Investor Group on Climate Change (IGCC)

Submission to:

Te hau mārohi ki anamata - Transitioning to a low-emissions and climate-resilient future

November 2021

Tom Arup
tom.arup@igcc.org.au
www.igcc.org.au

About IGCC

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focused on the impact that climate change has on investment. IGCC represents institutional investors with total funds under management of over AUD$2 trillion in Australian and New Zealand and over AUD$20 trillion globally, and others in the investment community interested in the impact of climate change. IGCC members cover over 7.5 million people in Australia and New Zealand.

Introduction

Thank you for the opportunity to provide comment on *Te hau mārohi ki anamata - Transitioning to a low-emissions and climate-resilient future* (Discussion Paper). This brief submission addresses those topics most relevant to institutional investors, in particular the Funding and Finance section and the overarching conditions required to better direct private capital towards the net zero transition in New Zealand.

Investor policy needs

Institutional investors have a fiduciary duty to consider climate change risks in their investment strategies, and financial authorities are requiring the entities they regulate to measure and disclose climate-related risks and opportunities. For many investors, the conversation has moved on from meeting the objectives of the Paris Agreement being an 'if' to a 'how', and what that means for their invested capital.

In this context investors, communities, businesses and governments are making decisions that will shape economies for decades to come. Capital markets are hungry for net zero opportunities and wary of carbon-intensive assets and industry sectors. As countries seek to attract private capital to stimulate the economy, those which integrate long-term opportunities and mitigate climate risks will be in a better position to attract global private investment.

What this looks like in practice will be different for each market.

Public and private sectors will need to work together to achieve a resilient, net zero emissions economy. With trillions of dollars in capital under their management, investors will be critical to the transition that needs to occur. This is not an easy challenge. The world is still grappling with what net zero means for communities, businesses, investors and governments.

To provide clarity and direction on how investors, companies and governments can unlock climate change opportunities and manage risks, IGCC is working through The Investor Agenda to define a framework of collective action to achieve net zero emissions. Table 1 applies this framework[1] to the action required across the New Zealand economy to unlock more large-scale investment in the short, medium and long-term term.

[1] https://igcc.org.au/wp-content/uploads/2020/07/IGCC-in-2022-investing-for-climate-resilient-net-zero-emissions-economy.pdf

Table 1: Policy, company engagement, investment and disclosure priorities to unlock opportunities in an orderly transition to net zero emissions

CLIMATE RESILIENT NET ZERO EMISSIONS ECONOMY BY 2050			
Policy: National policies aligned with delivering a just and orderly transition to a net zero emissions economy by 2050[2]	**Company engagement:** Collaboration between investors and companies they own. Engagement via participation in initiatives like Climate Action 100+ that focus on emissions reductions in line with Paris Agreement objectives	**Investment:** Reorienting investor portfolios and business strategies to manage systemic climate risks and enable investors and businesses to succeed in a net zero future	**Disclosure:** Enhancing climate-related disclosures aligned with the TCFD to support investor and company action to access climate change opportunities and risks
IGCC short-term priorities to unlock investment opportunities			
Pathways to net zero emissions by 2050: Durable national emissions and economic strategies aligned to the Paris Agreement	**Net zero company strategies and action:** Align strategy to achieve net zero emissions by 2050. Implement a robust decarbonisation strategy to deliver these reduction targets, including that companies' capital investments are consistent with a just transition to net zero emissions by 2050	**Net zero emissions climate change roadmaps:** Investors put in place and implement a climate change policy and roadmap consistent with the goals of the Paris Agreement. This includes analysing and assessing climate change-related risks and opportunities (e.g., through scenario analysis)	**Company reporting:** All significant companies must disclose climate-related financial risk in a form that: is aligned with the TCFD recommendations; provides decision-useful and investable information; and clearly defines how companies' approaches to managing climate-related risks and opportunities is being implemented[3]
A managed energy sector transition: The credible integration of climate change and energy policy, and a policy for a just transition in the energy system	**Short to medium-term actions:** Companies set clear short, medium and long-term emissions reduction targets or goals covering all material scope 1, 2 and 3 emissions	**Net zero-aligned investment:** Investors are integrating Paris-aligned emissions reduction goals and invest consistent with their policy.[4] This can include investing in zero or low-carbon investment funds and other products (e.g., low carbon indices, climate-aligned bonds)	**Investor reporting:** Investors must report against the TCFD recommendations and ensure investment strategies are consistent with this disclosure

[2] https://igcc.org.au/wp-content/uploads/2020/06/Policies-for-a-resilient-economy_FINALa.pdf
[3] https://igcc.org.au/wp-content/uploads/2020/09/IGCCReport_Full-Disclosure_FINAL.pdf
[4] https://igcc.org.au/wp-content/uploads/2020/06/Feb2020_IGCC-Zero-Emissions_FINAL-2.pdf

Building resilient communities and economies: National climate change adaptation strategies and strengthened climate-related disclosure requirements for companies and investors	**Policy advocacy:** Both investors and companies have a clear commitment and set of disclosures to support climate policy in line with the objectives of the Paris Agreement, and a demonstration of how direct and indirect lobbying by industry bodies is consistent with this intent	**Investing in adaptation and resilience:** Undertaking a physical risk exposure assessment and investing in adaptation solutions to build resilience	**Reporting on physical risk:** Relevant entities must disclose portfolio-wide and asset-level exposure to physical risk and adaptation measures to strengthen resilience

Critically, this framework demonstrates that the public and private sectors will need to work together to achieve a resilient net zero emissions economy. This is particularly the case as governments are more fiscally challenged after deploying immediate COVID-19 relief, where unlocking private capital will be critical to both recovery and net zero investment opportunities. Economic recovery efforts are best directed to where investment and job creation can be matched with net zero emissions energy, industrial, building and transport systems, along with climate resilience measures and other sustainable infrastructure that will strengthen our communities.

IGCC will continue to work with governments and investors to pursue a policy response that delivers a prosperous economy.

Unlocking New Zealand capital for climate solutions

In late-2018 IGCC convened a workshop of stakeholders, including major investors, to discuss what is needed to scale-up and accelerate net zero, climate-resilient investment by New Zealand investors. The resulting report – *Investing in climate solutions for New Zealand* (*Investing*)[5] – contained broad recommendations, many of which remain relevant today, while some have been addressed in the intervening period including by the New Zealand Government.

A larger body of work on sustainable finance was later carried out by the Aotearoa New Zealand's Sustainable Finance Forum, producing the *Aotearoa Circle's Sustainable Finance Forum's Roadmap for Action*.[6]

Table 2 details enablers identified in the *Investing* report and IGCC's assessment of where there has been progress from a policy perspective in the intervening period. It should be noted the *Investing* recommendations are not solely confined to policy, and many interventions to address barriers need to occur from investors, companies and industry bodies. IGCC comments below relate to areas where changed policy settings would assist.

[5] https://igcc.org.au/wp-content/uploads/2020/06/IGCC-NZ-report-final.pdf

[6] https://static1.squarespace.com/static/5bb6cb19c2ff61422a0d7b17/t/5f9f7a83aa6e763a1b0f6759/1604287127400/20207-000234_Sustainable+Finance+Forum+Final.pdf

Table 2: Identified barriers and enablers in *Investing* and IGCC comment on policy progress

INVESTORS	BARRIERS	ENABLERS	IGCC COMMENT ON POLICY PROGRESS
Motivation	Constrained (real or perceived) by investment horizons, mandates, duties and beliefs; also lack of awareness, understanding or integration of climate change-related investment risks and opportunities in New Zealand markets	Clarification/reinterpretation/reform of investor horizons, purpose and legal duties (public + private financial institutions) – directional market intervention by government? Market leadership; evolution of market best practice; values alignment (stakeholders/society) Education and integration into investment governance, strategy, operations and culture	Mostly industry and industry groups like IGCC are responsible for driving change. Market practice on climate finance remains nascent, if growing, with notable exceptions Step change occurring globally, and recent signs like launch of the Aotearoa New Zealand Investor Coalition for Net Zero[7] suggests the domestic market is starting to follow Introduction of Crown Responsible Investment Framework[8] and Crown financial institutions commitment to net zero[9] a positive step Government could play larger role to fund industry practice education and forums Financial regulators could tighten guidance on fiduciary duty and directors' responsibilities with respect to climate change to complement disclosure
Confidence	Future policy/transition pathway uncertainty;	Long-term, stable policy and institutional arrangements and	2019 amendments to *Climate Change Response Act 2002* sets

[7] https://www.scoop.co.nz/stories/BU2110/S00710/what-role-can-private-finance-play-in-the-race-to-net-zero-carbon-emissions.htm

[8] https://www.beehive.govt.nz/release/new-investment-framework-aligns-govt%E2%80%99s-2050-carbon-neutrality-goal#:~:text=The%20Crown%20Responsible%20Investment%20Framework,on%20behalf%20of%20New%20Zealanders

[9] https://www.nzsuperfund.nz/news-and-media/joint-statement-from-nzsf-acc-gsf-and-npf/

	specific investment barriers; green asset bubble risk	transition plan; long-term carbon price visibility Comprehensive, coordinated national low-emissions investment strategy involving barrier and gap analysis Specific interventions to address policy, regulatory, market, technology, information or other barrier/risks	long-term market signal for New Zealand Emissions trading scheme in place, with recognition further adjustment may be required for stronger price signal More detailed, industry-specific decarbonisation pathways needed from Government No national low-emissions investment strategy developed Many recommendations of the *Aotearoa Circle's Sustainable Finance Forum's Roadmap for Action* not yet adopted Government making periodic interventions on barriers and technologies, but not driven from above industry-specific pathways or other overarching long-term strategy
Access & Execution	Lack of a pipeline of investible projects/deals or suitable vehicles to access; capability and skills	Foster innovation ecosystem - from RD&D through to large-scale commercial deployment Product development - thematic indices/funds and diversification of financial instruments Innovative partnerships, platforms, market intermediaries; piloting and learning; peer exchange	Some industry specific RD&D efforts in place such as the New Zealand Agricultural Greenhouse Gas Research Centre[10] New Zealand Green Investment Finance established and investing with enhanced budget Further review and implementation of financing mechanisms, bonds, pooling not included in Discussion Paper
Commercial Viability & Attractiveness	Mismatch with investor risk appetite/risk-adjusted return requirements; compounded by (<2°C) misaligned benchmarks, and challenges of measuring and internalising	Robust carbon price; supplementary support for low-emissions innovation; blended finance/de-risking	ETS in place, with Discussion paper recognition some further adjustments may be required Supplementary support patchy though important interventions

[10] https://www.nzagrc.org.nz/

	climate-related downside risk/upside potential into risk modelling and asset valuations	Adjustment of asset allocation and benchmarks Collaboration on approaches and tools for integration into risk modelling/asset valuations – incl. scenario analysis Mandatory, harmonised climate-change related disclosure by firms	occuring in agriculture, energy storage etc Mandatory disclosure regime established, but coverage should be extended to government entities and large private companies Government physical risk data only provided at cost despite mandatory disclosure regime

Specific comments on relevant chapters of the Discussion Paper

New Zealand is well positioned to make a relatively orderly transition to net zero emissions with the right policy settings. KPMG has ranked New Zealand's economic and sector-specific preparedness for the net zero transition as high and consistent with many advanced European economies.[11]

Over the past decade many of the building blocks required for driving capital investment into the net zero transition have been established including:

- The 2019 amendments to the *Climate Change Response Act 2002* (The Act)
- Mandatory climate risk disclosure
- The emissions trading scheme (ETS)
- New Zealand Green Investment Finance (NZ GIF)
- Establishment of the Crown Responsible Investment Framework

However, the Climate Change Commission's recommendations indicate deeper reform across all sectors of the economy is required to meet the objectives of The Act. IGCC has broadly welcomed the Commission's recommendations.[12] But it is important that in seeking to meet the established carbon budgets, policy enablers of structural reform and private capital flows are a core focus as they will ultimately drive the decades-long economic transition to net zero.

Funding and Finance

The Funding and Finance section of the Discussion Paper is almost exclusively focused on existing initiatives, especially where it relates to activating private finance. This is a missed opportunity to further build the market conditions for private capital investment in the necessary clean industries and infrastructure, and company transition, that will be required to meet the net zero requirements of The Act. IGCC notes several actors, including the Reserve Bank of New Zealand (RBNZ),[13] have also emphasised the importance

[11] https://home.kpmg/xx/en/home/insights/2021/09/net-zero-readiness-index.html
[12] https://igcc.org.au/implementing-nz-climate-change-commission-recommendations-would-help-boost-investor-confidence/
[13] https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Financial%20stability/climate-change/Climate-Change-Commissions-Draft-Advice-March-2021.pdf?la=en&revision=5bc4c226-e87b-4743-9f21-9a1cd055e6e9

of finance and investment in the net zero transition and urged for a greater focus on this issue during the Climate Change Commissions' considerations, which should be carried through to the New Zealand Government's response and final Emissions Reduction Plan.

New Zealand's national ETS and public investment are critical, but alone will be insufficient to drive the full economic transition required by The Act. Large swathes of private capital will be required. But IGCC's latest survey of its members (across both Australia and New Zealand) continued to identify barriers to investment in net zero emissions projects and industries,[14] including policy uncertainty (70 per cent of respondents) and a lack of opportunities with appropriate risk-return profiles (60 per cent). At the same time, bodies like NZ GIF have noted New Zealand's relatively small market size, restrictive investment mandates and nascent green investment practice as other potential barriers.[15]

This means New Zealand will potentially need stronger, more stable policy signals and better risk-return profiles than other larger markets. Like many markets, it will also need to rely on attracting international capital to its transition and net zero plans, and as the total quantum of the opportunities will be smaller in New Zealand than elsewhere by virtue of the size of the economy, again market signals from policy may need to be stronger to attract this capital amid the growing global competition for it.

New Zealand has strong foundations to help encourage more private capital into the transition. These include the ETS, the mandatory climate risk disclosure regime and the establishment of NZ GIF. IGCC also notes and welcomes the recent announcement that New Zealand is looking to pursue a sovereign green bond program,[16] which is consistent with the advice of the RBNZ.[17]

The New Zealand Government should look to draw further from the specific enablers identified above in the IGCC assessment of progress since *Investing*, including:

- As a priority the New Zealand Government should review and implement the recommendations of the *Aotearoa Circle's Sustainable Finance Forum's Roadmap for Action*
- Develop industry-specific decarbonised pathways to help investors and governments understand the key milestones, technology development and infrastructure required
- Develop a national net zero emissions investment strategy, including identifying the quantum of private capital required to fund the transition to net zero
- Help fund financing industry practice collaboration and education on climate change and provide research grants
- Provide more detailed regulatory guidance on fiduciary duty around climate change and expand corporate governance guidance for company directors and trustees to take climate issues into account in their policies and decision-making
- Make physical risk and other carbon scenario information freely available to assist entities reporting under the mandatory climate risk disclosure regime

[14] https://igcc.org.au/wp-content/uploads/2021/08/ASPIRATION-TO-ACTION_FINAL_17AUG2021.pdf
[15] https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/future-climate-action-for-aotearoa/consultation/view_respondent?uuId=889363815
[16] https://www.rfigroup.com/australian-banking-and-finance/news/new-zealand-government-issue-sovereign-green-bonds#:~:text=The%20New%20Zealand%20government%20plans,the%20World%20Bank%20since%202008.
[17] https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Financial%20stability/climate-change/Climate-Change-Commissions-Draft-Advice-March-2021.pdf?la=en&revision=5bc4c226-e87b-4743-9f21-9a1cd055e6e9

IGCC also recommends the New Zealand Government explore the following specific finance tools and policies, which should cut across all sectors of the economy. Where it relates to co-investment or further financing facilities it may be that NZ GIF remains the appropriate entity to carry further work in this space. These include:

- *Extending the climate risk disclosure regime* – The New Zealand Government should as a first step expand mandatory disclosure to its own entities (where not already covered) and then work towards the inclusion of large private companies.
- *Mandating net zero transition plans consistent with The Act* – During COP26 the UK Government announced that it will require listed companies and financial organisations to establish and publish climate transition plans.[18] The New Zealand Government could consider a similar step and require companies and financial organisations to publish transition plans that are consistent with The Act to complement disclosure. This would also complement the Crown Responsible Investment Framework.
- *Taxonomies* – International investors expect similar levels of market information about potential New Zealand green investment opportunities, including bond offerings, as what is available in competing markets. A taxonomy to define green or sustainable investment across the economy would assist in attracting this capital. It may be that New Zealand is too small an economy on its own to justify a separate taxonomy, and therefore it would be preferable to integrate with or adapt other taxonomies like the emerging consolidation between the European and Chinese taxonomies[19] or the emerging ASEAN[20] sustainable finance taxonomy. This would also avoid further market fragmentation. Adapting any existing taxonomy for New Zealand would need to be done in partnership with investors and other financial organisations.
- *Dedicate a proportion of ETS revenue for abatement purchasing, research development & demonstration (RD&D) and transition funding* – The New Zealand Government could direct a proportion of revenue from ETS auctions into purchasing abatement, just transition needs and RD&D in critical sectors. This would reflect practice in Europe where States are encouraged to use half of auction revenue for climate and energy-related purposes.[21] Similar arrangements are in place for trading schemes in California, Quebec and the north-east of the United States.[22]
- *Co-investment funds, equity, pooling, blended finance and further financing facilities* – IGCC recognises the good work of the NZ GIF and recent budgetary commitment to top up its portfolio. The New Zealand Government may want to consider if complementary bodies with different investment or grant-making mandates should also be established. For example, across the Tasman the Australian Renewable Energy Agency (ARENA) sits alongside the Clean Energy Finance Corporation, with a mandate to provide conditional funding to early-stage technology and RD&D. Similarly, other jurisdictions have established green financing institutions and funds for specific sectors like infrastructure.[23]
- *Carbon abatement purchasing, reverse auctions and tax crediting* – See ETS sector below for comments on crediting and abatement purchasing. Many jurisdictions are also using Contracts for

---

[18] https://www.gov.uk/government/publications/fact-sheet-net-zero-aligned-financial-centre/fact-sheet-net-zero-aligned-financial-centre

[19] https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/211104-ipsf-common-ground-taxonomy-instruction-report_en.pdf

[20] https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-version-1/#:~:text=The%20ASEAN%20Taxonomy%20is%20a,Working%20Committee%20on%20Capital%20Market

[21] https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3542

[22] https://icapcarbonaction.com/en/?option=com_attach&task=download&id=646

[23] https://sustainability-coalition.org/wp-content/uploads/2021/10/ICSI_Finance-Policy-Paper-GC.pdf

Difference and reverse auctions to accelerate the deployment of renewable energy and storage options.[24]

The above options are by no means a comprehensive list, but rather represents the further development in Funding and Finance policy that could occur under the Emissions Reduction Plan. All and more could play a role in driving change in the different sectors outlined by the Discussion Paper as they have the potential to drive capital to climate solutions across the economy.

Emissions trading

IGCC is not in a position at this point to express specific views about the technical operation of the New Zealand ETS, proposals to adjust forestry credit treatment and further adjustment of free industry allocations. But overall investors support carbon pricing for the clear and transparent market signal it creates, as indicated by the Global Investor Statement to Governments on the Climate Crisis,[25] and the ETS should remain the centrepiece of New Zealand's abatement efforts. Like organisations such as the Sustainable Business Council,[26] IGCC also supports complimentary measures to drive emissions reductions in hard-to-abate sectors that are less responsive to immediate price signals and where clear decarbonisation pathways are still emerging. Complimentary programs could also drive emissions reductions that may require high upfront costs but be more cost-effective over the long-term and result in greater overall abatement.

IGCC supports pricing incentives for agriculture to reduce emissions, via the ETS if deemed necessary in 2022 and 2025. However, it may remain preferable that agricultural emissions are continued to be addressed through the development of a separate mechanism. There has been noted difficulty with inclusion of agriculture in global ETSs. For example, the European Union ETS does not integrate agricultural emissions due to the difficulty measuring emissions and reductions at the farm-level due to the range of factors involved such as livestock diet and weather systems. New Zealand has a relatively homogenous agricultural industry, so measurement is likely to be more manageable than in other markets.

An additional crediting mechanism – with abatement purchased by government via long-term contracts that reduce price volatility, and in time via industry offset purchasing (with a cap on use in the ETS) – could play a complementary role to the ETS and/or an agriculture-specific levy to drive further investment in permanent forests and agricultural emissions reductions, especially if limits on forestry crediting are implemented into the ETS as proposed. This could operate in the same way the Carbon Farming Initiative (CFI) interacted with the Australian ETS as part of the later repealed Clean Energy Future Package.[27] The CFI was used as the basis for Australia's now Climate Solutions Fund,[28] albeit the latter having an expanded scope of credited projects beyond land and agriculture (IGCC would not recommend in New Zealand's case given the preferable existence of the ETS). Under this model, the New Zealand Government could, at least at the beginning, drive emissions reduction and create revenue streams in the land and agriculture sectors either as a direct purchaser of abatement or providing a payment-for-difference on top of private purchasing of units where there are co-benefits like biodiversity and early-stage technology deployment.

---

[24] https://reneweconomy.com.au/nsw-targets-12gw-of-renewables-and-storage-under-roadmap-that-includes-auctions-27022/

[25] https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf

[26] https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/future-climate-action-for-aotearoa/consultation/view_respondent?uuId=395718664

[27] https://d3n8a8pro7vhmx.cloudfront.net/landcaretas/pages/100/attachments/original/1466400872/CFI-About-Overview_V2.pdf?1466400872

[28] http://www.cleanenergyregulator.gov.au/csf/Pages/CSF-home.aspx

Infrastructure, Transport and Energy

IGCC does not intend to respond to the specific proposals of the Discussion Paper in these sectors, only to reiterate that interventions in this space should seek to leverage private capital to expand impact and drive system change. The above mechanisms in the Funding and Finance section should be considered options to unlock this across energy, transport and infrastructure, though additional planning rule changes, tax incentives and other policy levers may be required.

The New Zealand Government should develop clear decarbonisation pathways and planning out to 2050 for the economy, with detailed pathways outlined for specific industries. This should be coupled with a national net zero emissions investment strategy, including identifying the quantum of private capital required to fund the transition identified in the decarbonisation pathways. This would create an investable roadmap to help allocate private capital towards the transition – for example investing in the upgrading and expansion of the national electricity grid, and addressing the rules operating it, to prepare for the electrification of transport and the additional generation and storage that will be required. This is consistent with the recommendations of Vivid Economics in its 2017 assessment of pathways to reach net zero for New Zealand.[29] South Korea recently completed a similar exercise in developing two carbon neutrality pathways,[30] which will help guide policy decisions and the use of co-funding arrangements like the Green New Deal Fund.[31]

More broadly, several stakeholders through the Climate Change Commission consultation period emphasised the importance of infrastructure in the net zero transition including Guardians of New Zealand Superannuation[32] and the Institute of Finance Professionals New Zealand.[33] While some infrastructure issues are canvassed in the Transport and Building and Construction chapters of the Discussion Paper, further review of the specific programmes to support and incentivise investors to back greener infrastructure should be considered. This includes the above decarbonisation pathways and national investment strategy, backed by appropriate tax settings and co-financing to support additional capital flows. This could include requesting the New Zealand Infrastructure Commission to conduct a national review of net zero infrastructure needs and commissioning a broader review of the assessment and investment mandates of all relevant government bodies to ensure climate change is integrated into infrastructure prioritisation work.

Agriculture

Like many carbon-intensive industries agriculture is exposed to stranded asset risks, and at the same time may not be able to function at current capacity due to a range of climate-related physical risks in coming years. These risks include:

- Shifting consumer demand may see a greater shift to non-dairy alternative milks, while New Zealand may not have appropriate land to farm alternative milks, especially with high rates of afforestation

[29] https://www.vivideconomics.com/wp-content/uploads/2019/08/Net-Zero-in-New-Zealand-Summary-Report-Vivid-Economics.pdf

[30] https://www.spglobal.com/platts/en/market-insights/latest-news/energy-transition/101921-south-korea-finalizes-2050-carbon-neutrality-roadmaps

[31] https://www.greenclimate.fund/sites/default/files/event/koreas-green-new-deal-moef-international-conference-green-new-deal.pdf

[32] https://www.nzsuperfund.nz/assets/Disclosures/Submissions/Guardians-Climate-Change-Commission-Submission-March-2021.pdf

[33] https://www.infinz.com/Site/News/climate_change_submission.aspx

- Loss of contracts or lower credit ratings as downstream customers seek to align with net zero, deforestation-free or low-emissions products. New Zealand must maintain progress to reduce emissions in agriculture
- Policy mechanisms such as carbon pricing and carbon border adjustments may increase purchasing costs for carbon intensive commodities
- Investors and consumers are increasingly wanting lower-emissions products to align with global emissions goals
- The changing climate may shift production zones, lead to lower yields and productivity, have impacts on soil (and thus livestock feed sources), create changes in soil nitrogen levels, and increase runoff[34]

Given the importance of agriculture to the New Zealand economy, and the outsized contribution from the industry to New Zealand's national emissions, it is imperative that climate risks are dealt with in an immediate and concerted emissions reduction drive across the industry. Beyond the crediting mechanism noted above and carbon pricing (either through ETS integration or levy), the New Zealand Government could consider the following activities present in other jurisdictions or recommended by international bodies:

- Setting up an expert group to provide technical expertise over life-cycle methane emissions, assist in certification of technologies[35]
- Providing guidance to the market with an inventory of best practice technology options and the current state of these technologies (e.g., culture additives and feedstock changes, methane inhibitors, methane vaccines)
- Facilitating development of innovative technologies to abate carbon (e.g., feed additives), implement in market and provide wider uptake of mitigating actions
    - Creating tax benefits to incentivise RD&D
    - As per the Funding and Finance section above, directing ETS funding towards agricultural abatement and RD&D
    - Underwriting the use of novel, unproven technologies to abate carbon in agriculture and spur technological advancements and trial studies
    - Assisting with the implementation of existing technologies that are already carbon-efficient or cost effective in the market via promotions programs, market education and behavioural change similar to markets like the European Union.[36] For example, New Zealand has seen a 47 per cent increase in synthetic nitrogen fertiliser emissions since 1990.[37] Government can help in managing emissions growth in this space via assisting market adoption of green fertilisers that already exist and minimise nitrogen loss to the air.[38]
    - Investigating a methane tax to try address emissions at its source and target actual abatement vs offsets via afforestation through the ETS[39]

---

[34] https://www.climatecloud.co.nz/assets/all-assets/Climate-Change_Sheep_Beef_Arable_v1.5.pdf
[35] https://www.agric.wa.gov.au/climate-change/reducing-livestock-greenhouse-gas-emissions
[36] https://ec.europa.eu/food/system/files/2020-05/f2f_action-plan_2020_strategy-info_en.pdf
[37] https://environment.govt.nz/assets/Publications/New-Zealands-Greenhouse-Gas-Inventory-1990-2019-Volume-1-Chapters-1-15.pdf
[38] https://www.incitecpivotfertilisers.com.au/products-and-services/our-products/green-urea-nv
[39] https://www.unep.org/resources/report/global-methane-assessment-benefits-and-costs-mitigating-methane-emissions

- Developing a regulatory framework to verify carbon abatement from the agriculture sector based on robust, transparent carbon accounting and monitoring. This could consider effectiveness and target high-emitting farms.

Conclusion

IGCC has been supportive of the 2019 amendments to The Act and the work and recommendations of the Climate Change Commission. Legislating a net zero emissions goal and a clear process to develop and meet carbon budgets helps give investors certainty about the direction of travel for the New Zealand economy and sends an important signal to global capital markets. IGCC has also been supportive of several important policy building blocks that have been established to underpin the net zero transition, including the introduction of mandatory disclosure, the ETS, the Crown Responsible Investment Framework, the NZ GIF and others.

However, the Discussion Paper carries on from the Commission's generally lighter approach to integrating and exploring Funding and Finance tools and policy levers. This is a missed opportunity as unlocking private capital will be a systemic driver for accelerating the net zero transition, meeting the objectives of The Act and ensuring ongoing employment and prosperity across the economy.

IGCC recognises that the Discussion Paper may not represent the sum of work occurring across the New Zealand Government on attracting private finance for green industries and infrastructure, or to aid the transition of existing industries, as evidenced by the recent announcement of a sovereign green bond issuance. But where this work is happening it should be fully integrated into the country's overarching Emissions Reduction Plan.

IGCC again welcomes the opportunity to provide feedback on the Discussion Paper and stands ready to assist with the development of the Emissions Reduction Plan.