



Office of Hon Steven Joyce

Minister of Finance
Minister for Infrastructure

26 APR 2017

Mr Murray Sherwin
Chair
Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Dear Murray

TERMS OF REFERENCE FOR INQUIRIES INTO THE OPPORTUNITIES AND CHALLENGES OF A TRANSITION TO A LOWER NET EMISSIONS ECONOMY FOR NEW ZEALAND

I am pleased to refer to you the Terms of Reference for a Productivity Commission inquiry into the *Opportunities and Challenges of a Transition to a Lower Net Emissions Economy for New Zealand*.

This inquiry into *Opportunities and Challenges of a Transition to a Lower Net Emissions Economy for New Zealand* will seek to identify options for how New Zealand could reduce its domestic greenhouse gas emissions through a transition towards a lower net emissions future, while at the same time continuing to grow incomes and wellbeing.

I wish you all the best as you commence this inquiry and look forward to your results.

Yours sincerely,



Steven Joyce
Minister of Finance

Minister of Finance

Terms of Reference - New Zealand Productivity Commission Inquiry into the Opportunities and Challenges of a Transition to a Lower Net Emissions Economy for New Zealand

Issued by the Minister for Climate Change Issues, the Minister of Finance, and the Minister for Economic Development (the “referring Ministers”). Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission (“the Commission”) undertake an inquiry into how New Zealand can maximise the opportunities and minimise the risks of transitioning to a lower net-emissions economy.

Context

New Zealand is part of the international response to address the impacts of climate change and to limit the rise in global temperature, requiring a transition of the global economy to one consistent with a low carbon and climate resilient development pathway.

New Zealand has recently formalised its first Nationally Determined Contribution under the Paris Agreement to reduce its emissions by 30 percent below 2005 levels by 2030. The Paris Agreement envisages all countries taking progressively ambitious emissions reduction targets beyond 2030. Countries are invited to formulate and communicate long-term low emission development strategies before 2020. The Government has previously notified a target for a 50 per cent reduction in New Zealand greenhouse gas emissions from 1990 levels by 2050.

New Zealand’s domestic response to climate change is, and will be in the future, fundamentally shaped by its position as a small, globally connected and trade-dependent country. New Zealand’s response also needs to reflect such features as its high level of emissions from agriculture, its abundant forestry resources, and its largely decarbonised electricity sector, as well as any future demographic changes (including immigration).

The government is already taking action to support meeting the 2030 target. This includes reviewing the New Zealand Emissions Trading Scheme (NZ ETS), encouraging the up-take of electric vehicles and other energy efficiency technologies, and developing links with emerging international carbon markets. It has also founded the Global Research Alliance to fund research into emissions mitigation in pasture based livestock systems.

However in the long-term – 2030 and beyond – New Zealand will likely need to further reduce its domestic emissions in addition to the use of forestry offsets and international emissions reduction units, although these will continue to remain an important part of the country’s climate change response for meeting targets at least cost.

This has the potential to influence the direction and shape of the New Zealand economy as the country seeks to balance the need to reduce domestic greenhouse gas emissions with preserving and enhancing economic wellbeing.

Taking action to transition to a low net emissions economy would involve a gradual change to the country’s pattern of economic activity in order avoid a potentially costly and disruptive economic shift in the future. How such a change occurs, however, will not necessarily be linear.

Scope and Aims

The purpose of this inquiry is identify options for how New Zealand could reduce its domestic greenhouse gas emissions through a transition towards a lower emissions future, while at the same time continuing to grow incomes and wellbeing.

Two broad questions should guide the inquiry:

What opportunities exist for the New Zealand economy to maximise the benefits and minimise the cost that a transition to a lower net-emissions economy offers, while continuing to grow incomes and wellbeing?

To answer this, the inquiry will need to examine New Zealand's current patterns of economic activity and the ways in which these are contributing to the country's greenhouse gas emissions.

It will then need to consider the different pathways along which the New Zealand economy could grow and develop so as to achieve New Zealand's emissions targets, as well as respond to the physical effects of a changing climate.

The inquiry will then need to analyse the respective opportunities and risks offered by these pathways, and identify which pathways offer the best outcomes in terms of both growing incomes and wellbeing and reducing domestic net-emissions.

This will require the Commission to consider how patterns of economy activity may need to change, including over what timeframe and at what cost, to achieve the potential benefits of these future pathways, and what strategies the government could use to maximise these benefits through regulatory systems, behavioural change, and economic incentives.

As part of analysing these pathways, the inquiry should also examine how they could affect broader economic objectives for increasing wellbeing and achieving higher living standards, including sustainability, economic growth (including productivity growth), increasing equity, social cohesion, and resilience to risk.

How could New Zealand's regulatory, technological, financial and institutional systems, processes and practices help realise the benefits and minimise the costs and risks of a transition to a lower net emissions economy?

The inquiry should examine the range of current and potential government interventions that could both support a transition to a lower net emissions economy and support growth of incomes and wellbeing.

In particular the inquiry should include the following:

- a. the role of the NZ ETS in supporting New Zealand to transition to a lower net emissions economy, building on the Ministry for the Environment's Stage II review
- b. the role of other market-led solutions, direct regulation (such as minimum fuel efficiency standards) and non-regulatory interventions (including aspirational targets) in a low net emissions transition
- c. how the science and innovation systems (including research and design) could better support the development of low emissions technologies, and whether there are any barriers (regulatory or otherwise) to the deployment and uptake of these technologies
- d. whether there are any barriers in New Zealand to undertaking domestic investment to reduce net emissions, and what the government could do to reduce or remove these barriers ((e.g. green bonds, public private partnerships, risk-sharing finance, climate-related disclosure requirements)
- e. how to encourage efficient land-use decisions that take into account the costs and benefits of greenhouse gas emissions and abatement (including how costs and benefits may be affected by applying carbon prices or other interventions to different activities) and concerns about international competitiveness
- f. how to maximise New Zealand's comparative advantages in a carbon constrained world, including the timeframes for any relative advantages from market premiums or market access risks.

Report and Recommendations

The inquiry should explore New Zealand and international research and experience related to both the questions above. However, the focus should be on practical applications relevant to New Zealand's circumstances.

The inquiry should have a long-term focus, while being cognisant of New Zealand's 2030 and 2050 emissions reduction targets.

The final report should provide credible recommendations for how New Zealand should manage a transition to a lower net emissions economy, while still maintaining or improving incomes and wellbeing.

Exclusions

This inquiry should not focus on the suitability of New Zealand's current, or any future emissions reduction target. In addition, the inquiry should not focus on the veracity of anthropogenic climate change, and should only consider the implications of a changing climate to inform consideration of different economic pathways along which the New Zealand economy could grow and develop.

Consultation

Given that climate change is an economy wide-issue, the Commission should consult with a broad range of stakeholders including: central and local government, the Climate Change Iwi Leadership Group, relevant industry and NGO groups, scientific and academic bodies and the general public.

This inquiry is intended to complement and take account of existing policy work (particularly the Stage II review of the NZ ETS) and other current evidence gathering groups exploring issues related to climate change, including the Biological Emissions Reference Group, the Forestry Reference Group, and the GLOBE-NZ commissioned work by Vivid Economics.

Timeframes

The Commission should present a final report to referring Ministers by 30 June 2018.

HON PAULA BENNETT, MINISTER FOR CLIMATE CHANGE ISSUES

HON STEVEN JOYCE, MINISTER OF FINANCE

HON SIMON BRIDGES, MINISTER FOR ECONOMIC DEVELOPMENT