



## BRIEFING

### Just Transitions Work Programme overview and next steps

<b>Date:</b>	7 December 2023	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2324-1209

Action sought		
	Action sought	Deadline
Hon Melissa Lee <b>Minister for Economic Development</b>	<p><b>Note</b> the just transition work programme is predominantly focused on Southland as a response to the potential closure of New Zealand's Aluminium Smelter (NZAS).</p> <p><b>Note</b> you have options to retain or close this work programme.</p> <p><b>Note</b> the next key step in making a decision on the work programme is to meet with the Minister for Energy and Associate Minister for Energy.</p>	21 December 2023

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Shane Wilson	Manager Just Transition Partnerships	Privacy of natural persons	✓
Privacy of natural persons	Senior Advisor, Just Transitions Partnerships		

The following departments/agencies have been consulted
N/A

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

## Comments



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### Purpose

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To provide you with:

- an overview of the Just Transitions work in Southland and key initiatives; and
- an outline of next steps for the work programme.

### Executive summary

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1. Policy settings that are appropriate for advancing economic development will, in most cases - also be appropriate for New Zealand's various regions. However, there are cases where regions or industries are stuck in unhelpful intractable economic situations. These are typically driven by over-exposure on a large and successful industry or business. Examples include Southland's reliance on its smelter and Tairāwhiti's reliance on forestry. Targeted policy interventions can help regions fully leverage the benefits of their industrial structures, while also avoiding any costs.
2. Alongside these policy interventions, an economic transition approach can be deployed to address these types of scenarios. This is a fixed time approach which supports stakeholders in adapting to economic disruption.
3. This work programme, titled the Just Transitions work programme by the previous Government, operates to:
  1. Identify key systemic issues and develop options for government intervention, and/or;
  2. Identify and support key stakeholders to drive a shared goal and identify opportunities and projects to realise this goal.
4. Currently, this approach is predominantly being used in Southland as a response to the potential closure of New Zealand's Aluminium Smelter (NZAS). In Southland, an enabling regulatory regime has allowed the region to leverage its substantial energy generation potential to establish and sustain its smelter. The smelter has generated sustained benefits for Southland and New Zealand. However, Southland's dependence on the smelter has also created a range of economic, environmental, and social costs. The previous Government used the just transition work programme as an approach to help regions and industries build a resilient economic transition process when faced with significant disruptions.
5. Alongside this paper, you will receive a briefing which provides detailed advice on the related Regional Hydrogen Transition initiative and seeks your direction on its next steps (2324-0785 refers).

## Recommended action

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The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the just transition work programme is predominantly focused on Southland as a response to the potential closure of New Zealand's Aluminium Smelter (NZAS). *Noted*
  
- b **Note** you have options to retain or close this work programme. *Noted*
  
- c **Note** the next key step in making a decision on the work programme is to meet with the Minister for Energy and Associate Minister for Energy. *Noted*



Shane Wilson  
**Manager, Just Transitions**  
Labour, Science and Enterprise, MBIE

7 / 12 / 23

Hon Melissa Lee  
**Minister for Economic Development**

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## **Just Transitions work programme**

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6. The term “just transitions” has been applied across several different international issues and agreements. It is often used to recognise that some businesses and communities will be more impacted by change and require extra support to achieve resiliency.
7. The previous Government used this term to describe a programme of work that supported specific regions and their key industries that faced significant disruption. These disruptions often originate from shocks such as large industry closure, climate change risks, technology advances, global and national financial instability. As a result, these shocks become entrenched issues that stifle regions and industries.
8. MBIE has developed an approach that helps regions and industries move towards contributing to national priorities such as productivity growth and net zero emissions faster than if they were left unsupported.
9. This approach has been used extensively in Southland to manage issues associated with NZAS. Recently it has been applied as part of the cyclone recovery response in Tairāwhiti. The nature of the approach means work across a number of portfolios has been necessary, in particular Regional Development and Energy.
10. The work programme sits within Vote Business Science and Innovation, overseen by you as the Minister of Economic Development. The work programme’s funding is held in Vote Economic Development.

## **Current Focus Areas**

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11. The work programme currently focuses on two initiatives:
  1. Southland and addressing national and regional systemic issues associated with New Zealand’s Aluminium Smelter.
  2. The Regional Hydrogen Transition, an indexed green hydrogen consumption rebate for commercial applications.

### **Southland and New Zealand’s Aluminium Smelter**

12. Policy settings that are appropriate for advancing economic development nationally will, in most cases, also be appropriate for regions. However, there are cases where regions – particularly isolated regions – are stuck in unhelpful, intractable economic situations, typically driven by over-exposure to a large and successful industry or business. Recent examples of this are Southland’s reliance on NZAS and Tairāwhiti’s reliance on Forestry.
13. In Southland, an enabling regulatory regime has allowed the region to leverage its substantial energy generation potential to establish and sustain its aluminium smelter. The smelter has generated sustained benefits for Southland and New Zealand. However, Southland’s dependence on the smelter has also created a range of economic, environmental and social costs.

14. These include:

- NZAS's dominance of wholesale electricity markets, particularly in the South Island, has led to underinvestment in new generation and has distorted pricing across the country.
- NZAS's economic dominance in Southland has stifled innovation and contributed to regulatory capture. The effects of this capture can be seen in the backlog of remediation and waste disposal required onsite, with no legislative levers to require remediation.
- Their dominance has also created an overreliance on NZAS for jobs and revenue for downstream industries, making the region vulnerable to a significant downsizing or abrupt closure of NZAS.

15. These issues have not been dealt with by previous interventions and this has left the region and government exposed to a range of economic, environmental and social costs.

16. Free and frank opinions

The Crown also provides an allocation of free carbon units ('NZUs') under the Emissions Trading Scheme (ETS), currently valued at around Free and frank opinions

### **Southland Work Programme**

17. To address these issues, MBIE supported the development of several targeted interventions. These aimed to reduce local reliance on a single industry, enhance competition in the wholesale electricity market and diversify the local economy to reduce the smelter's market power and enhance economic growth.

18. These initiatives were developed alongside regional leaders, with regional groups and organisations funded to progress the initiatives.

19. The initiatives fall into four broad categories:

- Supporting the development of new industry in Southland, to help the region reduce its reliance on a single industry and diversify the wholesale electricity user market.
- Facilitating firm revenue diversification to ensure a business ecosystem that can support emerging industries.
- Developing and implementing an enduring long-term plan economic plan.
- Building the resilience of workers and communities through change.

20. Current contracts in Southland include:

<b>Organisation name</b>	<b>Project Name</b>	<b>Project focus</b>
<i>Southland Chamber of Commerce</i>	The Southland Engineering and Manufacturing Cluster	Support manufacturing and engineering companies develop diverse streams of revenue.
	The Innovation Ecosystem project	Facilitate economic diversity through entrepreneurial capability building.
<i>Great South</i>	Great South Leadership of Long-term planning work stream	Implementation of long-Term strategy plan (Beyond 2025) to grow and diversify Southland's economy.
<i>Invercargill City Council (ICC)</i>	Connected Murihiku Programme	Building community resilience and a more connected and resilient local NGO network.
<i>Murihiku Regeneration Delivery</i>	Iwi Participation and Renewable Energy in Southland Just Transitions Leadership and Delivery	Contributes to the clean energy work stream
<i>Thriving Southland</i>	Southland Food and Fibre Investment Acceleration Project	Identifying opportunities for sustainable growth in the primary sector
<i>E tū Union</i>	Job Match programme	Develop a job match programme to support workers in Southland that will be affected by the downsizing or closure of NZAS

21. The majority of these initiatives commenced in 2023 and have been progressing well.

## **Current Situation**

22. Over the past two years, Southland has worked on diversifying its local economy. There has been promising plans for industry development with Datacentres, significant Aquaculture development and green energy opportunities (Green Hydrogen).
23. Strong lobbying by local Iwi (particularly to remediate the site after Rio Tinto destroyed ancient Aboriginal cultural sites), a strong regional plan and a clear direction from by the previous administration, has accompanied Rio Tinto officials communicating their desire to reduce emissions, contribute to local economic diversification and commit to remediating the Tiwai site.
24. However, more recently there have been issues in the region that may influence the future market. **Free and frank opinions** the Aquaculture consent has been declined in the fast-track process and a change in government.
25. There is a risk that the future operating environment for Rio Tinto may strengthen their market power. Should they stay, there is a risk that NZAS continue to negotiate

and secure short term electricity contracts resulting in continued uncertainty for economic investment and the region, and that Southland will remain reliant on the smelter.

### **Regional Hydrogen Transition**

26. Southland region has strong support for a Green Hydrogen initiative, highlighted in the green energy workstream of their regional plan. Green Hydrogen is considered a good industry to diversify Southlands economy, to have the region become a leader for New Zealand in Hydrogen production and uptake and provide an alternative use for power generated that would otherwise be consumed by the smelter.
27. The Regional Hydrogen Transition is an indexed green hydrogen consumption rebate for commercial applications. This programme, while national, was initially developed in partnership with Southland regional leaders. This was to respond to the challenges associated with NZAS's regional dominance by increasing competition in wholesale electricity markets and diversifying the regional economy. The previous Government also sought to leverage this programme to support Taranaki in its shift away from oil and gas.
28. This demand-side approach will provide firms with the certainty to invest in hydrogen production and distribution infrastructure, reducing barriers to future adopters and bringing economic and energy system benefits forward.
29. While the rebate is designed to be available nationwide, the previous Government sought to enable the establishment of a hydrogen industry in Southland and Taranaki by focusing the broader outcomes leveraged through contracts with hydrogen consumers to these regions. In doing so this initiative will support the wider sector's development, including potential large-scale projects such as Southern Green Hydrogen, by developing skills, infrastructure and supply chains.
30. Officials will provide further advice on this initiative and seek your advice on next steps.



## Next Steps

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31. This work programme is predominantly focused on Southland as a response to the potential closure of New Zealand's Aluminium Smelter (NZAS).
32. Should the Government wish to explore further how to help Southland and New Zealand benefit from the smelter, we can provide you with a briefing to support a conversation with the Minister of Energy and Associate Minister of Energy.
33. Pending decisions on the Government's position on the smelter, you have options on the future direction of the work programme. These include:
  - Keeping the work programme; or
  - Closing it and returning or retaining the annual non-departmental appropriation.
34. We can provide you with further information on these options.