

EXECUTIVE SUMMARY

Global climate change is likely to have a significant impact on the New Zealand economy over the next several decades and beyond, and there is a reasonable likelihood that New Zealand will need to make significant reductions in its emissions. In response, New Zealand needs to develop a clear strategy to guide its response to the effects of climate change and commit to the actions required to enable New Zealand to reduce its emissions in a meaningful way.

The Institute has recommended that New Zealand adopt a fast follower strategy with respect to emissions reduction and that it should, as a starting point, aim to reduce its emissions to 30% below their 1990 level by 2050. Although this will be challenging for New Zealand, given the nature of its emissions profile, New Zealand needs to begin to reduce its emissions in a meaningful way in order to position it to operate successfully in a low-emissions global economy.

So far, however, New Zealand's public debate has been heavy on aspiration with less focus on the actions required to reduce emissions to the extent required. Although discussing aspirations can be useful in motivating action, the priority needs to be on taking tough action to reduce emissions in order to position New Zealand to compete in a low-emissions world. The contribution of this report is to examine the nature of the adjustment process, and the

options that are open to New Zealand.

Reducing New Zealand's emissions will be challenging

Reducing New Zealand's emissions will require a major change in New Zealand's current course and speed. New Zealand's emissions have been growing strongly, and are 25% higher than in 1990. To halt this growth and reduce emissions well below their 1990 level will require a significant shift in the functioning of the New Zealand economy.

Without meaningful action, New Zealand's emissions are likely to continue to increase. New Zealand will need to substantially improve its rate of emissions intensity improvement. This will be a challenging process. The available negative cost abatement opportunities will not be sufficient to deliver the emissions reductions that are required.

The challenging nature of this process is not an argument for inaction. Rather it emphasises the need to act seriously. Significant reductions in New Zealand's emissions will require sustained action. This will involve substantial improvements in the emissions efficiency of the existing New Zealand economy, as well as a shift in the New Zealand economy towards reliance on lower emissions types of economic activity.

The aim is to adjust the New Zealand economy to a lower emissions mode of operating so that it can compete successfully in a low-emissions global economy. For this reason, the focus of the analysis in this report is on actions to reduce New Zealand's domestic emissions. Although emissions reduction targets can also be met by purchasing emissions credits from other countries, this will do little to adjust the New Zealand economy to operate in a low-emissions world. The best way in which to position New Zealand to compete is to reduce domestic emissions.

A modest start has been made

Actions can be taken to improve the emissions efficiency of the New Zealand economy through emissions pricing and regulatory measures. Over the past several months, the government has announced measures to reduce New Zealand's emissions, including an emissions trading scheme, a 90% renewable electricity generation target, and tighter fuel efficiency standards.

The measures announced by the government to date are a step in the right direction, and will generate a reduction in New Zealand's emissions. Overall, however, we estimate that the various policies will only serve to reduce New Zealand's domestic emissions in 2050 to about their 1990 level. The level of emissions reduction is not sufficient to adjust the New Zealand economy so that it is well positioned

to compete in a low-emissions world.

The limited materiality of the announced measures reflects the relatively limited abatement opportunities available to New Zealand rather than being due to deficiencies in the announced policies. Additional steps can and should be taken to increase the emissions efficiency of the New Zealand economy, such as a commitment to upgrade New Zealand's efficiency standards over time in line with other countries as well as more significant investments in public transport and communications technology. But a broader range of actions will be needed.

Additional measures are required

To achieve significant reductions in emissions will require a change in the composition of the New Zealand economy. In particular, New Zealand should encourage the development of strengths in low emissions types of economic activity. Developing these strengths will require deliberate action in order to ensure that New Zealand is an attractive location for this type of activity relative to other countries. This means that investing in education, research, and communications infrastructure, are potentially important elements of New Zealand's policy response to climate change.

It is sometimes argued that an aggressive response to climate

change will lead to economic transformation as firms change their operations and business models. Although this view has some validity, it is more appropriate to see economic transformation as central to climate change policy. Indeed, unless the New Zealand economy is transformed, so that its economic growth is less reliant on emissions intensive activities, it is difficult to see how New Zealand will be able to significantly reduce its emissions. Actions to transform the economy need to be much more of a priority.

New Zealand should also seek to manage its exposure to international consumer and governmental action through a broader range of actions. For example, investing in building a world-leading environmental brand may reduce the likelihood that consumers penalise New Zealand goods and services even if they have a high emissions content. And New Zealand should be constructively engaged in the international climate change negotiations to ensure that its unique circumstances are recognised.

Actions speak louder than words

New Zealand needs to establish a programme of action sufficient to achieve a significant reduction in its emissions. Unfortunately, despite

the ambitious talk of aspirations for carbon neutrality or deep reductions in emissions, the commitments and proposals made to date do not seem likely to deliver emissions that are below their 1990 level. This gap between rhetoric and reality creates reputational risk for New Zealand and continues New Zealand's history of over-promising with respect to emissions reduction as was the case with its Kyoto commitments.

Indeed, the actions announced to date position New Zealand as a follower and do not seem adequate to position New Zealand to compete in a low-emissions global economy. This means that New Zealand continues to face a major economic exposure to the possibility that overseas governments or consumers require New Zealand to make substantial reductions in emissions.

New Zealand should slow down the rhetoric and speed up in terms of the hard work of reducing New Zealand's emissions. Actions that reduce New Zealand's domestic emissions in a meaningful way speak louder than words.

ACTIONS SPEAK LOUDER THAN WORDS: ADJUSTING THE NZ ECONOMY TO A LOW EMISSIONS WORLD



