd*.

EDS has been involved in providing support and capacity building for individuals, community organisations and councils; in undertaking research and policy analysis on important environmental issues (including resource management, conservation and oceans reform); in litigation on important environmental issues; and on profiling key environmental issues through seminars and conferences. It runs New Zealand's leading environmental summit and climate change conference, both annually.

EDS is well-respected in New Zealand for its thoughtful, research-based contributions to environmental legal jurisprudence and policy making. EDS seeks to build constructive partnerships and relationships with business, community organisations and government agencies. It speaks for the environment. EDS is strictly apolitical.

Climate Change and Business Conference

As you will be aware, EDS organises the annual *Climate Change and Business Conference* jointly with the Sustainable Business Council. We look forward to having you present a keynote address at our next conference in Auckland in September 2024.

EDS has been organising this conference now for over 15 years. It has proven a useful opportunity for business to explore the challenges and opportunities arising from climate change and undertake a stock-take on progress towards reducing emissions on an annual basis.

We have come a long way since the inaugural event where the science was being challenged and farmers were driving tractors up the streets of parliament in opposition to emissions charging. You will have seen the large, motivated and informed group of attendees earlier this year. Those people are important stakeholders given your portfolio responsibilities.

Climate Adaptation Policy

The urgent need to address climate change risks was highlighted earlier this year when Cyclones Hale and Gabrielle hit the North Island. EDS is undertaking a major project on climate adaptation focused on providing recommendations for design of the proposed new Climate Adaptation Act. This work is sponsored by a number of business and local government interests including ASB, IAG, Beca, KPMG, Auckland Council and Wellington City Council.

We are about to release Working Paper 3 which is focused on identifying options and models for managed relocation policy. Earlier working papers focused on identifying system principles, how relocation might be funded, and gaps in the current law. We will forward separately copies of the three working papers. We look forward to presenting our work to the select committee public inquiry into climate adaptation early next year.

Climate Mitigation Policy

We welcome your government's commitment to meeting the emissions budgets that have been set to 2025, 2030 and 2035, New Zealand's Paris Agreement 2021-30 NDC, and the 2050 targets in the Climate Change Response Act.

We also acknowledge and welcome your support for continued bipartisan implementation of the Zero Carbon Act framework, including upholding the role of the independent and expert Climate Change Commission.

We encourage you to follow the advice of the Commission as it undertakes its work programme and produces its recommendations during the course of this term of government. Civil society has a strong interest in meeting our emissions targets and any substantive rejections of its advice will be carefully scrutinised.

The most significant immediate challenge you have is to put together a coherent plan to deliver New Zealand's domestic and international targets by the end of 2024. This will quickly be followed by the need to set New Zealand's next Paris Agreement NDC.

Specific asks

Our specific asks of you are as follows:

ETS Review

First, your government's proposal to stop the current ETS review needs revisiting. That review is intended to address the balance between gross and net emissions reductions and to slow down or halt the conversion of beef and sheep farms to permanent exotic carbon forests. The ETS in its current state will not on its own drive the gross emissions reductions required to meet near-term emissions budgets. If it is your intention to make greater use of the ETS, and less use of other policies, then the ETS would need to be strengthened. The review has strong support amongst the rural sector. We consider that the rationale for stopping it lacks robustness. The approach taken to forestry in the ETS is a good example of an issue where a bipartisan approach would be valuable to provide long-term stability for investors in both emissions reductions and forestry.

Climate Emergency Response Fund

We consider that your government's axing of the CERF is ill-considered and should also be revisited. Addressing climate change adaptation and meeting domestic and international emissions targets will each involve significant government investment. You need to give some thought to how funding from the ETS can be diverted into real emission reductions and adaptation. Using that funding for tax cuts is short-sighted. In particular, co-funding for industrial emissions reductions from the CERF has been an effective and rapid way of closing the gap to our near-term targets, driving reductions that would not have occurred under the ETS.

ETS industrial free allocation

The world has moved past the time of protecting legacy high-emissions industries so they can continue to emit, and yet our ETS framework continues to do so. The basis for industrial support in the ETS should be fundamentally overhauled, to focus on providing a clear path for companies to transition to zero-emissions production, rather than protecting the status quo.

Methane and nitrous oxide

We do not support the suggestion that "no additional warming" is a suitable target for agricultural methane. It is a misreading of the science and economic drivers to conclude that real emissions reductions of methane are not required. They are required if we are to meet our obligations, maintain our reputation as a good global citizen and retain market access. If the agricultural sector does not pull its weight, that burden will fall on other sectors of the economy and on taxpayers. It would be massive subsidy. Please also note that we have obligations under various free trade agreements that will need active monitoring to ensure compliance.

We would also like you to separately consider policy and targets for nitrous oxide, which is included in New Zealand's net-zero target but is not currently in the ETS. Because of this, ETS participants are effectively paying to offset those emissions, and ETS companies will be required to reach net-zero sooner than otherwise. The question of how nitrous oxide's share of the net-zero target will be met needs to be addressed.

Policy assessment

We welcome the intention to conduct benefit-cost analysis of climate policies, but would caution that an overly simplistic approach to this will lead to poor short-sighted outcomes. Climate change is fundamentally a problem of long-term economic transition, not of short-term optimisation. The low-hanging fruit that gives immediate lower-cost emissions reductions are often not the critical-path steps for long term transition. This means that broader approaches to assessing policy packages are becoming international best practice.

As a second example, the true value of emissions reductions is not reflected in current ETS prices. The United States uses a social cost of carbon on US\$200/t for assessing policy. The United Kingdom uses £250/t. New Zealand should also be valuing domestic action to reduce emissions at these levels, including in assessing gas and electricity market policy.

Native reforestation

The utility of native forests as long-term carbon sinks needs prioritising. Unlike permanent exotic forests, which lock up land and are more susceptible to pests, disease, fire and collapse, permanent indigenous forests have advantageous co-benefits of enhancing indigenous biodiversity, soil health, stability and conservation, air and water quality, and regulating local climate conditions.

They enhance the natural landscape instead of creating long-term liabilities. Climate change and biodiversity loss are inextricably linked and need to be addressed simultaneously and synergistically. Using carbon credits generated from indigenous afforestation to achieve biodiversity gains will address both crises in tandem.

We recognise the high costs of establishing and maintaining indigenous forests, especially on marginal land, and the currently limited commercial return on investment. Scaling up native afforestation will therefore require up-front financial support. A biodiversity payment or incentive scheme could be that mechanism. We encourage you to support development of a biodiversity incentives scheme to help establish a native afforestation sector.

Focus the Emissions Reduction Plan work in 2024 on over-achievement

In 2024 you will oversee development of New Zealand's second emissions reduction plan for the period 2026-30. This is the opportunity to look across ETS reform, complementary policies, agriculture and forestry and make sure that short- and long-term objectives are met. Through this process, the government should also strive to over-achieve the second emissions budget and use those reductions to reduce the need for offshore purchases toward our Paris Agreement NDC. As well as meeting our 2030 target in a better way, this also will set us up to meet the next 2035 NDC with less offshore mitigation.

Conclusion

The team at EDS is available to assist with independent commentary and feedback on policy developments. We would like to meet you at a convenient time to discuss these matters and actively engage with you over this term of government.

Your sincerely

A handwritten signature in blue ink that reads "Gary Taylor".

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Environmental Defence Society

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