



Public Lecture: A Zero Carbon Act for New Zealand
Victoria University School of Government
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- My report, *A Zero Carbon Act for New Zealand: Revisiting Stepping stones to Paris and beyond*, explained the bones of the UK policy idea examined by the GLOBE group of parliamentarians and endorsed by my predecessor, Dr Jan Wright.
- I reiterated Dr Wright's call for broad-based, cross-party support as had been achieved in the UK
- But I took some trouble to identify the things which make New Zealand's climate challenge very different from that facing the UK:
 - the political context;
 - the international context;
 - our emission trajectories;
 - our emission profiles
- I explained why making physical emissions progress in NZ will be harder than in the UK.
- Notwithstanding that, I maintained that the political challenge is essentially no different; and why the *way* in which the legislation is designed and enacted is critically important. That's what I'd like to focus on today.

The most important element of the UK model is the way it has disconnected the long-term goal of a very low emissions economy from short-term tactical politics.

It did that by legislating for a 2050 target and then elaborating *well into the future* a series of progressively smaller carbon budgets (my predecessor called them ‘stepping stones’) that, if met, would bring emissions down to the target level.

The key words in my description are “well into the future”. Because at the heart of the UK model is a decoupling of budget *setting* from budget *implementation*. Every five years the UK Parliament is asked to ratify a budget that will take effect more than a decade in the future. Designing the policies needed to get on track to *meet* these future budgets is kept well apart from the process of *setting* them. The time-lag between setting a budget and living with its consequences is what makes this very long-term policy making possible.

Think about it: it is easier to take decisions today about events a decade in respect of which policies will gradually be put in place over the years ahead than it is to implement things with immediate impact.

It took me some time to come to grips with the significance of the budgets and their timing. But it is really important. The process has to ensure that we chart a long –term pathway that will change the shape of long-term investment. The wisdom and impact of short-term policy making will always be – and rightly so – the subject of robust debate. But when we know that within an increasingly limited timeframe we have to decarbonise our economy – and have signed up internationally to that - we can’t have our long-run objectives hi-jacked by short term politics.

If, in the process of enacting a target and setting up a Commission to advise on those carbon budgets, we end up embroiled in a debate about how particular policies affecting particular industries should be designed, we will end up back where we started – arguing over the short term.

Let me explain by taking you through the timeline that the UK Government used to launch its budget setting process.

First timeline slide: the UK 2007 – 2012

In a nutshell, the UK Climate Committee had done its homework in advance of its creation. Just four days after the legislation was passed bringing it into existence, the Committee

proposed in one single hit, three five year budgets, each smaller than the last covering the period from 2008 – 2022. I've explained previously why it was relatively easy to make each one smaller than the last. But that's not the important point. What's important is that in one swoop, the new Climate Commission got rid of the near-term budgets and was immediately able to turn its attention to the medium to long term. The first single budget it proposed – in 2011 – was the fourth budget spanning 2023-2027. That was quite controversial [explain why *ad lib*] but because the political debate was about something 15 years away, there wasn't any immediate political benefit to anyone in trying to sabotage it.

Now let's take a look at what the process ahead of us here in New Zealand.

Second timeline slide: NZ announcements so far.

There are three things to note here.

In the next few months, the Government will be consulting publicly on the target that will go into the legislation and the role and status of the new Climate Commission. I've provided some detailed suggestions about the latter which you can read in my report. In addition to that public consultation, I think we would all benefit from the advice of the interim Commission on the question of the target.

The Paris Agreement set an ambitious target of holding warming well below two degrees and recognised that in order to do this, emissions need to peak soon and rapidly fall thereafter – the longer term aim being to balance sources and sinks in the second half of this century. A 2050 target needs to reflect this goal but, as I explained in my report, further study is needed as to whether the same target should apply to each of the three main gases. This is a highly technical matter

Clearly gases that accumulate in the atmosphere – so-called stock gases – can't be allowed to go on accumulating so getting them down to zero or having a negative emissions technology to offset them is required. But the same may not apply to methane which is short-lived – a so-called flow gas. A flow that is lower than at present but still more than zero may well be compatible with no additional warming or even some cooling.

Referring the question to the Commission makes sense for two reasons: firstly, it is technical and that is what the Commission is there for – to provide independent, technocratic advice to decision makers. Secondly, given that the Commission’s long term job will be to propose stepping stone budgets to get to the legislated target, it has to be confident that the right target has been proposed and enacted in the first place. It is not too late to add this critical question to the interim Committee’s agenda.

The second thing to note is that the Government has asked the interim Commission to examine how (and I quote) “surrender obligations could best be arranged if agricultural methane and nitrous oxide emissions enter into the New Zealand Emissions trading Scheme (ETS).” This is certainly a technical matter that the Commission will be well-placed to look into. But, it is also a *policy implementation* matter.

It means that the immediate focus on the Commission, during the time that the all-important legislation on targets and processes is being debated, will be on a very contentious implementation issue. Assuming that the Government accepts my advice that the Commission should only have recommendatory powers, this is a matter that will ultimately be decided by the Government.

There is no unique way to deal with agricultural or for that matter any sectoral emissions. You can use taxes, subsidies, regulations and all sorts of thing. And yes, you can use the ETS. I will be bringing out a report later in the year examining some different ways to bring down agricultural emissions going forward. But the ‘how’ of it is a second order issue. The first order issue is getting the long term goal enacted – which must include all gases - and with it the mechanism for enacting carbon budgets. There is a risk that if we become embroiled in a debate over agriculture’s entry into the ETS at the same time that we’re trying to enact a long-term goal and a process to get there, the short term issue will overwhelm the long term one. That’s exactly what the UK avoided. Every effort must be made to keep the two issues well apart.

Which brings me to my third point: the importance of budgets in putting the focus on the medium to long term. As I’ve illustrated in the case of the UK, being able to settle the early budgets right at the outset is the best way of ensuring that attention is shifted to the long term where it belongs.

The reality is that there is not a lot that can be done in the short term to radically reduce emissions. We will have to halt the upward curve and bend it down. It takes time for medium or long-lived assets to turn over – whether we're talking about the car fleet or boilers in industry. The really serious debate to which the new Commission swiftly needs to turn its attention is how we ready the economy for really significant reduction in the 2030s. They are only 12 years away but that should be long enough to implement policies and research that will unlock real structural changes that will start to seriously decarbonise the economy a decade or more from now.

How can we by-pass short-term politics to rescue the longer term? Let me at this point show you the sequencing I proposed in my report.

Third timeline slide: my report.

Now you will note that I haven't included budgets on this timeline. I did however mention them in the report. Here's what I said:

New Zealand will be unable to capitalise on a favourable emissions trend that allows debate over difficult choices to be confined to budget periods well out in the future. As a result, expectations about the first budget periods will need to be carefully managed. It will be important that arguments over the ambition of the first two or three carbon budgets do not become an obstacle to subsequent budgets. The whole point of the UK model is to send a clear signal about medium- and long-term expectations to provide certainty for those making long-lived investments that need to be consistent with a low-carbon pathway. Carbon budgets for the post-2030 period are needed soon if New Zealand's long-run emissions trajectory is to have a chance of being steered onto a pathway consistent with the net zero goal. (p27)

I wish I had said more. It seems to me that to give this system the best chance of bedding down in NZ with our fiendishly short electoral cycle, we need to bank two six year budgets almost on day one. The reason I proposed six year budgets was to fit that electoral cycle. If every second parliament was asked to adopt a new budget to come into effect 10 years down

the track, that would reduce the risks of analysis and debate descending into a dog fight over the short term. But for that to work, you've got to get the first twelve years under your belt.

I don't believe that has to be a laborious or contentious business. The previous government announced an NDC that was, in effect, an offer of -11% below our 1990 level of emissions by 2030. It doesn't sound very ambitious and in one sense it isn't. But given that we would need to reverse our current increasing trend, it's no easy affair. We have, in effect, wasted 25 years and locked in a lot of emissions-intensive technologies from which we will have to unwind.

I would be inclined to seek advice from the interim commission on the first two budgets using the current NDC as the baseline. This NDC as a minimum already has support across the political spectrum. There will be those who say it was insufficiently ambitious. The Commission should be asked if we can do better. But it should save its powder and shot for the third 6 year budget period covering 2031-2036. That's where the Commission will have to do a great deal of homework and test out technically and economically do-able strategies to generate a really ambitious number.

With that in mind, it's good to see that the Government has asked them to investigate the possibilities for going to zero emissions from power generation by 2035. That's a much more strategic question than the short term consideration of how agriculture might enter the ETS. It's a question about what can be done in the medium term – in other words over the first three budgets – to bring power generation emissions to zero. There is of course a similarly medium term challenge for our agricultural emissions and it is absolutely clear that by the time we get to the third budget there will have to be more significant contributions from the agricultural sector than anything we might imagine in the near term whether it's using the ETS or not.

With these thoughts in mind, let's look again at the proposed timeline:

Fourth timeline slide: Getting the budget & review cycle going

I think there would be merit in charging the interim Commission with the task of developing budgets for the years 2019-2024 and 2025-2030 with a view to proposing them immediately

after the Zero Carbon Bill's enactment in April next year. The Government could then have them adopted by parliament and the ship would be launched. The third budget – to cover the period 2031-2036 - would be then be proposed to the Government immediately after the 2020 election in early 2021. Then in 2024, following the 2023 election, there would be a formal review of progress placed before parliament. And so the cycle of regular budgets and review would be under way.

So what about bringing agriculture into the ETS – or dealing with it some other way? As I have said, this is an implementation issue. It didn't have to be referred to the interim Commission though I'm sure it will add value to this debate. But the important thing is that the Parliament's focus is directed in the first place to the medium and long term. In my view it would help if deciding the question of how to deal with agricultural emissions focus is moved out beyond the adoption of the enactment of the bill and the first two budgets.

If there is disagreement about *how* we set about requiring a reduction of agricultural emissions, that needn't be the end of the world. But if debate on that topic spills over and poisons the enactment of the long term target, the creation of the Commission and institution of carbon budgets, then we could put at risk the best opportunity in a generation to put this issue on a long-term footing.

I have personally witnessed some of our parliamentarians engaging one another in a serious way on these issues, Governments and Oppositions have defined roles and it would be a mistake to pretend that they should somehow be suspended on this issue. That said, my predecessor expressed the wish that she would not want such a law to 'scrape through' in Parliament. "Support across political parties," she said "is vital. Climate change is the ultimate intergenerational issue, and governments change."

There is no unique policy package that will reduce our emissions. We don't know at this stage how we will achieve the needed long-term target. The UK didn't when it passed its legislation. It still doesn't. That's not the point. The point is to set a long-term goal and increase the level of ambition in a measured, rigorously tested way. Long-term signals will shift investment, and allow technological windows of opportunity to be opened. There will be disagreements over *how* policies should be constructed. But I would echo my predecessor in pleading that parties leave no stone unturned in finding a way to put New Zealand's long

term goal beyond debate and agree on a mechanism to ensure we keep making progress towards it.