

8 June 2018



Low-Emissions Economy  
New Zealand Productivity Commission  
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New Zealand

## **Guardians of New Zealand Superannuation (GNZS) response to the New Zealand Productivity Commission's Low-Carbon Economy Report**

We welcome the opportunity to comment on the New Zealand Productivity Commission's Low-Carbon Economy Draft Report.

We support a long term policy framework that delivers certainty for companies and investors and one that provides a robust price signal to help manage climate change risks.

Climate change resulting from global warming exceeding the 2 degrees Celsius trajectory present significant risks to the global economy. It is therefore essential, from an economic perspective, that the Nationally Determined Contributions (NDCs) under the UN Framework Convention on Climate Change are met.

We are a global investor with a long-term mandate to help fund New Zealanders' future superannuation payments. Over our investment horizon, we are, and will increasingly be, exposed to climate change risks across our New Zealand and global portfolios. We have developed a [climate change strategy](#) to help manage these risks, in particular, risks arising from being on the wrong side of strengthening policy action or disruptive technologies<sup>1</sup>. We believe that both of these risks are relevant to the New Zealand economy.

We have significant investments in New Zealand, extending across farms, forests, infrastructure, property, private equity and listed companies. It is in the short and long-term interests of the Fund to support a transition to a low-carbon economy which will ensure a productive economy. We see new investment opportunities arising out of the response to climate change.

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<sup>1</sup> *Investing in a time of Climate Change* (2015) Mercer Investments (Australia) Ltd Report.

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There are three New Zealand sectors where clear regulatory and market signals are required to speed the transition to a low-emissions economy: Transportation, Agriculture (including Forestry), and Property (residential & commercial).

The electricity sector is also important, but the challenge is in maintaining the renewable energy leadership we have, compared to other countries, in the face of population growth and the electrification of our transport system. On the opportunities side, we should also leverage the brand benefits from our low-carbon grid for our manufacturing and service industries.

Well-managed companies are those which prepare strategies to manage costs and derive benefits from energy savings, new products and changing consumer demand as the world shifts to a low-carbon economy. Regulation should act as a catalyst for change and be useful in levelling the playing field where necessary.

The key points in our submission are as follows:

- *Cross-party support is key to encouraging private sector change and investment flows – an independent climate change commission may help.*
- *NZ should capitalise on its low-emissions grid by: electrifying its rail and car fleet; promoting low-carbon manufacturing and exports; investing in a world-class mass-transit system for passengers and freight and improving existing infrastructure.*
- *In addition to the NZ Emissions Trading Scheme (NZ ETS), use other existing regulation and standards including:*
  - *improving the NZ Building Code standards for energy efficiency.*
  - *improve the emissions standards for vehicles, including vehicle imports.*
- *The NZ ETS is the main tool for incentivising afforestation and emissions reductions from emitters. Currently the NZ ETS is not adequately incentivising more forestry. A properly functioning ETS is essential for our low-emissions transition.*
- *Encourage innovation in solar and battery storage for homes and incentivise electrical vehicle (EV) uptake.*
- *Government procurement policy should be reset– having requirements for energy star ratings in the buildings it occupies and owns (including council homes), transitioning to EV car fleets and car sharing services.*

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- *Ensure the build out of wind, geothermal and solar, including domestic solar, to prepare for population growth and the impact of drought on hydroelectricity.*

## Feedback on Low-carbon Economy Report.

### Chapter 6. Investments

Comments on Recommendations:

Recommendation:

**R6.4**

The Government should develop, in conjunction with interested parties including the private sector, a low-emissions investment 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 or the NZ Super Fund);
- the role of financial sector regulation in supporting the low-emissions transition; and
- what constitutes low-emissions investment, with the aim of identifying a clear taxonomy of measurable investment flows.

F6.1 - The report finds that to ensure adequate investment for the transition to a low-emissions economy the Government must provide a stable and credible climate policy which may also require intervention.

We agree that some intervention will be necessary and helpful, however, the Government must be measured and cautious of playing its hand too strongly or without early guidance. That is, clear signalling by Government well in advance of action would be crucial to ensure it does not undermine the ability of the private capital markets to re-allocate capital towards attractive opportunities and adapt to ETS measures. The policy settings should be able to leverage the private sector without introducing unnecessary investment risk.

R6.2 – We agree the Government should officially endorse the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

R6.3 – We agree that current disclosure requirements under the Companies Act and NZSE are not sufficient. We would support government regulations for mandatory disclosures on

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climate-related information, within reason and as applicable to individual industries and companies (it may not be a one-size-fits-all requirement). It may be that this is better structured as a new bespoke reporting obligation, rather than bolting it on to existing regulatory mechanisms (e.g. annual reports, which in many cases are not required as a matter of law and if prepared are not necessarily publicly available).

R6.4 – NZSF would welcome the opportunity to play a role in a low-emissions investment strategy for New Zealand. In doing so, institutional investors need to meet their mandates and fiduciary duties in delivering financial returns. The government will not be able to change the fundamental principles of institutional mandates – and nor should it try to. Instead, climate change is already established as an issue that institutional investors have a responsibility to consider and manage in order to protect their investments.

In this respect, NZSF has developed a Climate Change Investment Strategy<sup>2</sup> which is consistent with our mandate and long-term financial objectives. Our strategy includes actively seeking investment opportunities in climate solutions where these meet our return hurdles and expectations. We recommend that the Government works with institutional investors to understand the characteristics, including delivery of market-rate returns, that would encourage a sustainable flow of institutional funds into climate-related opportunities. Please see response to previous submission to Q23 of Inquiry in September 2017.

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<sup>2</sup> <https://www.nzsuperfund.co.nz/how-we-invest-balancing-risk-and-return-climate-change/climate-change-strategy>

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### Chapter 10. Q. 10.1.

#### Chapter 10 – Land use

**Q10.1**

What are the advantages and disadvantages of the following options for a point of obligation for agricultural emissions within the NZ ETS?

- Full processor level
- Full farm level, only including farms above a minimum size threshold. A point of obligation at the processor level could be used for farms beneath the threshold and for all horticulture and cropping
- Farm level for dairying, only including dairy farms above a minimum size threshold; processor level for sheep and beef cattle (and other livestock) farming, and for horticulture and cropping.

What other point of obligation approaches should the Commission consider?

**Q10.2**

With developing technology and aggregation for accounting purposes, is it technically feasible and would it be cost-effective to include small areas of planting (such as riparian planting) within the NZ ETS?

We support the Commission's Recommendations 10.3 and 10.4 to bring Agriculture in the NZ ETS, with support to address international competitiveness through phased free allocations taking account of overseas action and the development and availability of mitigations options.

#### **Q 10.1**

The point of obligation for agricultural emissions should be at the Full Processor level, bringing a wider range of opportunities to reduce emissions across the milk production supply chain.

The Commission's recommendation 8.1, on managing short-lived and long-lived gases, will be pertinent here in meeting New Zealand's greenhouse gas emissions reductions goals. Nevertheless, it is important that New Zealand aligns with the international framework for GHGs, including methane, in meeting its overall goals, and does not introduce unnecessary complexity at this level.

We are supportive of Government investment in R&D that seeks to understand the co-benefits of emissions reductions. Part of this R&D should consider ways of rewarding farmers for the co-benefits that their emissions reductions generate. This is one way of helping to compensate for and encourage best practice.

Future entry into the ETS should generate incentives for agricultural businesses, including suppliers to leverage government research programmes, to plan for offsetting activities

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(where applicable), and to drive best land use. For example, bringing small tree lots or riparian planting into the ETS would be such a co-benefit, but the cost of registration for such a scheme is currently prohibitive.

### ***Q10.2***

Bringing small areas of planting into the NZ ETS should be scientifically feasible in terms of measuring carbon offsets. It would depend, to a great extent, on the Government's and industry's ability to implement Recommendation 10.7. While we support this recommendation to refine the NZ ETS to make it cost-effective for small foresters to participate, we believe it should be more ambitious. In our view it should seek to overcome the registration and administration hurdles and costs for even smaller areas, such that it could be applied to smaller tree lots and riparian planting, so encouraging management of the carbon footprint of land-use at the farm level.

We support the recommendation to provide recognition for carbon sequestered in harvested wood products, although this should align with and be part of international protocols.

### ***Q 13.1***

The question of whether Fonterra should refuse milk supply sits with its cooperative members and/or is a monopoly consideration.

We do not believe this decision should be driven by direct policy intervention of this sort. The primary source of emissions from Fonterra's processing and operational activities is coal use for generating energy at its plants. We recognise that servicing its cooperative members has led to the location of new processing plants, dependent on distributed power, with coal the cheap option at the time, in areas underserved by the Grid. The Government could consider how the energy grid with its largely renewable energy source can be better leveraged to service New Zealand's main industries, including in remote areas.

## **Electricity Sector**

The Commission's findings and recommendations in relation to transport and electricity are well researched and sensible. We also note that the Electricity Authority is doing work on how to accommodate new technology into the grid and price it appropriately.

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As noted above, extending the reach of the low-carbon grid to promote low-carbon manufacturing should be a focus, and is a potential opportunity for the “NZ brand”.

We do see the price of Electronic Vehicles (EVs) falling and expect to see imports, so a fast-charging network should develop to meet demand. The findings around how to manage and absorb this demand into the grid so that it doesn't have a perverse effect of requiring more peaking power requires focus and strong cross industry and regulatory planning.

Regardless of the challenges, electrifying rail (as well as road vehicles) should also be part and parcel of New Zealand's long-term infrastructure planning (see below).

## **Transport**

As we have previously submitted, the first priority of a credible climate change strategy in any country is improved public transport and a modern rail network for passengers and freight. Given the significant productivity gains from an efficient, low-emission, mass-transport system, a more detailed discussion of the role of New Zealand's public transport network and how these objectives can be achieved, is needed.

We believe that the section on improving public transport infrastructure should be the beginning of the discussion, and upfront in the report.

The findings and recommendations still place more emphasis on EVs. There is a clear role for EVs to play; however, there should not be a reliance on a single technology option to reduce our national transport emissions. The focus on EVs actually reinforces the status quo of car and road transport dominance over policy.

This is recognised by the Commission and we support the report's recommendation that the Government Policy Statement on Transport has reducing emissions across the system as its focus.

There is a contradiction in the report - it states in one section that the use of public transport and cycling provide relatively small emissions reductions, whereas globally, cities see this as essential to reduce emissions. Section 11.9, on the other hand, explicitly deals with efficient

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investment in infrastructure for low-emissions transport, in particular addressing the dominance of roads over rail.

### **Buildings and Infrastructure**

We believe the Low-carbon Draft Economy Report falls short on its recommendations. We refer to our previous submission to the Inquiry. New Zealand's Building Code is outdated and behind Europe, UK and Australia and the Report should set out clear recommendations for the update of the Building Code. We support the recommendations from the NZGBC submission to the New Zealand Energy Efficiency and Conservation Strategy 2017-2022 (MBIE) for the Government to commit to setting a timeline for reviewing and updating the New Zealand Building Code<sup>3</sup> particularly on insulation, ventilation and lighting requirements.

Previously the Government had included energy efficiency standards for procurement of Government buildings and tenancies. We agree that these requirements should be reintroduced. Australia has maintained such requirements in the state sector, resulting in more attractive investment for investors. Meeting green standards maintains the broadest market of tenants and tenancy flexibility.

Whilst outside the scope of this inquiry, adaptation to flood and coastal inundation should also be built into building and planning standards to ensure a resilient and insurable residential and commercial property sector and protect essential infrastructure.

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<sup>3</sup> NZGBC submission to the draft New Zealand Energy Efficiency and Conservation Strategy by MBIE February 2017