



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

16 July 2019

Committee Secretariat
Environment Committee
Parliament Buildings
Wellington 6160
Via website: <http://www.parliament.nz>

Dear Sir or Madam,

Climate Change Response (Zero Carbon) Amendment Bill

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide a submission to the Environment Committee on the Climate Change Response (Zero Carbon) Amendment Bill ("the Bill"). We have focused our feedback on key areas where we consider we can add the most value. Appendix A provides our detailed submission and Appendix B provides more information about CA ANZ.

Key points

- We support the establishment of a long-term durable framework for responding to climate change and encourage the transition to a low-emission economy to be considered as a part of the broader vision for New Zealand in 2050.
- The framework should be fair and equitable, with contributions by sector taking into account the effect of emitters in that sector. All sectors should be provided with the same tools to offset emissions.
- We support biological emissions and fossil fuel emissions being treated separately in the legislation and setting a target of net zero emissions by 2050 (other than for biogenic methane).
- We suggest consideration be given to setting a gross zero target for fossil fuel emissions by 2050, as recommended by the PCE.
- We support setting a net target for biogenic methane but recommend further consideration is given to the target level and date before it is legislated.
- We support the functions of the Climate Change Commission. However, we recommend additional provisions and resources to empower the Commission to self-initiate research on climate change-related matters and to promote awareness of climate change and related matters.

- We recommend simplifying the planning framework by subsuming the Emissions Budgets and Emissions Reduction Plans into a wider National Adaptation Plan. This would make the framework more coherent and increase certainty.

Yours sincerely



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General comments

We agree with the policy intention of the Bill to provide a framework for a long-term response to climate change. We support the establishment of an expert Climate Change Commission to advise Government on risk assessments, emissions targets, emissions budgets and reduction plans, and to monitor the progress towards meeting emissions budgets. This Bill is an opportunity to set in place a durable and world-leading response to climate change. The Intergovernmental Panel on Climate Change (IPCC)'s special report *Global Warming of 1.5°C* in October 2018 provides an important global context with respect to this draft legislation.

The frameworks should be fair and equitable taking into account the impact emitters by sector have on additional warming and their contribution to limiting warming to 1.5 degrees Celsius above pre-industrial levels. All sectors should be provided with access to the same tools to offset emissions. For example for farmers to have the ability to directly offset methane by on-farm trees rather than the more complex method of purchasing carbon credits through the Emissions Trading Scheme to get trees recognised. Further, all forms of on-farm forest sinks should be recognised in this process including small forests, such as shelter belts, that do not currently meet the forest definition in the ETS.

Achieving emissions reductions and adapting to climate change will require large social and economic changes. Feedback from some of our members has highlighted the critical importance of an engaged citizenry and business sector in driving this successful transition. Some suggestions have noted the particular importance of active youth participation in policy and decision-making processes. Some have further suggested that the interests of youth should also be built into this Bill as future generations will be most affected. We recommend that, outside of the processes of this Bill, the Government and Parliament take steps to ensure that New Zealanders are actively engaged on an ongoing basis.

We have also heard feedback from members that there is a need to ensure the integrity of emissions data. Successful adaptation and climate change mitigation will depend on having good quality emissions data; if emissions cannot be accurately measured and estimated, they cannot be accurately reduced and mitigated. We understand that there are some concerns about the current data measurement and estimation tools and processes. We suggest that Government looks at how emissions are measured and estimated and considers how other jurisdictions assure the quality of emissions data.

We encourage the transition to a low-emission economy to be considered as part of the broader vision for New Zealand in 2050. The Treasury's Living Standards Framework with its four capitals (human, social, natural and financial) approach and the current wellbeing budget in 2019 demonstrate the need for a broader systems-based approach to these issues. 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.

Emissions reductions

2050 target (new s.50)

The views of our members differ in relation to setting a target in legislation. The Paris Climate agreement, which forms part of the basis for New Zealand to develop this policy, refers to all greenhouse gases and a net zero target by the second half of the century. We note the UK has now set a zero emissions target for 2050. Our members in the rural sector have highlighted that key recommendations from the March 2019

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detailed report “*Farms, forests and fossil fuels: the next great landscape transformation?*” published by the Parliamentary Commission for Environment (PCE), have not been reflected in this Bill. In particular, they note the following recommendations:

- Develop two separate targets for the second half of the century: a zero gross target for fossil emissions, and a reduction target for biological emissions based on the advice of the new Climate Commission.
- Allow access to forest sinks as offsets only for biological emissions.
- Develop the tools needed to manage biological sources and sinks with a landscape approach that embraces water, soil and biodiversity objectives.

These members have expressed support for most of these recommendations although they suggest that fossil fuel emitters’ access to forest carbon sinks should be eliminated immediately. The Bill, in its current form, will continue to allow fossil fuel emitters access to forest carbon sinks. There is concern that this mechanism potentially results in the planting of trees encouraging the continued use of fossil fuels, whilst having a negative effect on rural farming communities. Further, as noted in the PCE report, forest sinks are vulnerable to climate change and also have an impact on future land use. Offsetting biogenic methane emissions, which are shorter lived, with forest sinks represents better matching of the risks, timeframe and locality of the emissions.

We support biological emissions and fossil fuel emissions being treated separately in the legislation. In considering the different views of our members, we support setting a target of net zero emissions by 2050 (other than biogenic methane). Further, we suggest consideration be given to setting a gross zero target for fossil fuel emissions by 2050, as recommended by the PCE. Some of our members are concerned at the increasing urgency of the situation and do not want further delays to the Government setting a net zero target.

New Zealand’s greenhouse gas emissions profile has a greater proportion of biogenic methane than the global average. Our rural members support setting a net target for biogenic methane that is equivalent to net zero carbon dioxide or net zero nitrous oxide. This would allow for access to forest carbon sinks to offset biogenic methane emissions, in particular ‘on-farm’ sequestration. We recommend the Bill incorporates a provision for the Climate Change Commission to advise Government on an appropriate long-term net target and target date for biogenic methane reductions. In addition, these targets should be based on robust and peer-reviewed science and consider relevant factors listed in new sections 5Q2(a)(i) – (vii).

Target reviews

We support the provisions and processes for 2050 target reviews as set out in new sections 5P – 5R.

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The Climate Change Commission

Functions of the Climate Change Commission

We support the statutory roles and functions of the Climate Change Commission as proposed in new section 5J, but recommend adding a statutory provision to enable the Commission to undertake and publish research and promote climate change-related understanding on its own initiative.

New s.5J(i) creates a function for the Commission ‘to provide other reports requested by the Minister’ and new section 5K sets out this process. We support enabling the Government to request reports from the Commission and we support the process and matters that the Commission must consider (new section 5L). However, taken in combination with the other statutory functions, these provisions constrain the Commission from self-initiating any research. It also does not have any role in promoting understanding of climate change within business and the wider community. We note that the Productivity Commission’s comparable statutory remit is slightly wider, and includes the ability to undertake and publish self-initiated research about productivity-related matters and to promote public understanding of productivity-related matters. (See s.9(b) *New Zealand Productivity Commission Act 2010*.) A similar statutory function for the Climate Change Commission would benefit New Zealand by allowing for independent promotion of the understanding of climate change-related matters across a range of sectors and research into policy areas that could assist adaptation. We think this could assist in shifting business culture and attitudes towards climate change and the transition to a net zero-carbon economy.

We therefore recommend inserting a new section 5J(j) as follows:

- (j) *on its own initiative, to—*
 - (i) *undertake and publish research about climate change-related matters; and*
 - (ii) *promote public understanding of climate change-related matters.*
 - (iii) *advise the minister with regard to such other matters as may contribute to the purposes of this Act.*

Commission processes and consultation

We support the provisions in new sections 5L – 5N setting out the processes the Commission must undertake.

Commission membership

We support the processes and provisions for membership as set out in new sections 5C – 5I. We consider that the collective attributes of commission members stipulated in section 5H are appropriate. Feedback received from our membership has highlighted the importance of The Commission to stand as a publicly accessible accountability mechanism and it needs to be appropriately supported and resourced.

Information gathering powers

New section 5ZV provides that the Minister may request reporting organisations to provide all or any of certain types of information. We support the definition of reporting organisations (section 5ZV(4)) and we also support the types of information covered in the Bill (section 5ZV(1)). Given that the Commission will

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be the key advisory and monitoring body we think that the Commission should also have statutory power to request the information covered under section 5ZV, not just the Minister. Under the Bill, the Commission currently has no statutory powers to do so and will need to rely on the Minister's power to request, or on the Minister's regulation making power for compulsion. This has the potential to create inefficient processes for gathering information and may hamper the effective exercise of the Commission's functions. We therefore suggest amending section 5ZV to provide that the Commission may also request a reporting organisation to provide information (and a reporting organisation is compelled to comply). However, we note that greater clarity is needed around expectations relating to this reporting and we encourage consultation with the reporting organisations.

We support the regulation-making powers for information provision set out in section 5ZW and consider these appropriate.

Planning framework

National Risk Assessment

We support the contents and procedural requirements of the National Risk Assessment as set out in new sections 5ZM – 5ZP. We consider the risks to be assessed and the things to be taken into account by the Commission are appropriate, as are the requirements to present the assessment to Parliament and make it publicly available.

National Adaptation Plan

We support the processes for developing the National Adaptation Plan as set out in new section 5ZQ(4). We agree that the required contents of the plan as set out in new sections 5ZQ(2) and 5ZQ(3) are necessary but think that the plan should be wider and incorporate the Emissions Budgets and the Emissions Reduction Plan for the reasons set out below.

How the components of the planning framework fit together

The various components of the risk assessment and planning regime established by the Bill will have different timeframes. Below is an example of how these components fit together, stating the end of the year by which each component must be completed as per the Bill's provisions.

National Risk Assessment	Emissions Budgets	Emissions Reduction Plan	National Adaptation Plan
2020	2021	2021	2022
2026	2025	2025	2028
2032	2030	2030	2034

We suggest the Emissions Budgets and the Emissions Reduction Plan form part of a wider National Adaptation Plan, which should be prepared and implemented in response to a National Risk Assessment. Our view is that this would represent a more coherent policy response framework; it would give greater periods of certainty to New Zealanders and businesses by having all planning responses released at the same time in regular intervals rather than staggered across different years and with different periods. It

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would also reflect the fact that emissions budgets and reduction plans are themselves a key adaptation tool. In our opinion, this would also assist in driving adaptation for the effects of climate change and embedding a culture of emissions reduction, hence contributing to emissions targets.

We recommend the Bill be amended accordingly: requirements for the emissions budgets and emissions reduction plans be subsumed into the National Adaptation Plan requirements, and the new National Adaptation Plan be required to be completed in the year following publication of the National Risk Assessment.

Emission budgets

We support requiring there to be three consecutive Emissions Budgets in place at any one time (new section 5U). We also support the proposed contents of budgets (new section 5V).

We have received some feedback from our members expressing the importance of incorporating flexibility into the Emissions Budgets in order to respond to changing science and technologies. Feedback received also suggests that Emissions Budgets could be industry based taking into account that not all industries will be facing the same emissions and climate change issues.

We support requiring Emissions Budgets to be met, as far as possible, through domestic emissions reductions and domestic removals as per new section 5W(1). Prioritising domestic emission credits over international credits will 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 recommend Government and Local Government synchronise planning and budgeting cycles in order to align objectives. We also support the statutory consideration requirements set out in new section 5W(2).

Emissions reduction plans

We support the provisions setting out the inclusion of an emissions reduction plan (new section 5ZD(3)) and the process and timeframes for the commission to advise on emissions reduction plans in new section 5E.

New section 5ZF requires the Minister to publish the final reduction plan and any policies and strategies only 'before the relevant emissions budget period commences' (section 5ZF(2)). In theory, the Minister could publish these in the online *Gazette* the day before the commencement of that period.

As above, we recommend that Emissions Reduction Plans be included in a wider National Adaptation Plan, in response to the latest National Risk Assessment. If this recommendation is not supported, we recommend that the Bill be amended so the plan and any policies and strategies be required to be published a suitable length of time before the commencement of the budget period to allow sufficient time for interested persons to access them prior to them coming into force. We suggest a period of one month prior to the commencement of the budget period is a suitable timeframe, and that new section 5ZF(2) is amended accordingly.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 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.