Submission to the Productivity Commission Inquiry on a Low Emissions Economy

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Introduction

This submission is supportive of the recommendations in the draft report. These provide a useful starting point for government action to 'bend the curve' towards a low emissions future and zero emissions by 2050.

My experience on climate change extends back to advocacy for the Framework Convention on Climate Change in the early 1990s, working for WWF-UK. I was an NGO representative on the British government delegation to the Earth Summit in 1992, and representative on the NZ government delegation to Bali Ministerial in 2007. I co-chaired the Global Campaign for Climate Action in the run-up to the Copenhagen talks in 2009 and attended the Paris Ministerial.

As Executive Director of Oxfam New Zealand 2003-14, I build capacity amongst Pacific civil society and governments on climate change, including reports on climate finance, and campaigned for a strong New Zealand position on emissions reductions. As a Green MP 2016-17, I was a member of GLOBE and contributed to the Vivid Economics report on climate change.

New Zealand Role and Ambition

The draft report correctly makes the point that New Zealand has not reduced our emissions. The context could be made stronger by reference to the scale of our poor performance since New Zealand and other countries signed the Framework Convention on Climate Change in 1992, undertaking to stabilise and then reduce greenhouse gas emissions.

The case for urgency could be underlined by referring to Figure 2.3 and pointing out that our net emissions have risen by 54.2% since 1990, according to the government's latest inventory. With one of the highest per capita emissions amongst developed countries, and high growth over the past 27 years. New Zealand cannot claim leadership or even followership on climate change so far.

Addition 1:

The findings should make a stronger call for urgency for New Zealand to achieve steep emissions reductions to compensate for our cumulative net emissions above 1990 levels over the past 26 years since the UNFCCC was agreed, as well as meeting our fair share towards achieving the future Paris targets, including the 1.5˚ pathway as an aim.

The role of internationally-traded credits

As noted by in the draft report, "a significant number of credits traded in the global market did not constitute credible emissions reductions. New Zealand was the top buyer of units from this market, as a proportion of its domestic emissions." (page 35). However, there is no finding from the report to prevent such as scenario from re-occurring, if for example, international negotiations allow carbon trading in future.

The report (p.35) warns: “Ensuring that any future purchases of emissions reductions are of a high environmental integrity will be essential for maintaining the credibility of New Zealand’s mitigation efforts.” However, this was also an aim of the previous carbon trading regime under the Kyoto Protocol. Subsequent events provide no confidence that sufficient improvements in governance are possible. For example, there has been no formal evaluation of the failings in governance of carbon trading under the Kyoto Protocol.

It is hard to have confidence that a future scheme will be better governed or avoid the failings of the past. In addition, the integrity of any future carbon trading system will be far more complex because all countries now have NDCs and emission reduction targets, not just Annex 1 countries, and climate finance will be provided as well as finance for carbon credits. The structures and member-led decision-making of the UNFCCC are not compatible with a sufficiently robust system of governance to ensure that carbon credits have high integrity.

If the Productivity Commission is proposing that government policy should aim to “get the prices right”, this is incompatible with an international carbon trading scheme that buys credits at a lower price, as previously occurred under the ETS.

Further, overseas purchases of credits are a leakage overseas that create no domestic benefits and require a continual outflow of funding each year for credits. This is clearly inferior to incentivising investments in domestic emissions reductions that typically shift the economy onto a lower emissions pathway for the future.

Recommendations on a reformed ETS, with a price floor and ceiling, and government management of the supply of units will provide the government with the tools to manage emissions. Under such a system, there is no need for international carbon trading.

International carbon trading is a crucial issue for New Zealand’s low emissions future, and the lack of any specific finding and recommendations are currently a major gap in the Productivity Commission’s report.

Addition 2:

The findings should include conditions under which international carbon trading may possibly be permitted. These should include:

- *An independent and objective assessment to ensure that carbon trading has sufficiently robust and transparent research, quantification, certification, tracing and verification mechanisms to ensure the integrity of carbon credits*
- *A pre-condition that carbon credits may only be used if the current domestic emissions price is higher than the best estimate of the cost of externalities from greenhouse gas emissions*
- *Traded credits should be managed by Government (rather than relying a private sector scheme)*
- *The quantity of credits should be capped at less than 10% of total emission units*

The recommendations should include:

Government policy should not rely on internationally traded credits in order to transition to a low emissions pathway. Preferably, these should not be allowed. If the government deems it necessary to allow internationally-traded carbon credits, they should be allowed only under strict conditions set out in this report.

Reorienting Private Sector Investment

The draft report correctly points out that a major shift in investment will be required to facilitate the transition to a low emissions pathway. Most of that funding will need to come from the private sector, and there are opportunities to reorient investment patterns from traditional forms towards green alternatives. For example, government will contribute equity of $100m into the proposed Green Investment Fund, compared to $44bn in Kiwisaver and $162bn of funds under management (Reserve Bank of New Zealand, December 2017 https://www.rbnz.govt.nz/statistics/t41).

The Green Investment Fund's role will be limited to a catalytic role due to its limited funding. On p. 146, it would be useful to note that, in order to play an effective role as part of a low emissions approach, the Green Investment Fund needs to have a specific priority to achieve emissions reductions, rather than potentially competing priorities such as generating high returns or achieving maximum leverage for private investment. This needs to be reflected in the mandate establishing the fund and in the criteria it applies to its investment portfolio[1].

The draft report's findings and recommendations are so far limited to transparency. While Recommendations 6.2 and 6.3 on implementing recommendations of the TCFD are helpful, additional policies to promote the investment for a low emissions economy are needed. The lack of policy on the crucial issue of investment contrasts with the detailed findings and recommendations elsewhere in the Report.

In particular, the report misses an important opportunity to call for a major change in the flows of private sector investment towards low emissions funding. Few investors currently specify that they want their funds to be directed towards low carbon portfolios, or to exclude fossil fuels, and there are few funds that enable them to do so. Only around 0.3% of retail funds under management in New Zealand use a low carbon strategy or exclude fossil fuel production[2].

This reflects the gap between surveys that show a large majority of investors want to invest with social and environmental issues taken into account[3]. However, as shown above, the vast majority of current investment funds still include carbon intensive investments in their portfolios.

Despite warnings of stranded fossil fuel reserves and other assets, and the growing international movement for divestment from fossil fuels (currently US6.5 trillion), New Zealand's responsible investment practices lag behind.

Addition 3:

The government should commission analysis to identify the barriers to greater investment in low-emissions managed funds, with a view to identifying policy interventions that would reduce the risk of climate impacts and stranded assets for Kiwisaver and other investors, and increase the flow of New Zealand investment funds into low emissions businesses in New Zealand and internationally.

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[1] Ibid

[2] B. Coates, forthcoming

[3] Consumer NZ, Kiwisaver Satisfaction Survey 2018 https://www.consumer.org.nz/articles/kiwisaver-satisfaction-survey; Responsible Investment Association of Australasia, Kiwi Wealth and Mobium Group, 'NZ Consumer Research' 2016 https://responsibleinvestment.org/wp-content/uploads/2016/11/20161107_Mobium_RIAA_KiwiSaver_FINAL.pdf

Investment Strategy

The draft report helpfully recommends the development of a low-emissions investment strategy. The scope should be broadened from the points included in Recommendation 6.4 to encompass a sustainable finance strategy, recognising that investment is a part of broader financial flows and a low emissions strategy is an integral part of a broader sustainability agenda, with strong inter-connections between reducing emissions and other aspects including waste reduction, resource efficiency, equity and long term sustainability.

While the report notes that the UK is in the process of undertaking a Green Finance Taskforce, it would be worth including reference to a number of other relevant initiatives that can provide a reference point for strategy development in New Zealand. These include the EU's Strategy on Sustainable Finance[4], UNEP Inquiry into the Design of a Sustainable Finance System[5], Intergovernmental Committee on Sustainable Development Financing[6], China's Guidelines for establishing a Green Financial System[7], France Eco-Innovation Action Plan[8], Norway's Roadmap for Green Competitiveness[9] and the Sustainable Stock Exchanges Initiative[10], amongst others.

In particular, the EU's Sustainable Finance Strategy provides a useful reference point, focusing on:

- addressing green-house gas emissions and tackling pollution
- minimising waste and improving efficiency in the use of natural resources
- increasing awareness of and transparency on the risks which may have an impact on the sustainability of the financial system
- the need for financial and corporate actors to mitigate those risks through appropriate governance

The EU established a High-Level Group on Sustainable Finance to undertake a wide-ranging inquiry. Their report formed the basis of the Commission's action plan on sustainable finance. Key measures include:

- a taxonomy of environmentally sustainable economic activities, including standards that should be applied to categories of Green Bonds and low carbon funds
- regulation to create clear benchmarks for categories such as low carbon, carbon neutral and positive carbon impact to guide provide guidance for investors
- regulation on disclosure of how institutional investors and asset managers integrate Environmental, Social and Governance (ESG) factors into investment decision-making
- regulations that integrate ESG factors into the advice that insurers and investment managers provide to their clients
- measures to clarify the duties of asset managers and institutional investors on sustainability

The EU's recommendations are relevant for New Zealand. For example, flows of investment funding into sustainable or low emissions investments are being hampered by a lack of clarity around

[4] EU Sustainable Finance website https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en
[5] http://unepinquiry.org/
[6] https://sustainabledevelopment.un.org/intergovernmental/financecommittee
[7] http://www.pbc.gov.cn/english/130721/3133045/index.html
[8] https://ec.europa.eu/environment/ecoap/about-eco-innovation/business-fundings/investors-assess-climate-risk-france_en
[9] https://www.regjeringen.no/en/aktuelt/the-government-forwards-a-strategy-for-green-competitiveness/id2575358/
[10] http://www.sseinitiative.org/

definitions, standards and terminology. Unsubstantiated claims are made using terms such as ethical, responsible, ESG-managed and low carbon, with a danger of greenwashing and misleading the public.

The draft report recommends a strategy includes identifying a taxonomy of measurable low-emissions investment flows, but a broader taxonomy is needed to have a consistent framework that includes other relevant aspects including climate resilience, resource efficiency, social dimensions of sustainability and governance. A narrow focus will risk further confusion and compartmentalising of low emissions investments into a narrow category. The government has initiated work on a standard for organics, and a similar process is needed for the standards that apply to sustainable finance.

The EU's recommendations on disclosure of how institutional investors and asset managers integrate Environmental, Social and Governance (ESG) factors into investment decision-making aligns closely with recommendations 6.2 and 6,3 on the implementation of recommendations of the Taskforce on Climate-related Financial Disclosures. Again, a broader framework for considering the disclosure of sustainability factors should supplement the disclosure of climate-related factors.

The EU's action plan includes specific aspects of financial regulation. These should be included in the scope of the recommended strategy under 6.4 to provide greater clarity with regard to the types of regulation that should be considered within the scope of the strategy.

Addition 4:
The framing of Recommendation 6.4 should be broadened to include other aspects as well as the four bulleted issues listed. The recommendation should be framed as follows:

The Government should develop, in conjunction with interested parties including the private sector, a sustainable finance strategy for New Zealand. Relevant topics should include:

- *the strategic alignment of direct government investment intended to support the transition to a low-emissions economy (eg. grants, loans and other initiatives such as the proposed Green Investment Fund), as well as the interaction between policies such as disclosure requirements and direct government funding;*
- *the investment mandates of large public institutional investors (eg. ACC, NZ Super Fund)*
- *the responsibility of Kiwisaver providers, particularly default funds, with regard to the incorporation of social and environmental issues, including climate change, into investment management and disclosure;*
- *a clear taxonomy of categories of sustainable finance, including low emissions finance, low carbon investment, ethical/responsible investment and impact investment*
- *the role of financial sector regulation in supporting the low-emissions transition and sustainable finance flows, including:*
    - *regulation on disclosure of how institutional investors and asset managers integrate Environmental, Social and Governance (ESG) factors into investment decision-making*
    - *regulations that integrate ESG factors into the advice that insurers and investment managers provide to their clients*
    - *measures to clarify the duties of asset managers and institutional investors on sustainability*
    - *improved transparency for business information, including public registers of beneficial ownership for foreign trusts and registered companies*
    - *a requirement for company Directors to consider Environment, Social and Governance issues, including climate impacts and the transition towards a low emissions economy, as part of their fiduciary responsibilities*