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Ministry for the Environment
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Submission on the development of the Zero Carbon Bill

The Institute of Directors (IoD) appreciates the opportunity to comment on the policy development to shape the Zero Carbon Bill (the Bill).

New Zealand has already made certain commitments to reduce its carbon emissions including by signing the Paris Agreement in 2016, adopting the UN Sustainable Development Goals in 2015, and establishing an Emissions Trading Scheme. The recently established Climate Leaders Coalition has also pledged to reduce emissions and play a leadership role in New Zealand's transition to a low emissions economy. The Bill aims to advance these efforts further by setting out a long-term commitment to reducing carbon emissions and by providing both certainty and transparency around the future policies that will be introduced to achieve this, irrespective of which government is in power in the future.

The [Discussion Document](#) sets out the main features of the proposed Bill to:

- set a net zero carbon emissions target to be achieved by 2050
- put in place emissions budgets for shorter periods of time, to help achieve the long-term target
- establish a Climate Change Commission to provide independent expert advice
- adapt to the impacts of climate change.

About the Institute of Directors

The IoD is a non-partisan voluntary membership organisation committed to driving excellence in governance. We represent a diverse membership of over 8,700 members drawn from listed issuers, large private organisations, small and medium enterprises, public sector organisations, not-for-profits and charities.

Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

Summary of submission

Introducing a Zero Carbon Bill

The proposed Bill will be a significant policy development for New Zealand and will have a substantial impact on the economy and business. It is important that there is clarity and certainty about our approach and commitments to climate change.

'The role of business is critical in transitioning to a sustainable world.'¹ Focusing on key strategic, social, governance and environmental risks, and long-term business sustainability is fundamental to good governance. Boards are giving increasing emphasis to these matters as they appreciate the importance of understanding and responding to the evolving expectations of investors, consumers,

¹ *The Four Pillars of Governance Best Practice for New Zealand Directors* (Institute of Directors (NZ) Inc) 2017

staff and other stakeholders. Setting out New Zealand's long-term commitments to climate change in the Bill will provide clarity and some certainty; and will help boards govern their organisations, while also addressing the growing impacts of climate change.

We generally support the intent of the Government to establish a long-term approach to climate change however careful consideration needs to be given to the potential economic impacts on the country and in particular to those sectors (such as energy, transport and agriculture) that will be most affected. New Zealand's unique emission's profile, economy and political environment also need to be taken into account when considering the emission reduction targets and other commitments proposed in the Bill.

Adaptation and including an adaptation reporting power

Many organisations and individuals in New Zealand are already addressing climate change issues and there is value in implementing adaptation provisions to help address the impacts of climate change that can no longer be avoided.

Corporate transparency and meaningful reporting can help build trust and confidence in financial markets and can aid business resilience and long-term sustainability however we do not support the introduction of *mandatory* reporting. While there is a growing global trend for more holistic corporate reporting that goes beyond financial information, the frameworks and metrics of corporate reporting are still evolving. There needs to be flexibility in the type of reporting that different types of organisations may use, both to ensure it is of value to that organisation, and that it is consistent with other existing legislation or reporting requirements already in place.

[Overview of proposed Bill](#)

We discuss key features of the proposed Bill below.

Setting a 2050 target

In proposing a new long-term emissions reduction target in the Bill, the Government puts forward three potential targets that could replace New Zealand's current target of 50 percent emissions reduction below 1990 levels by 2050:

- **net zero carbon dioxide:** reducing net carbon dioxide emissions to zero by 2050 (this would largely remove agriculture as it does not include gases like methane and nitrous oxide)
- **net zero long-lived gases** (CO₂ and nitrous oxide) and **stabilised short-lived gases** (methane): reducing emissions of long-lived gases to net zero by 2050, while also stabilising emissions of short-lived gases
- **net zero emissions:** net zero emissions across all greenhouse gases by 2050.

Emissions budgets

Emissions budgets are set quantities of emissions allowed over a specific period of time that can act as stepping stones towards the overall 2050 target. The Government is proposing three emissions budgets of five years each, with the last emissions budget (that is, the one most furthest away in time) being able to be altered by Government. There could also be an ability to bank or borrow from one emissions budget to the next.

IoD commentary

It is important that careful consideration is given to any specific target and emissions budget that is set, including taking into account the impact this would have on our industries and economy, our trade-exposed businesses, and the changes that may be required to our energy, transport and agricultural sectors.

Many countries already have long-term reduction targets in place, including the United Kingdom, whose legislation is a foundation for the Bill.

We do not support setting a target in the legislation at the outset, but rather waiting for expert advice from the Climate Change Commission. We support the ability within the Bill to be able to allow the target to change should circumstances change. Given the long-term nature of the Bill, it is important that it is still flexible and adaptable enough to be able to respond to future unforeseen changes in circumstances, while still providing certainty in the business operating environment.

Climate Change Commission

The Bill will establish a Climate Change Commission (Commission) to provide independent expert advice and to assist in holding governments to account. The Commission's advisory and monitoring functions would include:

- advising on the most appropriate emissions budgets and monitoring progress towards achieving them
- providing independent expert advice on areas of the economy to focus on in achieving emissions budgets
- advising on the most appropriate 2050 target, while keeping an eye on changes in technology and international developments
- monitoring progress towards addressing the risks of climate change
- advising on the extent to which international emissions reductions should be used towards the targets.

IoD commentary

We support the introduction of a Commission as a strategic leader and comprised of people with expertise and experience on climate change and related matters to be able to provide independent expert analysis and advice, as well as holding present and future governments to account.

We note that both the Parliamentary Commissioner for the Environment and the Productivity Commission have recommended that a Commission be established and other countries such as Australia, the UK, Denmark, Finland and Ireland have already established independent bodies. Establishing a Commission will play an important part in transitioning New Zealand to a low emissions economy.

Adaptation and including an adaptation reporting power

The proposed Bill would also include adaptation provisions to help address the impacts of climate change including:

- a national climate change risk assessment
- a national adaptation plan
- regular review of progress towards implementing that plan
- an adaptation reporting power. The Government is seeking feedback on how this power should be used and who it might apply to, including:
 - the value of having a targeted and specific reporting power
 - which organisations it should apply to
 - whether it should be voluntary or mandatory
 - what the reporting should cover.

IoD commentary

It is widely accepted that even with a successful reduction in greenhouse gases, New Zealand will still be affected by certain impacts of climate change. We support the introduction of adaptation provisions to help address these impacts, taking into account the following:

- understanding an organisation's risk exposure to climate related matters can assist boards in managing their organisation's overall risk profile and making more informed decisions, as well as improving transparency and trust for investors and stakeholders.
- boards are increasingly considering sustainability and the social impact of an organisation. Results from our *2017 Director Sentiment Survey* showed a large number of boards (69%)

said environmental and social issues were important to their business. In addition 26% of boards said they were engaged and proactive on climate change risks and practices.

- regulatory bodies in New Zealand are recognising the need to address this matter. For example measures taken by the NZX include joining the UN Sustainable Stock Exchange initiative; recommending in the *2017 NZX Corporate Governance Code* (on a comply or explain basis) that listed companies disclose non-financial information in relation to environmental, economic and social sustainability risks.
- overseas there is an increasing tendency towards integrating climate risk into financial reporting, and many countries including the Europe Union, France and the UK already require some organisations (particularly large or listed firms) to make climate related disclosures, while various industries worldwide also have their own reporting standards.

While there is a global trend for more holistic corporate reporting that may include climate change risks, we do not support the introduction of a *mandatory* reporting power for the following reasons:

- the particular frameworks and metrics are still evolving. Some organisations are choosing to report on selected ESG or sustainability metrics, while others are adopting one of the established frameworks such as the Global Reporting Initiative or Integrated Reporting. The recommendations of the Task Force on Climate-related Financial Disclosures set out a global framework for climate related disclosures and are expected to be an influential tool.
- while measuring and reporting on the impacts of climate change may be valuable for many organisations it is important that boards have the ability to decide what reporting may be useful and what reporting frameworks would be most appropriate for their organisation. Reporting must be meaningful to be of real value.
- consideration also needs to be given to how any reporting function may work in conjunction with other reporting requirements or frameworks, including those still in development, such as the Government's Living Standards Framework.

We encourage significant consultation with New Zealand industries, organisations and iwi before any reporting requirements are determined, including consideration about flexibility for boards to determine the best reporting tool for their organisations and ensure consistency with existing legislation and reporting requirements.

We appreciate the opportunity to comment on behalf of our members.

Yours sincerely,



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