

**OFFICE OF THE MINISTER FOR ECONOMIC DEVELOPMENT  
OFFICE OF THE MINISTER FOR THE ENVIRONMENT  
OFFICE OF THE MINISTER OF COMMERCE**

The Chair  
**CABINET POLICY COMMITTEE**

**SUSTAINABLE BUSINESS: BUSINESS PARTNERSHIPS FOR SUSTAINABILITY**

**PURPOSE**

- 1 This paper is the lead paper for the government's three business-related sustainability initiatives (the other two being sustainable procurement and eco-verification). It sets out to establish an overall strategy for work across the three themes, focussed on working in partnership with business to help firms use environmental integrity for economic advantage.

**EXECUTIVE SUMMARY**

- 2 Environmental issues are driving profound and permanent changes in the conditions under which many New Zealand's firms operate. Sustainability is not a fad. It is a long-term trend with significant risks and opportunities for both individual firms and the economy more generally.
- 3 Consumers are demanding goods and services with environmental integrity. They want to know that the businesses they are dealing with operate in a sustainable way. Growing regulatory pressure will make sustainability an imperative. Increasingly, businesses will be denied market access or be market constrained if they cannot show their environmental credentials.
- 4 Being more sustainable makes good business sense, therefore, both in terms of reducing costs in the long-run (through whole of life resource management) and adding value through creating points of difference. It will be better for firms to be ahead of the game than behind it.
- 5 What holds for individual firms also holds for the country as a whole. Environmental sustainability has the potential to help transform the New Zealand economy. New Zealand is well-placed to position itself as a world-leading exponent of smart, innovative and business-savvy responses to environmental issues, leveraging off its "clean, green image" and reputation for business integrity.
- 6 While understood in some circles, however, many New Zealand firms do not see environmental sustainability as a critical issue or, if they do, see it as an additional cost that has to be managed rather than as an opportunity to expand and develop their businesses.

- 7 What, then, can the government do to help get the message across to New Zealand business that increasing attention to environmental issues is a potential win-win for firms, the economy and the environment? What can the government do to help develop the capability of firms to respond in a more strategic and integrated way?
- 8 This paper proposes a three-pronged strategy:
- a establish and articulate a medium to long term goal for the country as a whole, namely to position New Zealand as a world-leading exponent of smart, innovative and business-savvy responses to environmental issues, leveraging off its “clean, green image” and reputation for business integrity;
  - b in partnership with firms and/or sectors likely to be responsive to the need to become more sustainable, advance a small number of initial, well-chosen initiatives or actions of a potentially transformative nature (the emphasis being on making an intelligent start, learning by doing, and not embarking on too wide an agenda);
  - c seek to broaden current business-capability initiatives to a wider range of firms and sectors so that mainstream business has a good understanding of the emerging market-based risks and opportunities and an ability to respond to the challenges.
- 9 This paper discusses a range of actions with respect to (b) and (c) above (noted in bold for ease of reference) organised under four separate, but related, levels of activity:
- identifying market opportunities;
  - building the capability of New Zealand firms;
  - building the capability of key New Zealand sectors;
  - building New Zealand’s capability for international leadership.
- 10 Although officials have not sought formal responses from business interests, pending consideration of the issues by Ministers, there would appear to be a broad consensus behind the strategy suggested above, and a willingness to engage. Specifically:
- the Growth and Innovation Advisory Board (GIAB) has now discussed sustainable business issues at two meetings, including a half day session;
  - the half day session was attended by chief executives and/or senior representatives from Business New Zealand, NZTE, Ag Research, Landcare Research, FRST, PGG Wrightson, and Fonterra;

- proposals relating to Qualmark and the development of a mechanism to position New Zealand on the positive side of the travel miles issue have been discussed with industry interests in the context of the mid-term update of the New Zealand Tourism Strategy - the update process has involved significant stakeholder and industry engagement and there is a wide level of support for these initiatives;
- existing sustainable business organisations such as the New Zealand Business Council for Sustainable Development and the Sustainable Business Network are encouraging the government to take strong leadership.

11 A summary of the actions discussed in this paper is as follows:

**Initial actions under the business partnerships initiative**

	<b>Identifying market opportunities</b>	<b>Building the capability of NZ firms</b>	<b>Building the capability of key NZ sectors</b>	<b>Building NZ's capability for international leadership</b>
<b>Existing work to be given a higher priority</b>			Accelerate development of an environmental accreditation scheme under the <b>Qualmark</b>	Accelerate work on the development of national <b>aquaculture standards</b>
				Invest more heavily in research on <b>agricultural emissions</b> , and partner with other countries to boost the critical mass and profile of the work
<b>New work to be undertaken</b>	Strengthen NZTE <b>market intelligence</b> for firms	Increase government support for <b>existing sustainable business networks</b> and programmes such as the "Get Sustainable Challenge" and "Better by Design" programme	Develop a medium-long term strategy to position New Zealand on the right side of the <b>travel miles</b> issue	Consider New Zealand's potential to lead aspects of the development of <b>environmental technologies</b> , particularly with respect to <b>bio-fuels</b>
		A comprehensive review of <b>sustainability capability programmes</b> undertaken in conjunction with private sector representatives	Undertake one or more high profile <b>demonstration projects</b> linking sustainability issues across sectors, e.g. energy/tourism	Provide government support for the environmental certification of New Zealand's key <b>fisheries</b>
			Consider the development of a <b>green travel guide</b> showcasing New Zealand's sustainable tourism businesses	

**INTEGRATING ECONOMIC TRANSFORMATION AND ENVIRONMENTAL SUSTAINABILITY**

- 12 International market and regulatory changes with respect to environmental sustainability are both a significant risk to, and a major opportunity to develop, the government's economic transformation agenda.
- 13 Consumers in our traditional markets are becoming more discriminating about environmental issues in their purchasing decisions. Not only are consumers demanding goods and services with environmental integrity, but they are also taking a much closer interest in the environmental credentials of the firms concerned at all levels of the supply chain. A similar pattern is starting to be seen in the consumer markets of the new economies of China and India which will become increasingly important to New Zealand over time.
- 14 Many governments in our key markets are also responding to environmental challenges with increasingly stringent policies. Climate change, in particular, is a significant driver of profound and permanent changes in the conditions under which businesses operate, not only in relation to measures which address the carbon footprint of goods and services but potentially also broader environmental impacts, e.g. on bio-diversity and water quality etc.
- 15 Against this background of market and regulatory change, New Zealand and New Zealand firms are currently viewed in a generally favourable light. New Zealand is widely admired as a country whose environment is relatively unspoilt and where business is conducted fairly and honestly.
- 16 These perceptions are very significant assets for New Zealand. They help instil confidence in New Zealand goods and services and allow these to command a premium in world markets. It would be unwise, however, to take it for granted that this will always be the case. Moreover, it would be a lost opportunity not to seek to use these assets more productively.
- 17 Many international firms are already seeking to take advantage of changing government policies and consumer preferences by giving more weight to environmental considerations as a point of differentiation from their competitors.
- 18 Some New Zealand firms are also positioning themselves more favourably in overseas markets by expressly marketing their goods and services as environmentally-friendly, e.g. Grove Mill's use of Landcare's "carboNZero" programme.
- 19 A number of countries are also recognising the increasing importance of environmental integrity as a source of competitive advantage and as a driver of economic development, both in terms of new business opportunities and as a spur to innovation throughout the economy.

- 20 In the United Kingdom, for example, the Department of Trade and Industry and the Department for Environment, Food and Rural Affairs are working together to position Britain so as to take maximum advantage of the new markets, jobs and opportunities being created by the “green wave”. Considerable sums have been, and are being, invested in the development of climate-friendly technologies such as marine power.

#### **SETTING A GOAL FOR NEW ZEALAND**

- 21 Given its favourable starting point, New Zealand ought to be well-placed to position itself on the green wave, especially in areas of traditional strength such as the pastoral sector. Recent research by MED on New Zealand's innovation system concludes, among other things, that opportunities for innovation in the future are likely to come from areas where New Zealand has done well in the past.
- 22 To date, much of the attention in New Zealand has focussed on responding to issues such as food miles (possible avoidance of New Zealand food products because of concern about the environmental cost of transporting them compared with local alternatives) and travel miles (possible avoidance of travel to New Zealand because of concern about the environmental cost involved). These concerns are not being orchestrated by governments, at least in the United Kingdom where they are currently most strongly expressed
- 23 The approach taken with food miles to date has been to ensure that the debate is well-informed and takes into account the environmental cost of producing as well as transporting food (since on the whole New Zealand is an environmentally-efficient food producer and supplier compared with competitors). Lincoln University has been commissioned to produce an objective report on the subject and this is being used in discussions in the United Kingdom.
- 24 MFAT convenes an informal government/industry group to share information about developments. Increasingly, this includes discussing how the government's sustainability initiatives can provide a way for producers to respond comprehensively to food miles arguments.
- 25 Along with MFAT, TNZ, Air New Zealand, Meat and Wool and Fonterra, NZTE is currently investigating the viability of establishing a sustainability centre in London. NZTE is also commissioning a food miles communications strategy for use in key markets, particularly the United Kingdom.
- 26 Air New Zealand is working towards the “greening” of the airline, and a greater emphasis is being placed on sustainability under the New Zealand tourism strategy which is in the process of being updated.
- 27 MfE is also working in partnership with other New Zealand business interests across a broad front to encourage more sustainable business practices. Examples of this work include the packaging and clean streams' accords and a programme to “green the screen”.

- 28 Such work would be made more powerful by an overall positioning strategy that clearly links sustainability with the government's economic transformation agenda, underpinned by potentially transformative actions. From an economic transformation perspective, the challenge is not only to preserve our clean, green image and our reputation for business integrity but use these to leverage new opportunities for growth.
- 29 Ministers could set a relatively neutral goal such as helping New Zealand firms use environmental integrity for economic advantage. Alternatively, Ministers could adopt a goal with more stretch, such as helping to position New Zealand as a world-leading exponent of smart, innovative and business-savvy practices in response to environmental issues. Officials favour the second formulation which is more consistent with the underlying nature of the economic transformation challenge and not an unrealistic objective for New Zealand over time.

### **ENGAGING WITH NEW ZEALAND BUSINESS**

- 30 How work towards the goal expressed above will bear fruit, however, will ultimately depend on the willingness and ability of New Zealand firms to manage risks and/or take up opportunities. This is not something the government can achieve by itself. Nor can the government, acting alone, develop what it thinks is the "solution" and expect it to be embraced by business. Even where the government decides to set requirements in some areas, such as minimum standards for government procurement, it will still be for individual firms to respond.
- 31 While understood in some circles, many firms, especially SMEs, do not have a good understanding of how changes in international markets or regulatory conditions as outlined above are likely to shape their future business and/or lack the capability to respond to these changes. In particular, developments affecting markets that stem largely from long-term government actions, especially at the international level, can be opaque to all but the largest firms.
- 32 Contrary to some external perceptions, current information shows that New Zealand firms generally lag behind other OECD countries in the uptake of sustainable business practices. Many seem focussed on extending and defending core business as opposed to capitalising on emerging businesses opportunities and creating viable options for the future.
- 33 What, then, can the government do to get business better engaged and aligned with the positioning goal for New Zealand, as outlined above? Put another way, what can the government do to help firms lift their game in terms of sustainable practices that would enable them and other players to "trade" on the basis of their "sustainability"?
- 34 Businesses need to be able to see a clear value proposition in becoming more sustainable, i.e. recognise specific opportunities for using environmental integrity for economic advantage and have the capability to capitalise on these opportunities.

- 35 It is proposed that, as well as establishing and articulating the medium to long-term positioning goal outlined above, the government:
- a in partnership with firms and/or sectors likely to be responsive to the need to become more sustainable, advance a small number of initial, well-chosen initiatives or actions of a potentially transformative nature (the emphasis being on making an intelligent start, learning by doing, and not embarking on too wide an agenda);
  - b seek to broaden current business-capability initiatives to a wider range of firms and sectors so that mainstream business has a good understanding of the emerging market-based risks and opportunities and an ability to respond to the challenges.
- 36 Below we discuss a range of actions with respect to (a) and (b) above (noted in bold for ease of reference) organised under four separate, but related, levels of activity:
- identifying market opportunities;
  - building the capability of New Zealand firms;
  - building the capability of key New Zealand sectors;
  - building New Zealand's capability for international leadership.
- 37 Timely, accurate and specific market intelligence is a sine qua non for improved performance.
- 38 At the **firm level**, the government can assist businesses which want to access sustainable business support services by ensuring these are well- signposted, high-quality, adequately resourced, and integrated into mainstream business channels.
- 39 At the **sector level**, the government can support key sectors to develop co-ordinated responses to common risks and opportunities - the pastoral, tourism, food and beverage and seafood sectors are obvious areas of focus given their economic importance/potential and the relevance of sustainability issues to their future economic performance.
- 40 At the **country level**, sustainability efforts by internationally-prominent sectors will reinforce the international reputation of New Zealand as a source of sustainable products and services - this reputation can be further enhanced if New Zealand is seen to be at the forefront of new sustainable developments, e.g. research into tackling greenhouse gas emissions from the agricultural sector.
- 41 Officials propose to report separately on how progress under each level of activity can be measured and how these are contributing to the overall goal. This will involve drawing on existing work on growth and innovation and sustainability indicators.

## IDENTIFYING MARKET OPPORTUNITIES

- 42 Most firms (although not necessarily all) have a reasonably good understanding of how sustainable business practices such as energy efficiency benefit them, i.e. in terms of direct cost-saving. Less obvious are benefits that arise from positioning as sustainable businesses.
- 43 To position themselves effectively, firms need to have a good understanding about how consumer preferences in relation to sustainability issues are evolving in specific market segments of interest to them and what particular market opportunities are arising as a result. Consideration needs to be given not only to what purchasers and consumers in our traditional markets will be demanding going forward, but also whether similar expectations can be expected in the emerging consumer markets of China and India.
- 44 We propose that NZTE work with business interests to develop better and more pro-active **market intelligence** services focussing on what is being demanded by consumers in key market segments, and those who influence consumer behaviour such as supermarket buyers. The emphasis should be on trying to anticipate how consumer preferences are evolving so that New Zealand firms can position themselves ahead of their competitors. To keep this exercise focussed, we also propose to concentrate, initially at least, on a few key sectors only such as tourism and food and beverage.
- 45 The government's sustainable procurement and the sustainable households' initiatives will enhance opportunities for New Zealand businesses to benefit domestically from investment in sustainable business practices. Proposed actions under the eco-verification initiative will also assist firms with the development and marketing of sustainable products and services.

## EXISTING BUSINESS CAPABILITY EFFORTS

- 46 In order to capitalise on opportunities for using environmental integrity for economic advantage, businesses will need to be able to access different capability or eco-verification programmes according to their particular needs. These will vary depending on the business they are in and which particular market they wish to access.
- 47 There is already a wide range of existing programmes, provided by a variety of government agencies and NGOs, designed to assist New Zealand businesses to become more sustainable (see summary in Annex 1).
- 48 Many of these are under-utilised. Part of the reason for this is that businesses are unaware of the range and scope of the services available or simply find them confusing. Exacerbating this is the fact that these services largely sit outside mainstream business channels, can be poorly targeted at market outcomes, and suffer from a lack of investment and co-ordination. There is significant scope to improve the quality, relevance and accessibility of these services.

**BUILDING THE CAPABILITY OF NEW ZEALAND FIRMS**

- 49 The place to start with helping firms respond to emerging market opportunities, therefore, is with **existing business capability programmes** which have the potential to be enhanced.
- 50 The "Get Sustainable Challenge" programme, run by the Sustainable Business Network (SBN), is a successful programme that could double its membership with additional support in the short term. This would provide more firms, particularly SME's, with hands-on support and help to lift the profile of sustainable businesses in New Zealand. The SBN model complements the sustainable households' approach of encouraging and supporting regional and local communities and is attracting considerable interest in government and business circles overseas.
- 51 NZTE's "Better by Design" programme could also be enhanced. Up to 70 per cent of a product's environmental impact can be determined during the design stage. MfE and Better by Design have recently agreed to work in partnership to explore opportunities to design sustainable products and services for export. This programme will be started immediately.
- 52 NZTE also has an important role in assisting businesses to consider sustainability as a global opportunity. Opportunities exist to integrate sustainability more effectively into a range of NZTE programmes and activities aimed at improving firm capability and awareness. These may include additional modules as part of the Exporter Education business assistance training, sustainability as a theme at a New Thinking breakfast, articles in NZTE's "Bright" magazine and information on NZTE's web portals.
- 53 Sustainability requires an integrated response from government. NZTE has a key role to play in working with other government agencies and environmental organisations to understand the market application of sustainability initiatives provided by other agencies, e.g. Landcare's carboNZero programme, what in-market promotion is required to educate key influencers (this is already occurring in the United Kingdom around food miles) and how to best to leverage the competitive advantage from such schemes.
- 54 In addition, there are opportunities to integrate sustainability into specific initiatives such as those in relation to food and beverage and manufacturing. Sustainability is a core value in the government's response to the food and beverage taskforce and in the development of initiatives to realise the sector's full commercial potential. Options for the food and beverage sector could be included in the review report that will be provided to the Minister of Industry and Regional Development later in the year.

- 55 Officials recommend that a comprehensive **review of sustainable capability programmes** be undertaken in conjunction with service providers and private sector representatives. This would include, but not be limited to, developing options for integrating sustainability into existing business capability programmes and further development and co-ordination of existing sustainable business programmes.

#### **BUILDING THE CAPABILITY OF KEY NEW ZEALAND SECTORS**

- 56 In sectors of key strategic importance, and where there are co-ordination difficulties, it makes sense for the government to take a more active role in assisting with the development of common approaches on sustainability.
- 57 Given the significant risks involved, the tourism sector is a prime area of focus. Creating more sustainable tourism is heavily dependent on factors outside the sector, e.g. cleaner vehicle emissions, improved water quality. These issues are being addressed in separate work programmes. Within the sector, high priority actions that can be taken, or are already being taken, are as follows.
- 58 The first is the development of environmental accreditation as part of the **Qualmark** brand. Through the Ministry of Tourism, MED has already taken action to accelerate progress on this from an expected 18 to 6 months.
- 59 Secondly, a medium to long term **travel miles strategy** is required to address concerns about travelling to New Zealand because of the environmental costs involved. Currently, responses such as those being taken by Air New Zealand are ad hoc and short term. What is needed is a longer term strategy that integrates the efforts of a wide range of players, government and private alike. While most of the focus to date has been on tourists visiting New Zealand for a holiday, we should also consider other types of visitors, such as international students. Travel by tourists within, as well as to and from, New Zealand also needs to be incorporated into such a strategy.
- 60 Creative "solutions" such as linking forest-based carbon offsets with biodiversity conservation to protect endangered species, eradicate environmental pests such as possums or assist our Pacific neighbours with sustainable development projects would have potential benefits far wider than the immediate issue and may, in fact, encourage more people to visit New Zealand over time.
- 61 Thirdly, a **green travel guide** showcasing New Zealand's sustainable tourism businesses could be developed. This would provide a practical demonstration of New Zealand's commitment to sustainable tourism and link well with the sustainable households' initiative.
- 62 Fourthly, current work being undertaken by MED, MfE and the Ministry of Tourism to green the Rugby World Cup 2011 could be extended into a comprehensive approach for all **major events** in New Zealand. This would link well with the travel miles strategy discussed above.

- 63 There are also high profile opportunities to demonstrate a commitment to sustainable business by linking issues across sectors. For example, an **energy demonstration project** involving the practical application of clean energy in an iconic tourism destination would serve not only to create positive perceptions of New Zealand's commitment to sustainability in the minds of overseas visitors but also help to bring different New Zealand interests together in a working sustainability partnership. Examples are the development of Cape Reinga as a fully sustainable tourism location, the use of renewable energy systems in back country huts, the use of hydrogen or bio-fuel to power local transport in Queenstown or Te Anau and the use of part of the Auckland waterfront for an Expo-type facility showing New Zealand's commitment to sustainable business.
- 64 MED intends to explore the option of partnering with DoC, Landcare and other organisations on the development of Cape Reinga and will be reporting further to Ministers on this issue in due course.
- 65 MfE, Building Research and the Green Building Council are working with a number of stakeholders in the building sector to identify opportunities to accelerate the adoption of sustainable building practices in New Zealand.

#### **BUILDING NEW ZEALAND'S CAPABILITY FOR INTERNATIONAL LEADERSHIP**

- 66 In order for New Zealand businesses to be able to continue to trade on New Zealand's international reputation, it is important for New Zealand to be widely seen as a leader in the development of world-leading sustainable practices.
- 67 New Zealand may have the potential to establish itself as a world leader in such areas as the management of greenhouse gases (GHGs) in the agricultural sector, the development of standards for aquaculture and the development of environmental technologies such as second-generation bio-fuels.
- 68 The stand-out example from the above is the **management of GHGs from the agricultural sector**. New Zealand has a strong incentive to develop solutions for managing emissions in agriculture. Part of the reason for this is that agricultural emissions are relatively less important for other countries, with the possible exception of countries such as Chile, Brazil and Ireland, and are therefore not the main focus of their research and development efforts.
- 69 While the science involved in reducing emissions from ruminants is complex and uncertain, and any results are likely to be long-term, the potential economic benefits to New Zealand could be very significant. The main benefit would be to give New Zealand more options in managing its future climate change obligations, possibly at lower cost. There would also be a significant marketing advantage to New Zealand in being seen to lead this part of the climate change challenge.

- 70 The government is helping to finance research into reducing emissions from ruminants through a government/industry research consortium, the Pastoral Greenhouse Gas Research Consortium (PGGRC). The PGGRC has spent approximately \$19m since 2002 of which 50% has been funded by the government. The PGGRC is currently applying to FRST for joint funding to continue the programme for a further 7 years.
- 71 MAF is currently developing a comprehensive research programme for sustainable land management and climate change. One focus of this research will be the adaptation, mitigation and measurement technologies and practices for reducing methane and nitrous oxide emissions. Recommendations for future work and funding will be made as part of the report back to Cabinet on the Climate Change and Sustainable Land Management Plan of Action package in June 2007.
- 72 The government recently announced funding of \$1m p.a. for a programme on international research collaboration in agriculture and climate change research (Fund for International Leadership on Climate Change Research in Agriculture and Forestry). As part of this programme, we are building on existing partnerships with Australia and the USA and are actively exploring further collaboration with other countries.
- 73 MED considers that there is a strong case for the government to invest more in this area, with a view to positioning New Zealand clearly at the forefront of this area of research in the world. This may require taking a bolder approach to how the research is currently being organised, including how New Zealand co-operates with other countries.
- 74 **Sustainable aquaculture** management is another area where New Zealand could further develop its international credentials. Government and industry interests are already collaborating to develop world-leading standards of performance (for both product quality and sustainable business). By re-organising priorities, the pace of this work can be increased. MFish, working in conjunction with MED and MfE, have already taken steps to do precisely this.
- 75 MFish is also initiating a programme to work with the fishing sector to achieve **environmental certification of key fisheries**. In 2007/08, this will involve seeking evaluation of the New Zealand fisheries management regime against an independent certification scheme for sustainable seafood products, the Marine Stewardship Council (MSC). Following this, MFish will support the fishing industry to seek MSC certification of particular fisheries. A contestable fund will be established from which the industry can seek funding.
- 76 The expectation is that eco-labelled seafood will fetch a premium price because consumers are increasingly willing to pay more for seafood harvested in an environmentally-friendly manner. Further, the label provides a market-based mechanism for well-managed fisheries (large retailers such as WalMart have signalled their intention to sell only MSC certified seafood). The certification of New Zealand fisheries is consistent with the MFish's goal to maximise the value New Zealanders obtain through the sustainable use of fisheries resources and protection of the aquatic environment.

- 77 **Environmental technologies** is another area where New Zealand could carve out an international profile. New Zealand has existing technology capabilities in many renewable energy areas, including, but not limited to, bio-fuels, marine generation<sup>1</sup>, electricity distribution systems, geothermal engineering and micro-generation.
- 78 New Zealand's capabilities within these and other environmental technology areas, however, are scattered across very small (by international standards) businesses and research teams. The specialised nature of environmental technologies means that agglomeration opportunities such as through research consortia are likely to be limited.
- 79 To date, the government's consideration of **bio-fuels** has focused on the most appropriate mechanism to ensure bio-fuels enter the New Zealand market to displace petroleum product and the quality standards for these fuels, i.e. the nature of the mandatory sales obligation. This has involved consideration of bio-fuels production in New Zealand but this stems largely from consideration of domestic feedstock capacity for current bio-fuel technologies (i.e. maize/whey to ethanol and tallow to bio-diesel) and the ability of current vehicle technologies in the New Zealand fleet to cope with bio-fuel blends particularly ethanol blends. These tradeoffs have driven current bio-fuel obligation levels and in the medium term will influence how any future targets may be set.
- 80 Less attention, however, has been given to the wider economic development and strategic positioning advantages from a bio-fuels industry based around second generation bio-fuel technology development (e.g. from cellulose) in New Zealand, if viable, and whether New Zealand could establish itself as a recognised technology leader in this area. Officials propose to consider this question, including whether there is scope for the government to play a much stronger, more affirmative role than through FRST funding or a dedicated pre-commercialisation fund. Such a role could include the government developing active partnerships with other countries where there are potential synergies to be exploited.

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<sup>1</sup> In December 2006, Cabinet agreed to the establishment of a contestable fund of \$8.0m to bring forward the deployment of marine electricity generation devices in New Zealand. This fund was established under the draft New Zealand Energy Strategy as a measure to increase the proportion of energy that comes from renewable energy sources and increase the diversity of the stationary energy supply, which in turn improves energy security and resilience to shocks such as increases in fossil fuel costs and meteorological uncertainty. Marine energy has the potential for widespread deployment in New Zealand given its vast marine energy resource, but the limited availability of funding for pre-commercialisation of new technologies such as marine energy limits developers' ability to deploy and test working prototypes. The fund complements existing government funding streams for research and development of new technologies.

**CONSULTATION**

81 Although we have not sought formal responses from business interests, pending consideration of the issues by Ministers, there would appear to be a broad consensus behind the programme suggested, and a general willingness to be involved in pursuing particular initiatives. Specifically:

- the Growth and Innovation Advisory Board (GIAB) has now discussed sustainable business issues at two meetings, including a half day session;
- the half day session was attended by chief executives and/or senior representatives from Business New Zealand, NZTE, Ag Research, Landcare Research, FRST, PGG Wrightson, and Fonterra;
- proposals relating to Qualmark and the development of a mechanism to position New Zealand on the positive side of the travel miles issue have been discussed with industry interests in the context of the n the mid-term update of the New Zealand Tourism Strategy - the update process has involved significant stakeholder and industry engagement and there is a wide level of support for these initiatives;
- existing sustainable business organisations such as the New Zealand Business Council for Sustainable Development and the Sustainable Business Network are encouraging stronger government leadership.

82 It is not proposed that a single sector reference group be established to provide input into this work, as originally contemplated. Each initiative will require a tailored engagement programme that will be developed as part of the project planning process. This will include utilising existing stakeholder groups such the Growth and Innovation Advisory Board, the MFAT-led food miles group and Industry groups in relation to tourism and seafood.

83 This paper has been discussed with DPMC, Treasury, MfE, MAF, MFAT, MoRST and NZTE. Relevant parts have also been discussed with TNZ, EECA and MFish.

**FISCAL IMPLICATIONS**

84 None, at this stage, beyond decisions already taken for the 2007 Budget.

**HUMAN RIGHTS**

85 No implications.

**LEGISLATIVE IMPLICATIONS**

86 None at this stage.

**REGULATORY IMPACT AND COMPLIANCE COST STATEMENT**

87 Not relevant at this stage.

## PUBLICITY

- 88 No specific publicity on this paper is proposed.
- 89 Some of the actions discussed in this paper may lend themselves to being included in activities relating to Export Year 2007.

## RECOMMENDATIONS

- 90 It is recommended that the Committee:

## POSITIONING STRATEGY

- 1 **note** that while much is being done to address environmental issues such as climate change and promote more sustainable business practices. New Zealand lacks an overall positioning strategy that clearly links sustainability with the government's economic transformation agenda, underpinned by potentially transformative actions;
- 2 **agree** that the overall goal of such a strategy is to position New Zealand as a world leading exponent of smart, innovative and business-savvy responses to environmental issues;
- 3 **direct** MED, in consultation with MfE, to report to POL by 30 September 2007 with advice on how progress towards this goal can be measured, including progress on each of the main areas of activity listed below;

## IDENTIFYING MARKET OPPORTUNITIES

- 4 **direct** NZTE and MFAT, in partnership with TNZ, MfE and New Zealand business organisations, to report to POL by 31 July 2007 with options for strengthening the gathering, interpretation and dissemination to New Zealand firms of market intelligence on:
  - 4.1 how consumer preferences are evolving in specific market segments of New Zealand's top tourism and food and beverage markets (present and emerging);
  - 4.2 significant market opportunities in particular market segments arising from the above;
- 5 **note** the government's sustainable procurement and the sustainable households' initiatives will enhance the opportunities for New Zealand businesses to benefit domestically from investments in sustainable business practices;

## BUILDING THE CAPABILITY OF NEW ZEALAND FIRMS

- 6 **direct** MfE, in consultation with MED and NZTE, to increase its support for the Sustainable Business Network's "Get Sustainable Challenge" programme;

- 7 **direct** NZTE to consider how it can integrate sustainability more effectively into a range of programmes and activities aimed at improving firm capability and awareness;
- 8 **direct** NZTE to work with MfE to integrate sustainability into the “Better by Design” programme with a view to building exporters’ sustainable design capability;
- 9 **note** that, in partnership with Qualmark, the Ministry of Tourism is leading the development of environmental accreditation for tourism businesses, and aims to complete this work in time for this to be launched by 30 November 2007;
- 10 **note** that, to permit this work to commence immediately, funding of \$0.5m has been found in 2006/07 by re-prioritisation from within MED baselines, and that continuation of the work in 2007/08 will be contingent on additional funding being available;
- 11 **direct** MfE, in conjunction with MED, NZTE, and relevant stakeholders, to report to Ministers by 30 November 2007 on the outcomes of a review of existing capability development programmes which assist firms to become more sustainable;

#### **BUILDING THE CAPABILITY OF KEY NEW ZEALAND SECTORS**

- 12 **direct** TNZ to promote Qualmark environmental accreditation to both operators and consumers, once this has been developed, and to consider whether a separate green travel guide showcasing New Zealand’s sustainable tourism businesses should also be developed;
- 13 **direct** the Ministry of Tourism, initially in partnership with Air New Zealand and subsequently other large stakeholders in the tourism industry, and in consultation with MfE, MoT, DoC, NZTE and TNZ, to report to POL by 31 July 2007 with options to position New Zealand on the positive side of the travel miles issue over the medium to long term;
- 14 **note** that MED intends to explore the option of partnering with DoC, Landcare and other organisations on the development of Cape Reinga as an innovative sustainable tourism destination and will be reporting further to Ministers on this issue by 31 July 2007;
- 15 **note** that MfE, Building Research and the Green Building Council are working with a number of stakeholders in the building sector to identify opportunities to accelerate the adoption of sustainable building practices in New Zealand;

#### **BUILDING NEW ZEALAND’S CAPABILITY FOR INTERNATIONAL LEADERSHIP**

- 16 **note** that, as part of its reporting in June 2007 on the preferred package for sustainable land management and climate change, MAF will be

addressing measures to position New Zealand as a world leader in managing greenhouse gas emissions arising from the agriculture sector;

- 17 **note** that MED and MAF consider that this may require taking a bolder approach to how the research is currently being organised, including how New Zealand co-operates with other countries;
- 18 **direct** MED, in consultation with relevant departments and stakeholders, to report to POL by 30 September 2007 on New Zealand's potential to lead aspects of the development and commercialisation of second generation bio-fuels and what the government should do to help realise that potential, if anything;
- 19 **direct** MED, MoRST and NZTE to examine the critical constraints to innovation and business growth in proven New Zealand environmental technologies, assess the cost/benefit of policy options, and report back to POL by 30 November 2007 with a priority set of actions;
- 20 **note** that, in partnership with the aquaculture industry, and in consultation with MfE and MED, MFish is leading the development and implementation of national standards to help position New Zealand aquaculture as a world leader in the sustainable management of aquaculture, and aims to complete this work in time for the standards to be launched by 30 November 2008;
- 21 **note** that MFish is initiating work with the fishing sector to achieve environmental certification (from the Marine Stewardship Council) of key wild fisheries, which will improve the value derived from the sustainable use and management of fisheries;
- 22 **note** that, while much of the fisheries and aquaculture work will be funded out of existing MFish baselines, additional funding of up to \$0.5m may be required in 2007/08 to put in place scientifically-robust methods for measuring and certifying carbon emissions in the sector.

Hon David Cunliffe  
Acting Minister of  
Economic Development

Hon David Benson-Pope  
Minister of the Environment

Hon Lianne Dalziel  
Minister of Commerce

## ANNEX 1: SUMMARY OF KEY CAPABILITY-BUILDING PROGRAMMES

Initiative Type	Examples
<b>Independent capability programmes</b>	<p><b>The Get Sustainable Challenge</b> – audit and mentoring programme that helps businesses become more sustainable and gain eco-verification offered by the Sustainable Business Network.</p> <p><b>The Natural Step</b> – an international non-profit organisation providing a strategic planning and decision-making framework for sustainability.</p> <p><b>GreenFleet</b> – a vehicle emissions and energy reduction programme, run by the Sustainable Business Network, including workshops, seminars, events and online tools and resources</p> <p><b>CarbonZero</b> - a Landcare Research programme that supports organisations to measure, manage and mitigate their carbon dioxide (CO<sub>2</sub>) emissions (option certification).</p> <p><b>EnviroMark</b> – a health, safety and environmental management certification programme including an internet-based tool offered by Landcare Research.</p>
<b>Government capability services</b>	<p><b>EnviroSmart</b> – a local government programme that combines the <i>Enviro-Mark</i> certification with wider resource efficiency objectives in a subsidised package.</p> <p><b>Improve</b> - a management tool to help businesses cut energy costs offering a range of guidelines, technical information, case studies and seminars to facilitate this process.</p> <p><b>Simply Sustainable</b> – an online toolkit and portal to sustainable business initiatives administered by MfE</p>
<b>Sector-based and government partnership initiatives</b>	<p><b>Greening the Screen</b> – environmental toolkit including practical environmental improvement measures and case studies administered by the Screen Production and Development Association</p> <p><b>The NZ Plastics Sustainability Initiative</b> – a five year agenda for action launched in 2003 to minimise the effect of the industry and its products on the environment including an industry best practice programme administered by Plastics NZ</p> <p><b>Packaging Accord</b> - a voluntary government and industry initiative, administered by the Packaging Council of NZ, aimed at improving the sustainability of packaging, including plans for action in 9 sectors.</p> <p><b>Clean Streams Accord</b> - a voluntary government and industry initiative to improve the sustainability of the dairying sector including targets</p>
<b>Government funding</b>	<p><b>Sustainable Farming Fund</b> – a MAF-administered fund aimed at supporting projects that will contribute to improving the financial and environmental performance of the land-based productive sectors</p> <p><b>Sustainable Management Fund</b> – an MfE-administered fund for projects that can demonstrate a contribution to key sustainable management priorities.</p> <p><b>Grants for Energy Efficient Technologies</b> - helping businesses with high energy spends adopt energy saving technologies.</p>
<b>Organisations, networks and forums</b>	<p><b>New Zealand Business Council for Sustainable Development</b> – offers information, workshops, events</p> <p><b>Sustainable Business Network</b> – offers information networking, events workshops and sustainable business programmes.</p> <p><b>Chamber of Commerce</b> – offers workshops.</p> <p><b>Sustainable Otago</b> – a forum to support the acceleration of sustainable business in the region.</p>