Future of Work Forum meeting, 26 June 2023

Economic Resilience and Just Transitions

Introduction

Implementation of effective workforce development policies is vital for economic strength and the general wellbeing of the population. However, there will undoubtedly be economic shocks in the future and effective workforce development policies will not necessarily be sufficient, by themselves, to enable individuals, families, businesses and communities to withstand them. This point is probably not contentious, but it is worthwhile illustrating the reasons.

This paper draws on the finding from recent research by, and for, BusinessNZ to illustrate that a more comprehensive and coherent set of policies is necessary, if Just Transitions are to be achieved. Policies are needed to create an environment in NZ that is more favourable to business investment, and to ensure that the country's climate change response does not diminish business competitiveness.

What is Economic Resilience, and what are Just Transitions?

The two concepts are linked.

A draft MBIE paper[1] on the subject of resilience indicates that resilience is about dealing with 'shocks' (unexpected large-scale events) and other disturbances. The "equilibrium perspective" emphasises the return to a previous state (that is, bounce back) following a shock. The "evolutionary perspective" emphasises the capacity of a system to adapt and fundamentally change over time (that is, transform) in the face of a major shock or series of shocks.

MBIE has also defined Just Transitions[2]: "In general terms, a 'Just Transition' in New Zealand is a strategy to move a region toward a low carbon future. It is about a region leading their own transition to ensure that the impacts and opportunities that may arise from the transition are more evenly distributed. Transitions have traditionally disadvantaged some groups more than others. In a Just Transition, this is acknowledged and incorporated into planning to make the transition more fair, equitable and inclusive" .

What does the recent research tell us?

BusinessNZ paper: Impacts of pricing agricultural emissions on the wider economy and rural communities

This paper indicates that, for some communities (especially where the local agriculture is specialised in beef and sheep farming, and where meat processing is the major employer), the implementation of a pricing regime for agricultural emissions has the potential to result in so much employment loss that it is difficult to think in terms of transformational change, even over an extended period of time.

The Ministry of the Environment's consultation document on pricing agricultural emissions indicated that the preferred farm-level levy could reduce net beef and sheep farm incomes by 18-24%. With income loss of this magnitude, many farms will become financially unviable and will cease operating, with the land use most probably changing to plantation forestry. Some of the upstream and

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[1] *Resilience – definitions, concepts and measurement*, Draft MBIE Occasional Paper, April 2023.
[2] https://www.mbie.govt.nz/business-and-employment/economic-development/just-transition/

downstream businesses that provide inputs to the farms, or purchase their outputs, could conceivably scale back their activities, but a number of NZ's 40 or so meat processing plants would close down.

It is not possible to predict exactly where the resulting employment losses will occur, but it is likely that the losses will be more concentrated in some areas than in others. In some local economies, areas the loss of employment could be irrecoverable. This would happen if a major reduction in beef and sheep farming were to lead to the closure of the local meat works. The flow-on effects of the consequent loss of household incomes would lead to a reduction of activity levels in local private services (e.g. retail and hospitality) and, on top of this, a tendency for skilled workers and their families to relocate to where there are employment opportunities would threaten the provision of public services (e.g. schools and health services).

Some of the communities where beef and sheep farming is currently important will be able to undergo a Just Transition, especially if some of the pasture land is converted into horticultural use. There might also be employment opportunities associated with the development of forestry, or in the growth of entirely new industries. However, it is likely that some communities will become hollowed out and unresponsive, even to large scale and concerted policy interventions.

As an aside, BusinessNZ is concerned that New Zealand's climate change response plan failed to heed the provision in the Paris Agreement that adaptation measures should not threaten food production. Moreover, we are concerned that further iterations of the plan might make it even more difficult to sustain food production.

Sapere report: Insights into emissions-intensive, trade-exposed businesses

This report[3] was produced for BusinessNZ, with funding from the Future of Work partnership. The aim was to record the decarbonisation experiences of the largest EITE companies in New Zealand, and to examine if, and how, they can transition to a low-carbon future.

In the context of economic resilience and just transitions, perhaps the most important findings were that:

- EITE firms have generally made good progress with decarbonisation, but they are also concerned that other jurisdictions do more to incentivise decarbonisation than NZ does.
- If the firms ceased their NZ operations, for whatever reason, production would shift to elsewhere in the world, especially to Asia, where there are weaker controls on emissions. The result would be increased emissions on a global scale.
- The chief barrier to further progress with decarbonisation is a lack, or sometimes a complete absence, of effective and commercially available decarbonisation technology.
- In addition to better, commercially available technology, the EITE firms would like to see regulatory stability in NZ to enable them to justify funding for capital investment in further decarbonisation.

The companies covered by the research were amongst the largest in the manufacturing sector of the economy. As a whole, this sector provides around 250,000 jobs in NZ, generates around 9% of GDP, and accounts for around 20% of the economy's merchandise exports.

Against this background, it is vital that the EITE companies are enabled to operate within a policy environment that is favourable to their future in New Zealand. Workforce development policies are an important component of the policy environment, but more is needed. As evidenced by the recent announcement of support from the GIDI fund for a major investment by NZ Steel, co-financing of investments is crucial, if the free allocations in the ETS are being progressively taken away and baselines are constantly changing. Some critics of this approach would say the ETS should be left to work. However, it won't work if it keeps being changed, and all companies see is a reducing allocation to the point where they are no longer viable. The companies need a stable policy environment and credit for investments and emission reductions they have already made.

[3] https://businessnz.org.nz/wp-content/uploads/2023/06/Insights-into-emissions-intensive-trade-exposed-businesses.pdf

NZIER report: Business investment in New Zealand – The role of investment conditions

This report[4] was also produced for BusinessNZ, with funding from the Future of Work partnership. It was designed to examine what conditions influence the amount of business investment, and to consider whether the conditions in New Zealand are relatively favourable or unfavourable.

A table in the report lists six conditions where conditions in New Zealand are judged by the NZIER to be favourable, and seven conditions that are judged to be unfavourable.

Notably, the table includes human capital that is comparable with other countries as a favourable condition, and this implies that workforce development policies in New Zealand have been relatively effective in the past. However, it does not follow from this that workforce development policy settings are currently satisfactory. Indeed, as we have argued in our other paper for the Future of Work Forum, we are of the view that the policies are not satisfactory, especially in relation to workforce development in the early stages of the life cycle.

Nor does it follow that the relatively favourable conditions are sufficient to compensate for the unfavourable conditions when it comes to promoting the business investment that is necessary for maintaining economic resilience and enabling just transitions to occur. On this particular point, the report highlights three key areas that could be explored to support more favourable conditions for business investment:

- Lowering the barriers to foreign direct investment would attract more investment and support greater integration with global value chains and diffusion of technology.
- The OECD (2017; 2022) has repeatedly recommended corporate tax reform to stimulate business investment. Local research also supports the case for lowering corporate taxes to boost investment levels. But more work on the detail is warranted. The findings of this literature point to an area of potential, but getting into the detail was out of scope.
- Increased public-private investment in research and development would boost productivity, and policy reform is needed.

Conclusions

This paper has highlighted the fact that effective workforce development policies are only one element in a policy framework that is supportive of fostering economic resilience and enabling just transitions.

More importantly, it has highlighted the need for policy-making to be more coherent. The possibility of negative unintended consequences of policy decisions needs to be recognized, and there needs to be robust compensatory strategies where significant negative consequences cannot be avoided.

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[4] https://businessnz.org.nz/wp-content/uploads/2023/06/Business-investment-in-NZ.pdf