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Consultation response:
Second Emission Reduction Plan (ERP2)

By:
Centre for Sustainable Finance: Toitū Tahua

About CSF

The Centre for Sustainable Finance: Toitū Tahua (the Centre) is an independently governed charitable trust founded in 2021 to accelerate progress toward an equitable, inclusive and sustainable financial system. Established by major financial institutions, Crown entities and strategic philanthropists, the Centre follows a model pursued successfully in other jurisdictions such as the UK, Canada, Europe, Australia and Singapore.

As an 'honest broker,' the Centre has a key role in convening, identifying actionable pathways and removing barriers to funding and financing the green transition. The Centre seeks to clarify the role of private capital in achieving New Zealand's commitments under the Paris Agreement, which includes "making sure that financial flows support the development of low-carbon and climate-resilient economies."

Scaling private investment in climate mitigation | Te whakakorahi tā te rāngai

Thank you for the opportunity to provide our views on New Zealand's second emissions reduction plan. Our submission is focused on Chapter 4 of the Discussion Document and our specific responses to the Consultation Questions 4.1-4.5 can be found below the overview presented here.

Overview: scaling private investment in climate mitigation

We believe that successful government interventions to increase investment in sustainable or decarbonisation activities should involve a combination of regulatory, financial, and market-driven approaches:

1. Clear, stable and coherent policy frameworks (ideally with bipartisan support)

- The Government needs to establish clear, long-term policy commitments to decarbonisation and sustainability, ideally in collaboration with a broad cross-section of political parties across Parliament. Consistent and stable regulations provide investors with confidence that government policies will not change abruptly, reducing perceived risks.
- Streamlining the approval process for sustainable projects can reduce delays and lower costs, making investments more attractive. Alignment of criteria with the Sustainable Finance Taxonomy would provide an objective framework and help with obtaining bipartisan support – it would also reduce lender concerns regarding environmental risks associated with funding of fast-track projects.

2. Scale, urgency and crowding in private capital

- Initiatives should be designed to scale quickly to meet the size of the challenge, and to crowd in private capital. This can be done by reducing barriers to attracting capital into state-owned entities, recycling capital for other transition initiatives.
- Leveraging existing market structures for origination helps with speed of adoption (for example the Business Finance Guarantee Scheme), but new market structures should also be considered, recognising that we are competing for capital on the world stage.
- Greater R&D for investment into next frontier technologies could be efficiently scaled and supported through entities like the Elevate Fund, and also serve to drive innovation and attract private investment.

3. Provide Value for Taxpayers

- Ensure broader benefits are considered including reduction of future obligations under NDCs, resilience of energy system, reduction of fuel imports, health benefits of reduced pollution.

4. **Risk Mitigation**

   - Providing guarantees or insurance to cover specific risks associated with the development of a sustainable investment market can encourage private sector participation.

5. **Market Development and Standards**

   - Developing and promoting standards and a taxonomy for what qualifies as a green or sustainable investment helps investors identify credible opportunities and avoid greenwashing.
   - The Government can use its purchasing power to create demand for sustainable products and services, driving investment in these areas, and helping to showcase New Zealand's innovative, sustainable products on the world stage.

6. **Settings that support efficient, vibrant markets (particularly capital markets)**

   - Markets and settings that support efficient development are an important foundation for enabling investment.

7. **International Cooperation (and alignment where appropriate)**

   - Aligning domestic approaches (e.g. SF Taxonomy) with global standards makes it easier for global investors to invest domestically. Collaborating with other governments and international organisations to set global standards and targets can create a more favourable environment for sustainable investments worldwide.

These interventions work best when they are part of a comprehensive strategy that aligns government policies with the broader goals of sustainable development and climate action.

Q4.1 Do current measures work well to unlock private investment in climate mitigation?

Response:

Partially.

Comment:

While we can see examples of some of the financing mechanisms that we require already, New Zealand does not currently have a nationally coordinated and joined-up strategy to support the required flow of private sector finance into climate mitigation opportunities.

To date, the New Zealand Government and private sector have not approached this transformation opportunity strategically and have not put in place the mechanisms needed to scale up the pathways to investment to a level that matches the scale of mitigation actions we require.

In many instances there are not investment products available in New Zealand with the risk-return characteristics that global investors require. There are unclear pathways to investment in terms of regulatory and environmental approvals and this lack of clarity results in additional time and costs for investors which may deter them from investing.

We see enormous potential for an investor-friendly environment for climate mitigation to form from a set of coordinated government policies which recognises the 'investability' of different opportunities. The role of government will be different depending on where sectors or solutions sit along a continuum of investment readiness:

1. Removing barriers to financing of climate-aligned, nature-positive projects which are already investable.
2. Accelerating and 'crowding in' capital for projects where bespoke or novel financing regimes can help support their development.
3. Developing credible markets for investment opportunities without existing commercial pathways to investability.

New Zealand should also look internationally for examples of the types of financing mechanisms we are considering here at home. For example, the action plan agreed at the recent "2+2" meetings between Australian and New Zealand Ministers highlights the additional value which can be created through collaboration with international partners.

There are a wide range of case studies which can be investigated to understand how climate mitigation financing policy within Aotearoa New Zealand could be taken forward. These case studies are also included in our answers to the consultation questions below.

Q4.2 What are the three main barriers to enabling more private investment in climate mitigation?

Response:

1. A short-term focus

The Discussion Document refers repeatedly to meeting climate targets while minimising the costs to New Zealanders. We urge the Government to consider not only the short-term financial cost of taking climate actions, but the long-term economic, social, and environmental cost of missing out on the opportunities available.

Furthermore, the net emissions-based approach will only be feasible in the short-term. Over time, this approach will lead to an increased need to plant trees and/or to fund abatement offshore, sending investment capital out of New Zealand. A focus on short-term least-cost approaches also risks denying our local economy the social, ecological and economic benefits of spurring domestic climate mitigation projects and developing a supportive ecosystem of innovation and local talent here in Aotearoa.

New Zealand-based companies need to comply with our Emissions Reduction Plan and meet climate goals in order to maintain our international credibility on global capital markets (both equity and debt). Failure to do so will negatively impact our economy due to a loss of investment and loss of commercial opportunity for New Zealand-based companies.

2. A lack of consistency and clear leadership

The absence of a bi-partisan agreement towards a long-range climate mitigation plan continues to be a barrier to private investment in climate mitigation. The continuing shifts in government policy priorities between election cycles undermines investor confidence due to the high risk of sudden changes and lack of certainty. The absence of a unified political front on climate issues sends a discouraging message to potential domestic and international investors.

A mechanism which could help stabilise policy developments could be to secure bi-partisan support for the design of our national sustainable finance strategy, in the same collaborative manner in which the Zero Carbon Act was developed in 2018 and 2019. The Zero Carbon Act did not receive any dissenting votes in Parliament on its final passage and its framework retains public and political support.

3. Lack of long-term industry outcomes and objectives to facilitate investment

Clear direction at the level of key industry sectors is also currently absent. As a result, there is difficulty with funnelling private investment into emissions reduction projects on the ground at the pace required.

For example, the Government should continue to put effort and resources towards the development of a national energy strategy to at least 2050. This needs to set a future-focused, emission reduction-aligned direction for New Zealand's electricity, industrial heat and fuels sectors, enabling the development of a pipeline of renewable energy, electrification and other mitigation projects to which private investment can be directed.

Q4.3 What are the three main actions the Government can do to enable more private investment in climate mitigation for the next 18 months?

Response:

Note: In developing our response to Q4.3 we have considered actions as “short-term” that are foundational steps required before longer-term actions can occur, not necessarily those that will yield tangible outcomes or “quick win” benefits within the 18-month timeframe.

1. Market development

The Government has a key role to play in enabling credible, effective, and efficient markets for climate innovation and solutions. First and foremost, it has a role to provide policy settings that support efficient, credible, effective, and comprehensive markets. Another key role the Government can play is to look broadly at how economic, social, and environmental outcomes interrelate in New Zealand, and articulate the societal outcomes and behavioural changes we want to achieve, that such market-based tools should support.

Specific examples of short-term actions to help develop credible, comprehensive markets could include:

- Engaging with a private sector expert panel who can advise on the range of market-based tools available to drive the desired climate and societal outcomes we want to generate through voluntary markets that could help complement the NZ ETS.
- Aligning our markets with international settings provides a consistent framework for our exporters to follow domestically and internationally, builds our international credibility and our attractiveness to investment capital inflows.
- Investigating incentives and disincentives to ensure they align with our climate mitigation objectives.
- Ensuring current settings of the NZ ETS are aligned with the outcomes prioritised in the Government’s climate strategy, for example around land classes for NZ ETS forestry.
- Establishing an effective price floor for NZUs within the NZ ETS. This would prevent the price of emissions from falling too low, helping to incentivise investment in climate mitigation and remove downside risks.
- Facilitation of the development of investable products with risk-return characteristics which align with global capital markets’ expectations, as in the case of infrastructure funds.

2. Accelerate the national energy strategy work

As mentioned above, a key barrier to private investment in climate mitigation is the lack of clear direction at the level of key industry sectors. As a result, there is difficulty with directing private investment into projects on the ground at the pace that will help to accelerate emission reductions in New Zealand.

The development of a national energy strategy to 2050 and beyond is a key opportunity for helping to outline a pipeline of mitigation projects that private investors could participate in. The energy sector already contains project opportunities that sit across the investment spectrum, from proven, readily investable projects through to those needing support with viability or access to new markets. The kind of support the Government can provide to accelerate these projects will take different forms, from convening and helping to link up projects with investors, to backing lending for easier finance for businesses to deploy mitigation solutions.

Case Study 1: Queensland Energy and Jobs Plan

In September 2022 Queensland's Department of Energy and Climate published the Queensland Energy and Jobs Plan which outlines how the state plans to achieve its energy transition goals – which includes a $4 billion down payment from the Government.[1] The plan outlines which projects are currently in the energy pipeline and how Queensland will upskill the sector to deliver these projects.

By doing so Queensland has shown its commitment to the energy transition and highlighted the investment options to both domestic and international investors aiming to grow their ESG certifications.

How the New Zealand Government could incorporate the lessons from this case study:

New Zealand can learn from the Queensland approach to setting the strategy, driving implementation and achieving the renewables outcomes that they have articulated. The Queensland Energy and Jobs Plan provides clarity to the Government and investors about the size of the Queensland transition investment opportunity and the key enablers to deliver on the State's vision, including the geographies most conducive to solar and wind, the need for firming, the distribution and transmission investments required, the types and quantities of jobs that could be created and education and training pathways to support these new industries.

3. Develop a coordinated approach to facilitate climate, nature and transition investment

In order to achieve the mitigation outcomes in the ERP within the required timeframes, it is important to think broadly about the enabling and facilitating role the Government can play in encouraging and directing private investment into projects that will yield societal benefits. We encourage consideration of a 'single front door' approach where an appropriate government agency has the mandate, tools and expertise to act as a single point of contact to convene and fast-track the matching-up of suitable investors with quality emissions mitigation and nature-positive projects that align with New Zealand's emissions reduction plan.

[1] https://www.energyandclimate.qld.gov.au/energy/energy-jobs-plan/about-plan

We note that Invest New Zealand within NZTE currently has a role in understanding and facilitating the opportunities for investment inflows into New Zealand. Helping to find investors for climate mitigation projects across the full spectrum of investability could potentially be a part of their mandate.

Case Study 2: Australian Treasury's 'single front door'
In May 2024, the Australian Treasury announced that it would be establishing a new "front door" for investors with major, transformational investment proposals to make it simpler to invest in Australia and attract more global and domestic capital. The front door is part of the Treasury's Budgeted $22.7 billion investment into the "Future Made in Australia" package, aimed at maximising the economic and industrial benefits of moving to net zero. The front door will improve investment into the environment by streamlining how investors and business interact with the Government, helping them navigate approvals processes and fast-track major projects where possible.[2] **How the New Zealand Government could incorporate the lessons from this case study:** A single front door has the potential to help New Zealand combine benefits from the public and private sectors. Developing one in New Zealand has the potential to improve collaboration and coordination between the two by connecting investor capital with the Government's specialist investment support services.

Q4.4 What are the three main things the Government can do to enable more private investment in climate mitigation in the longer term (beyond the next 18 months)?

Response:

1. Build further upon the foundations for private investment in climate mitigation

Over the medium to longer-term, the Government should continue to collaborate and align internationally on:

[2] https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/establishing-single-front-door-major-investors

- The development of a sustainable finance strategy and a Green Taxonomy.
- Creating a regulatory environment that incentivises climate-positive investment and disincentivises climate-negative investment.
- Enabling access to quality data.
- Building scalable finance models across the investment spectrum such as blended finance, public-private partnerships, partial Crown guarantees, focused R&D or enterprise seed funding.
- The objectives of this collaboration should be to keep abreast of international developments, continuing to demonstrate leadership and ensuring 'NZ Inc.' is keeping up with the rising environmental performance requirements in our key export markets.

Other enabling areas of policy the Government could focus on include:

- Strengthening the NZ ETS and the market signals towards accelerated development and deployment of mitigation projects.
- Continuing to explore market-based approaches to financing nature outcomes.
- Reviewing the Capital Markets Taskforce 2029 recommendations.

2. Align its own activities with emissions reduction objectives

The Government's contribution to emission reduction is not limited to policy development. It can also leverage the scale and breadth of its participation in the economy and its own balance sheet to enable investment in mitigation, such as:

- Considering its ownership stake in investable assets – private capital into these assets could either fund decarbonisation or provide the Government with additional funding towards climate initiatives.
- Integrating green budgeting best practices as central policy-making decision drivers.
- Working to ensure that NZ ETS credits have sufficient status to be used in a wider range of financial products (as Australian ACCUs now do).
- Updating government procurement policies that incentivise climate mitigation outcomes.
- Monitoring and supporting Crown agencies and Crown Entities with meeting Government's expectations for emission reductions outcomes.
- Leveraging the Government's balance sheet to direct investment capital towards climate mitigation and nature-positive outcomes, for example through co-investment or partial guarantee to provide projects and investors with greater certainty.
- Acting as a co-investor or blended finance investor in mitigation opportunity development and projects to give greater confidence to private capital.

The Government should also consider ways of enabling capacity building that will be required to reach transition goals.

Case Study 3: Develop a pipeline of investable assets at scale

The recent Centre for Sustainable Finance: Toitū Tahua (CSF) work on Investing in Private Assets identified key barriers and challenges that may have limited or discouraged investment by KiwiSaver funds into private assets. If these barriers are resolved and the industry moves towards a larger allocation to private assets this will require a pipeline of investable assets in New Zealand. A relatively small allocation to private assets could see billions of dollars made to invest in this asset class. Investors have a genuine desire to allocate a significant proportion of these funds into New Zealand. However, consideration needs to be given to sourcing investable assets domestically.

The Government should ensure the right settings are in place for both central and local government to enable private investment flows into assets on their respective balance sheets at scale and pace. This would allow the creation of liquidity, balance sheet efficiency and the ability to fund assets at the lowest cost of capital.

The Investing in Private Assets work done through the CSF focused on investment by KiwiSaver providers and other investors into sustainable, long-term assets and infrastructure. Not all assets on central and local government balance sheets will directly support climate mitigation or adaptation activities. However, the funding generated (or a portion of it) could either fund decarbonization directly or be allocated to government investment in environmental and social objectives aligning to the recently announced climate strategy and the New Zealand Sustainable Finance taxonomy e.g. renewable energy, electrification of transport, roading (adaptation) and access to clean water.

Sydney Airport is an example of private investment. The airport is owned and operated by Sydney Airport Corporation Limited (SACL). SACL is ultimately owned by the Sydney Aviation Alliance (SAA) which is an Australian-led consortium comprising IFM Australian Infrastructure Fund, Australian Super, Australian Retirement Trust, IFM Global Infrastructure Fund and Global Infrastructure Partners.

Another example is the Ngāti Toa school purchase and long-term lease back to the Government. The initial deal equates to a total of approximately 144 hectares, making Ngāti Toa the largest landlord of the Ministry of Education. The deal involves lending partners funding the majority of the $352 million purchase, rather than using iwi cash assets. While the iwi will not see any income for the next 25 years due to loan repayments, it ensures that future generations will be in a strong financial position and benefit from a steady income in perpetuity.

How the New Zealand Government could incorporate the lessons from these examples: Specific deal structures would need to be developed, however there are a number of assets within central and local ownership that could be of interest to investors. These include electricity companies, schools, hospitals, roads and digital assets (e.g. licencing). A specific example from the energy sector could be for the central government to sell its share of New Zealand's electricity companies to a collective investment vehicle or long-term investor with capacity to provide support to private equity investments, such as Guardians of New Zealand Superannuation fund. The deal structure could also include other institutional-level long-term investors and an option for the Government to buy back after a specified timeframe.

3. Participate in targeted financial solutions for projects at different commercial stages

There is an opportunity to customise the Government's role as a long-term, social investor in projects at different stages of pre-commercial and/or commercial readiness. For example, while many mitigation activities in the energy sector are investment ready, areas like biodiversity and the development of Nature-based solutions currently do not have clear investment pathways and require assistance with financing models and options.

Consequently, we see value in the Government working to identify where government capital is necessary, and exploring the opportunity for co-investment or blended models, and where private sector-led financial solutions should be deployed. This work should include engaging with the private sector to determine opportunities for innovative financing models to enable projects to access investment, particularly in energy and other key transition sectors before deploying across others.

An example could be to create an initial climate investment pool of circa $10 billion funded through government debt issuance (i.e. NZDMO). The government bonds would be issued as normal into the global financial market. The cash raised from the issuance could be ring-fenced by the Government for the dedicated purpose of the climate investment pool. The Reserve Bank could also assist the funding of the initiative in the primary or secondary market through direct holdings in its reserves portfolio. (The Reserve Bank is a current owner of Bank of International Settlements (BIS) 'Green Bonds' for example). The recipient(s) of the investment pool would be mandated by the Government to invest on a commercial basis in projects aligned with the Government's priorities. All investments would be aligned to climate adaptation and reduction goals - as per a pre-agreed investment mandate and success criteria.

Case Study 4: Term Lending Facility (TLF)

In May 2020, RBNZ established a Term Lending Facility (TLF) which was made available to banks and provided access to long-term funding at low interest rates to support bank lending under the Business Finance Guarantee Scheme (BFGS). The facility was made available at the Official Cash Rate with high quality collateral pledged by the banks to support the facility.

The establishment of a TLF to support lending to climate-related initiatives could operate in a way that was similar to the TLF providing funding for the BFGS i.e. a climate-related TLF could support lending provided by banks under the cover of a Crown Guarantee. As with the original TLF, the period during which the facility was made available could be subject to review to ensure the size remained appropriate and the flow of funds through to the underlying climate related initiatives was evident.

The benefit of a climate TLF facility, aligned to the Clean Energy Finance Corporation (CEFC) approach in Australia, is that the funding is originated centrally to support private sector investment, and the banks (and other funding specialists in the Australian model) use their existing origination processes and market relationships to deliver that funding into the economy.

How the New Zealand Government could incorporate the lessons from this case study: This approach has precedent in New Zealand and could be used to boost climate investment in key transition sectors by unlocking capital for projects of a type or stage where the risk is inherently high. Further factors to consider in the local context for this might include the role of the sustainable finance taxonomy in guiding project eligibility for access to funding, as well as its role in reporting on and managing the overall scheme.

Q4.5 Please provide any additional feedback on the Government's thinking about how to enable more private investment in climate mitigation for the next 18 months.

Response:

There is no shortage of global capital for investment in green opportunities in New Zealand. The flows of global investment finance into Australian infrastructure and decarbonisation investment opportunities demonstrate the importance of well-prepared investment products and market processes. Government and private sector working strategically and collaboratively on a long-term Compact for Australia has ensured that those flows of capital are optimised.

To date, the New Zealand Government and private sector have not approached this transformation opportunity strategically and have not put in place the facilitation mechanisms identified in this submission that are needed to scale up our investment infrastructure to a level that matches the scale of mitigation actions we require.

We look forward to working with the Government as it takes up the following key roles to facilitate private investment in climate mitigation:

- Accelerating capital for climate-aligned, nature-positive projects which are already investable.
- Helping innovation for projects where bespoke or novel financing regimes can help support their development.
- Developing credible markets for investment opportunities without existing commercial pathways to investability.
- Identifying clear pathways for future decarbonisation of key sectors in New Zealand to drive scale
- Securing multi-party alignment for delivery of the decarbonisation pathways across the local political spectrum.
- Proactively collaborating with other governments and engaging internationally on the many positive and forward-looking opportunities for investment in New Zealand to global capital providers.
- Developing a high quality 'front door' to streamline investment, thus increasing confidence and reducing time frame and risk for investors.

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