



Environment and economics: A marriage of (in)convenience? The business edition

Earlier this year I asked a room full of environmentalists to consider some inconvenient truths. Someone suggested that I should do the same for business. After all, like environmentalists, you do your share of lobbying and in addition spend significant sums marketing yourselves to consumers. The world as it is and the world as it would suit your interests are not identical.

So let me offer some unpalatable realities that businesses should confront:

- the physical environment is deteriorating
- certainty is not something you can demand of governments or the environment
- environmental regulation is necessary
- environmental taxes, levies or charges are unavoidable if a more environmentally sustainable economy is going to be affordable
- the risk of greenwashing is alive and well.

Let me comment briefly on each.

The **physical environment is deteriorating**. The impacts of severe weather, such as Cyclone Gabrielle, show just how damaging climate change can be to business and society alike. But since 1990, New Zealand's gross emissions of greenhouse gases have climbed 14%. Similarly, we continue to drain wetlands and threaten biodiversity. One third of catchments have such degraded water quality that even current limits can't be met without some degree of land use change.

It seems to me obvious that the economy is a subset of the physical environment in which it operates. There are still people in denial about that – a denial that is usually rooted in some hazy idea that technology will bail us out. While technology may well overcome all sorts of shortfalls, it seems strange to me that we should write off a vastly complex, self-sustaining system that costs nothing. Clean air, water and soil that can support human survival on this planet seems to me worth sustaining. It's a pretty impressive capital base on which to build our lives.

It's increasingly common for businesses to acknowledge this in its generality. But I question whether many businesses really understand what this means – until they are upended by environmental breakdown.

In 2022 an ocean heatwave spiked ocean temperatures 5 degrees Celsius above normal in parts of the country. This killed 1,300 tonnes of farmed salmon, causing the country's largest salmon

exporter New Zealand King Salmon to lay off more than 100 staff and close farms in the Marlborough Sounds.

The 2023 North Island weather events reduced business turnover by around half a billion dollars, with ongoing losses of around \$100 million expected each year in coming years. The total damage incurred by businesses is thought to be between \$2–3 billion.

If these examples carry a lesson, it is that you can't ignore climate change. It will impact on your business one way or the other. Either the world will rapidly reduce emissions – which will hurt some sectors a lot, or face a very different climate – which will hurt everyone. Either way, global value chains are vulnerable. We don't make global trade rules, and we can't control the weather.

The same goes for other environmental pressures like water quality and waste. Think of the plastic that now impregnates ocean life. A series of environmental pressure points make it very unlikely that the physical environment we once took for granted is going to resemble the one our grandchildren inherit. Stuff that we thought we understood is going to become unpredictable. And that will be costly.

Which brings me to what you can reasonably demand of governments. I often hear pleas for **certainty** from government. But as I've just explained, environmental disruption is going to throw a lot of uncertainty your way. You don't have certainty in business. It's all about staying awake to what's changing in markets around you. So why do businesses call on governments to provide them with certainty? Governments change. Their actions are driven by an electoral horizon and voters who may think differently from you. And they will make different trade-offs. But whoever's in power, a changing physical environment is going to mean changing demands on governments.

Which brings me to my third inescapable reality – that **environmental regulation is necessary**. Environmental regulation is needed to ensure that individuals and businesses cannot irretrievably degrade publicly owned environmental resources on which we all depend. Regulating the claims we make on that capital base is, in a trivial sense, about stopping free-riders who hope to swipe some of that capital and leave others to clean up.

But much more importantly, it's about managing risks. Good quality regulation should be welcomed. Indeed, it can provide a measure of certainty that an absence of regulation cannot. Minimum river flows ensure that a suite of ecosystem services remain available. Maximum contamination values guarantee continued access for others. And from a business point of view there is value in the certainty of knowing that all one's competitors are obliged to meet standards. Not all regulation is bad – and many businesses will agree. But what's 'good' regulation?

Let's be clear, governments and businesses have quite different roles and interests. Business success is about generating returns for shareholders. Government success is about a raft of social and environmental outcomes that will change as governments change. Public and private interests are not always aligned and it is best to be honest about that. Any well-run business should engage constructively to make sure regulations work. Any well-run government should listen to what those businesses have to say and come up with regulations that achieve their end at least cost.

That's a great principle. But as we all know, the devil is in the detail. What costs and what benefits get weighed? And in whose interests? In a democracy such as ours, it is important that businesses – and governments – are upfront about declaring their interests and the trade-offs they are advocating. Governments can't be expected to take a long, disinterested view if the only lobbying that comes their way is unashamedly self-interested.

The oil and gas industry likes to present itself as part of the solution to achieving the transition to net zero. It has an understandable interest in keeping itself in business so you would expect it to lobby against regulations that will decarbonise the economy. Equally, the rest of us are entitled to ask them what level of emissions they believe the country – and the world – can live with. And businesses affected by fossil carbon emissions need to speak up for why those regulations might be necessary.

Land-based industries are acutely vulnerable to climatic disruption. So I am intrigued that the pastoral farming sector complains about a New Zealand Emissions Trading Scheme (NZ ETS) that almost guarantees a failure to reduce gross emissions while we cover the country in pine trees but says nothing about what that the NZ ETS *should* look like. Those offset-driven forests represent a permanent loss of option-value over the land in question – including the ability of farmers to plant trees to offset their own biological emissions. Heavy emitters, used-car importers and others have beaten them to the game and farmers are left lobbying for restrictions on tree planting – a clunky regulatory intervention if ever there was one.

The pastoral sector's concerns might carry more weight if it was prepared to say how its own emissions should be regulated. The Government has said it will put a price on methane by 2030. It has to be a price that incentivises lower emissions. You may be aware that I have suggested phasing forestry out of the fossil NZ ETS but establishing a separate, new NZ ETS for biological emissions that *does* allow forest offsetting.

To both the oil and gas and pastoral sectors I would say: do you accept there is an emissions problem? If so, you must expect the Government to come up with policies that address the collective action problem they pose.

I would suggest that lobbying against regulations is one of the biggest causes of bad regulation. With that in mind, I welcome the advent of a Ministry for Regulation. It could be a powerful force for improving the effectiveness of regulations *provided* it takes all costs and benefits – including environmental ones – seriously. I expect it will uncover lots of half-baked compromises forged in the distant past. As Parliamentary Commissioner for the Environment I am looking forward to what it may uncover. But I doubt that it will find an excess of environmental zeal.

Environmental value and economic value need to be brought onto the same playing field. In my report, *Going with the grain*,¹ I suggested increasing payments to landowners for ecosystem services over time. The big question is where the money should come from. Which brings me to my next unpalatable reality: that increased levels of **environmental taxes or charges** over time are probably the only way we can make moving to a more environmentally sustainable economy affordable.

¹ PCE, 2024. *Going with the grain: Changing land uses to fit a changing landscape*.
<https://pce.parliament.nz/publications/going-with-the-grain-changing-land-uses-to-fit-a-changing-landscape>.

Perhaps I spent too long at the Organisation for Economic Co-operation and Development, but the inhouse creed there is that prices matter, that putting a price on pollution actually works and that it is often the least costly way of delivering environmental improvement. But so often governments are persuaded to go for 'soft' bureaucratic measures that enable everyone to tick a box, whether or not it makes a difference. I worry that farm plans could be just such a measure.

Despite apparent cuts to many areas of environmental spending, I'm heartened that the new Government has continued the previous Government's commitment to increasing some environmental taxes. The waste levy has risen and fuel levies and road user charges will follow. The price effect of these changes should not be underestimated. Congestion charging now looks to be on the cards with cross-party support.

One point I must underline is that good quality regulation is impossible without good quality information – something that governments never seems to prioritise. We *have* prioritised it with respect to greenhouse gas emissions because we signed international reporting treaties. But that's not the case for most other environmental concerns. Businesses are frequently forced to gather and pay for bespoke information that should be available as a common resource. The gathering of information is a classic role for public bodies – it should be done well, funded from taxes and shared as a public good. Then regulation can be focused on managing risks where they are most serious.

The flip side of that coin is that where managing public environmental risks is at stake, businesses have to be fully transparent with their own information. Currently, information gathered through resource consents and monitoring is frequently locked away as being commercial and confidential. I've recently been through this with the use of chemicals.² Chemicals are an essential part of many primary industries and they're licenced to be used in particular ways subject to particular limits. But there's no point in having those limits if you can't see if they're working by being able to relate the volumes being used in particular regions with what monitoring tells us about their presence in the environment. Both the Government and industry seem happy not to know.

Finally, there's the knotty issue of **greenwashing**. We seem to be in a cycle of businesses making big sustainability commitments with great fanfare. No doubt they are taking a leaf from governments here. It seems we can't talk about 2050 without attaching the words "net" or "zero" to it – and I'm not just talking about climate. The same goes for predators, solid waste – you name it. Nominating a target decades out from now is probably both smart politics and smart marketing. You won't be round when the chickens come home to roost. But it can be risky, too, when the targets become unreachable.

Air New Zealand has recently experienced this. A very demanding target was holed below the water line by factors that the company couldn't control. They should be congratulated for transparently relinquishing the carbon intensity reduction target they had adopted. If there is a lesson to be learned here it is that ambitious targets carry reputational risks.

Aviation is a particularly tough nut to crack, and it requires a global collaborative effort. For far-flung tourism destinations like New Zealand, climate change poses an existential threat. We need

² PCE, 2022. *Knowing what's out there: Regulating the environmental fate of chemicals*.
<https://pce.parliament.nz/publications/regulating-the-environmental-fate-of-chemicals>.

developments in aircraft, engines and fuels if long distance travel is going to be possible in an emissions-constrained world. Developing them won't be swift or cheap and someone will have to pay. I proposed a departure tax to provide the NZ Government and Air New Zealand with a serious source of revenue to help build a collaborative coalition to tackle this.³ The silence that greeted it was deafening.

But in my view it is going to be businesses who can make initiatives like this happen if they're hard-headed enough. That requires serious science and finance skills, and transparency about how they're deployed. Too many companies seem to hand the climate, environment and sustainability role to people who come from comms, marketing or corporate relations. But it's not about crafting a narrative or communicating some distant vision. It's about understanding the risks to the business and setting realistic targets that can be achieved. It's also about being transparent about what can't be achieved and engaging with some urgency about how we can unlock the barriers – and that may need the Government's help.

The same, reciprocally, goes for governments. Governments have to thread the needle of making progress on emissions at a pace businesses and households can manage. But they also need to be able to demonstrate that the policy mix will deliver a real transformation. Our climate legislation with its climate budgets provides an excellent means for doing this. It's a transparent process that tells us that, on current settings, the New Zealand Emissions Trading Scheme – the Government's central policy tool – is only predicted to reduce gross emissions out to 2050 by 10% more than would have occurred without it. That's because unlimited access to forest offsets keeps the NZ ETS price too low to incentivise further emissions reductions.

How far any government goes will depend on the urgency and priority people like you convey to it. Business lobbying gets listened to. I would invite businesses to consider whether travelling at the speed of their most reluctant and inefficient competitor is good enough. Because that's what will happen if you leave advocacy to business lobby groups who move at the pace of their slowest traveller.

I have to say that the businesses I find myself most impressed by are the ones that chart their own course and get on with the job without a whole lot of hoo-ha. Tatua Co-operative Dairy Company has just 101 suppliers. Its owners say they want to be around 100 years from now. Taking a multi-generational view of the business means committing to live with the consequences of the risks you take. Tatua's owners have sacrificed short-term returns to invest in a truly value-added business *and* take its environmental impacts seriously. Tatua has no magic crystal ball, but taking a very long view forces it to take risks, including environmental ones, seriously. It's a mindset far-removed from quarterly returns or marketing.

Let me close with a couple of quick comments about how we might have a vibrant economy that doesn't undermine its own foundation – the environment. We need innovation and a focus on increasing value, not producing more.

³ PCE, 2021. *Not 100% – but four steps closer to sustainable tourism*.
<https://pce.parliament.nz/publications/not-100-but-four-steps-closer-to-sustainable-tourism>.

I don't have the hubris to tell you all how to do your jobs better. I will merely say that the main driver of growth in New Zealand over recent decades has been about volume rather than value – importing more people, working longer hours, using land more intensively. We know the outcome.

We need to add more value to our exports. A dedicated focus to that – such as Tatua's – gets us closer to something called 'green growth'. But it is, unfortunately, not the norm. Compare Tatua with its gigantic cousin, Fonterra, which was formed over twenty years ago by the Dairy Industry Restructuring Act 2001. The deal was that in exchange for turning a blind eye to competition law, the country would benefit from having an innovative multinational that added value to our exports. That hasn't eventuated.

Being small and distant from markets makes this hard. But other small advanced economies have managed to do this. Most of what they have done would be called industry policy. We tell ourselves that this stuff is picking winners and doesn't work. But anyone who says we don't pick winners needs to wake up and smell the cowshed. The harsh truth is that we have a Ministry for Primary Industries that has been spending almost \$700 million a year helping our primary industries. The vast majority of that spending was going into protecting status quo industries rather than transformative investment.

We don't do much better with research. Instead of playing a long game, we seem to have short attention spans and fail to capitalise on real progress when it is made. The only potentially transformative climate-related research I'm aware of is the \$400 million allocated to the search for technologies that can reduce methane emissions from the livestock industry. It's an investment that has pulled in significant chunks of industry money. But will it continue? The Government's investment commitment is for four years. But this isn't a four-year game.

We face massive environmental challenges. Change will be costly. It requires investment, it requires skills, and it requires prices on the bad things we don't want. The money has to come from somewhere.

In my speech to the Environmental Defence Society, I said: "If you as environmentalists are to lead from the front, you must be self-aware about the inconvenient truths that stop other people listening to you."⁴ The same goes for businesses. Carefully curated corporate narratives will ultimately unravel if they are based on an avoidance of these unpalatable realities.

One thing more: we won't mobilise change in a polarised society. If you've stopped listening to environmentalists, you are halfway down the road to the polarised society that we have in the USA today. We have to resist allowing the environment to become a lightning rod for our economic and social failures. The environment isn't the problem. We are.

⁴ See <https://pce.parliament.nz/our-work/news/address-at-the-environmental-defence-society-2024-conference>.