

Submission to:

**Manatū Mō Te Taiao |
the Ministry for the Environment**

On document:

**Te mahere urutaunga ā-motu
(tuhinga hukihuki)
Draft National Adaptation Plan**

3 June 2022

Re: Draft National Adaptation Plan: Te mahere urutaunga ā-motu (tuhinga hukihuki)

Tēnā koe Ministry for the Environment,

Thank you for the opportunity to comment on our draft National Adaptation Plan Te mahere urutaunga ā-motu (tuhinga hukihuki).

Toitū Tahua: Centre for Sustainable Finance (the Centre) broadly supports the need for an adaptation plan and for it to be enabled by an effective, sustainable funding and finance strategy.

The March 2022 IPCC report into climate change adaptation, impacts and vulnerability, made clear that Aotearoa New Zealand, with the rest of the world, has a brief and closing window of opportunity to secure a liveable future through climate change mitigation and adaptation. The IPCC has also highlighted that current commitments put humanity on a 3.2 degree trajectory, and reminded us that adaptation without mitigation is an insufficient response.

Keeping within 1.5 degrees will require reaching peak emissions in 2025. Projected warming under current global emissions reduction policies would leave many human and natural systems at very high risk and beyond adaptation limits.

New Zealand scientists proposed that the required steep emission cuts and adaptive responses will take unprecedented, genuine collaboration between central and local governments, the private sector, indigenous peoples, and all communities.

This reasoning is very much in line with our previous submission on discussion document 'Te hau mārohi ki anamata | Transitioning to a low-emissions and climate-resilient future'. The present submission builds on the previous. Our most urgent and critical message was, and continues to be, the need for private and public sector leadership and collaboration in funding and financing the equitable and fair transition to net zero by 2050.

Key points in the present submission are:

- We strongly support government leadership in the provision of data and data infrastructure to enable equitable access to climate and nature-related data and insights.
- We recommend developing a strategic framework for sustainable investment, which will set out a coherent narrative and logic, provide visibility over which activities are considered sustainable (thereby helping to avoid greenwashing) and create incentives for reporting entities, investors and capital providers to be transparent and honest.
- We encourage further consideration of the full role of the insurance industry in adaptation and mitigation.
- We support further guidance for the entities the RBNZ regulates, fund managers and all relevant financial service providers.

- We encourage the active, formal, mandated participation of public officials in industry partnership networks and international platforms.

We offer our support and engagement to work with Government and other stakeholders on this.

**Ahakoia ko hea tāua haere atu ai. Ka kōkiri tahi tāua.
Regardless of where we go on this journey, we'll go together.**

Ngā manaakitanga,



Bridget Coates
Chair



Jo Kelly
CEO

Toitū Tahua: Centre for Sustainable Finance

This document is structured to provide concise answers to relevant questions in the National Adaptation Plan discussion document, Te mahere urutaunga ā-motu (tuhinga hukihuki).

Grey boxes indicate those actions and questions posed in the consultation document to which we are responding.

If you would like to discuss this submission please contact Nicola Shephard (nicola@sustainablefinance.nz)

Toitū Tahua: Centre for Sustainable Finance (the Centre) was established to accelerate progress toward a sustainable financial system in Aotearoa New Zealand. This requires significant acceleration of public and private sector initiatives.

The Centre is an independent conduit between public and private sector organisations, providing leadership and coordination. Through Implementation Groups the Centre convenes and drives cross-sectoral sustainable finance projects.

Critical Action SW2: Provide access to the latest climate projections data

Timeframe: Years 1–2 (2022–24) – **Lead agency:** MBIE – **Relevant portfolio:** Building and Construction – **Primarily supports:** Objective SW2 – **Status:** Current

The National Institute of Water and Atmospheric Research (NIWA) Projections Project is working to make the global climate projections from the most recent Intergovernmental Panel on Climate Change (IPCC) report (AR6 – WG1) more applicable to New Zealand. This will provide New Zealanders with the regional and local climate projections data they need to assess future climate risk and make adaptation decisions.

By June 2024, national climate projection datasets for New Zealand are made available and deliver a product that enables end-users to appropriately measure climate change risk.

Critical Action SW2: Design and develop an Adaptation Information Portal

Timeframe: Years 1–6 (2022–28) – **Lead agency:** MfE – **Relevant portfolio:** Climate Change – **Primarily supports:** Objective SW2 – **Status:** Current

The Adaptation Information Portal will be a national hub of all available climate data and information. One aspect of the portal will be to collate information, including mātauranga Māori (where appropriate), for iwi/Māori climate decisions. New Zealanders will be able to understand and assess their climate risk, find solutions and share best practices.

The design of the portal will carefully consider other related initiatives, such as the Earthquake Commission's (EQC's) Risk and Resilience Portal (which will provide public information on natural hazard risk – including natural hazards exacerbated by climate change). The Ministry for the Environment (MfE) will work with EQC on a joint approach to making more natural hazard and climate data available to the public in an aligned and consistent way.

By the end of 2023, a design scope and delivery plan will be complete and user needs defined.

Supporting Action SW2: Complete the Data Investment Plan project

Timeframe: Years 1–6 (2022–28) – **Lead agency:** Stats NZ – **Relevant portfolio:** Statistics – **Primarily supports:** Objective SW2 – **Status:** Current

The project recently completed a stocktake of essential datasets across central government and prioritised data gaps for investment. Climate data gaps may be filled by acquiring new data or making existing data fit for purpose.

As in previous recommendations, including the Sustainable Finance Forum’s Roadmap for Action¹ and the Centre’s submission² on ‘Te hau mārohi ki anamata ITransitioning to a low-emissions and climate-resilient future’, we strongly support government leadership in the provision of data and data infrastructure to enable equitable access to climate and nature-related data and insights.

We note that there is significant international discourse linking climate adaptation to natural capital risks and considerations. We recommend careful consideration of nature-related data and information, through both mātauranga Māori and non-Māori knowledge systems, in the design of data systems and infrastructure.

Toitū Tahua has recently undertaken a research project related to agricultural data, in part to support uptake of the Sustainable Agriculture Finance Initiative (SAFI). We draw your attention to the SAFI data project findings paper³, which identifies key considerations in the development of data infrastructure. Among these are equity, access, data interoperability and privacy.

This research finds that in order to support strategic decision making and adaptation, access to climate data must not be restricted only to large organisations that can pay for the data and resource the necessary expertise to interpret it for decision-making. Climate information should be available to those individuals and small and medium-sized organisations that face the risks first hand.

Given the critical role of data in sustainable strategic decision making, and the benefits of this information on climate risk disclosures and management, we propose that a 1-3 year timeframe for critical data infrastructure is more suitable than a 1-6 year timeframe.

Proposed Future Work - SW2: Explore definitional tools to support greater investment

Timeframe: Years 1–3 (2022–25) – **Lead agency:** MfE – **Relevant portfolio:** Climate Change – **Primarily supports:** Objective SW2 – **Status:** Proposed

This will explore the potential benefits of a ‘green’ taxonomy to identify a common definition of climate positive investments. This could help support and guide businesses investing in both adaptation and mitigation to protect against greenwash and – if aligned with international best practice – could support greater international investment in New Zealand’s climate-resilient projects.

¹https://static1.squarespace.com/static/60c02ff322ae60116ad716c7/t/618cacabfa79230484402b4b/1636609203884/20207-000234_Sustainable%2BFinance%2BForum%2BFinal+%281%29.pdf

²<https://www.sustainablefinance.nz/updates/centre-for-sustainable-finance-submission-on-the-emissions-reduction-plan>

³ <https://www.sustainablefinance.nz/safi/#data-options-paper-1>

Proposed Future Work - SW2: Explore additional interventions to mobilise investment

Timeframe: Years 3–5 (2024–27) – **Lead agency:** MfE – **Relevant portfolio:** Climate Change –
Primarily supports: Objective SW2 – **Status:** Proposed

The Government intends to review the national adaptation plan in years 2 and 4 to assess progress and gaps. Alongside this, the Government will consider what further steps may be needed to support investment in resilience.

Question 13: In addition to clarifying roles and providing data, information, tools and guidance, how can central government unlock greater investment in resilience? Would a taxonomy of ‘green activities’ for New Zealand help to unlock investment for climate resilience?

Our answer to this question is yes, further classification of green activities, along with greater clarity about where our economic activities align to international classifications, will help unlock investment for climate resilience.

We recommend developing a strategic framework for sustainable investment, which may include considerations of taxonomies, labels and portfolio alignment guidance and metrics, corporate strategy and disclosures (such as the voluntary guidance and climate related financial disclosures developed by the XRB) and transition considerations. This framework would ideally set out a coherent narrative and logic, provide visibility over which activities are considered sustainable (thereby helping to avoid greenwashing) and create incentives for reporting entities, investors and capital providers to be transparent and honest.

This would provide:

- A platform for comparability and reduced risk – through objective definition of key economic activities that are and aren’t sustainable, in line with developments in other regions (taxonomies).
- Clear expectations for companies and entities that are claiming to be on a long-term credible transition pathway (i.e. transition plan requirements). These taxonomies also set minimum standards in risk management, for example, they generally require a physical climate change risk assessment plus adaptation plan to be implemented. This helps direct our capital into climate resilient investments.
- Standards and expectations for investors and capital providers making claims about sustainable finance.
- A predictable process by which we can collectively monitor what is happening and seek reasonable assurance over statements of fact.
- Tools for market transparency that give credibility to investments and help counteract greenwashing.

In the broader context of a sustainable investment framework, taxonomies are increasingly recognised as core components of a sustainable financial system. They provide objective definitions of the economic activities that are considered sustainable in a given region.

Sustainable finance taxonomies are being developed in other regions (Europe, China, Australia and Japan) including major export markets, and deployed by investors that could potentially enable Aotearoa New Zealand's transition. In time, to maintain access to these markets, NZ companies and investors will need to be able to demonstrate alignment with these classifications.

As well as taxonomies there are a number of other standards and principles that investors and capital providers are putting into practice. A New Zealand sustainable finance framework, which enables effective alignment with relevant frameworks, principles and definitions, and is developed in partnership with local market participants, will have the following benefits:

- Enable us to collectively understand what is actually happening.
- Help spur innovation in financial products and services by providing clarity.
- Help ensure New Zealand exporters retain access to international markets.
- Prevent domestic investors from losing access to international capital.
- Reduce transaction costs resulting by increasing clarity about alignment with international and domestic guidelines and definitions.
- Enable investors to align decision making with sustainability objectives - and international priorities - and shift allocations to more sustainable activities over time.

We commend and strongly encourage continued engagement of New Zealand public sector representatives in the International Platform on Sustainable Finance, and recommend this engagement be extended to Treasury given their primary role in government capital allocation. Until such time as an overarching framework is developed, we look to government and Treasury to collaborate in the development of practical guidance, tools, definitions (where necessary) to help secure and ensure capital that supports New Zealand to meet our sustainability and climate adaptation objectives.

Impacts we are seeking to address:

Infrastructure, business and housing assets are becoming less insurable

Some assets could become uninsurable (creating further risks if they are used as collateral). The value of buildings exposed to coastal flooding could increase from NZ\$12.4 billion now to NZ\$26 billion for sea-level rise of 0.6 metres, and NZ\$44 billion at 1.2 metres (Paulik et al, 2019).

Insurance retreat would likely reduce private and public asset values, making households and firms or public entities less able to invest in adaptation.

There are likely to be more insurance claims, greater damage repairs and higher premiums. Claims for extreme weather events hit a record \$321.6 million in 2021, breaking the record last set in 2020 at \$274 million (Insurance Council of New Zealand, 2021).

Insurance plays a mix of roles in our economy, and we encourage greater exploration of this in national adaptation and mitigation planning.

Insurers not only fund recovery and adaptation, they also enable trade, underpin bank lending and help to make risk management more efficient. Reducing uncertainty for the insurance industry helps to protect against retreat and ensure continued access to international capital and affordable insurance products that are readily available for all.

We encourage continued and increased government collaboration with the insurance industry to establish greater clarity on the broader role of insurance providers, and necessary conditions for their full participation, in adaptation and mitigation.

We also encourage further clarity on answering questions such as ‘who will pay for adaptation actions’ as uncertainty will further delay action. Developing innovative solutions to co-fund adaptation programmes needs to be prioritised by Government.

Disrupted supply chains

Local and global supply chains are critical to the functioning of the economy. Supply is subject to disruption from extreme weather (eg, flooding, power outages) and longer-term climate changes that reduce the supply of certain goods.

Disruptions can range from the very local (eg, a washed-out road to a major tourist site), to major freight hubs, through to global distribution networks. The Intergovernmental Panel on Climate Change (2014) suggests the effects of climate change globally (and flow-on effects to our supply chains) may be more significant to our economy than the direct impacts within New Zealand.

We strongly urge the consideration of flow-on effects to our exporters and economy of misalignment with international investor and customer expectations and standards as taxonomies and sustainable finance requirements develop in other regions.

Reduced financial stability

Financial stability means having resilient banks, insurers and other financial institutions. It means we have a system that can withstand severe but plausible shocks and continue to provide the services we all rely on.

One of the main ways climate change creates risks to stability is through the physical impacts on collateral (e.g., extreme weather damaging assets, such as residential housing or farmland).

The transition to a low-emissions economy may also undermine the financial system if it leads to significant shifts in asset values or high costs of doing business.

Critical Action EF2: RBNZ supports the stability of the financial system

Timeframe: Years 1–2 and ongoing (2022–24) – Lead agency: RBNZ – Relevant portfolio: Finance – Primarily supports: Objective EF2 – Status: Current

The Reserve Bank of New Zealand (RBNZ) is taking action to help regulated financial entities better identify and manage climate risks. These include:

- Introducing climate-related stress tests that model the effect of severe but plausible scenarios on the balance sheets of regulated financial institutions.
- incorporating climate change in scheduled supervisor engagements with the management and boards of regulated entities.
- developing guidance on managing risk for the entities the RBNZ regulates.
- By August 2024, the RBNZ will have climate change considerations increasingly integrated into its supervisory, stress testing and policy work.

We support further guidance on managing risk for the entities the RBNZ regulates. More specificity and guidance by RBNZ on risk weightings in capital adequacy models with respect to green and sustainable investing and lending activities by the NZ banks would potentially support and encourage appropriate adaptation and transition within the Aotearoa New Zealand business community.

We propose that further guidance should also be made available to a broader group of market participants operating under a sustainable investment framework, including fund managers and all relevant financial service providers.

Future Work Programme EF1: Promote more industry partnership networks

Timeframe: Years 1–6 (2022–28) – **Lead agency:** MBIE – **Relevant portfolio:** Research, Science and Innovation – **Primarily supports:** Objective EF1 – **Status:** Proposed

This action will pool knowledge and resources to solve sector problems. The partnerships will recognise the complexity and interrelatedness of climate adaptation issues, and the need for sophisticated networks to test, scale up and spread innovation to help address climate risks. These networks will speed up the connections and relationships needed to implement change at pace.

In line with previous submissions, we strongly support increased promotion of industry partnership networks. In addition to promotion, we encourage the active, formal, mandated participation of senior public sector representatives in these networks.

We have observed a significant shift in the attitude of industry and financial sector leaders and an increased desire to collaborate that is not (as yet) matched by the public sector at a coordinated, systemic level.

We have also observed tremendous, demonstrable commitment from individuals within the public sector. However, we must highlight the significant existing challenges of cross-agency

collaboration within government. We also highlight the lack of transparency, coordination and accessible partnership pathways between government entities and non-government networks and organisations.

There is a great opportunity to get things done.

We offer our support and engagement to work with Government and other stakeholders on this.

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