Submission to the Ministry for the Environment on the Emissions Reduction Plan: *Te hau mārohi ki anamata - Transitioning to a low-emissions and climate-resilient future*

Guardians of New Zealand Superannuation

November 2021

Thank you for the opportunity to provide feedback on the consultation document *Te hau mārohi ki anamata - Transitioning to a low-emissions and climate-resilient future* to help shape New Zealand's first emissions reductions plan. We support the Government in setting clear emissions reduction budgets, and the Ministry for the Environment in producing this discussion document and undertaking a wide consultative process. We also recognise the work of our membership organisations taking part in this consultation, including IGCC and Toitū Tahua, and broader stakeholder participation.

The Guardians of New Zealand Superannuation (Guardians) is a Crown entity that manages and invests the New Zealand Superannuation Fund (NZ Super Fund) to help pay for the increased cost of universal superannuation entitlements in the future. As at November 2021, the Fund totalled $60 billion, of which, approximately $8.7 billion is invested domestically, including in New Zealand's primary sector. More information about our approach to investing in New Zealand is available here.

As a fund with a very long investment horizon, the impact of climate change on our portfolio is of central concern. For more than a decade, we have made it a priority to consider how the Fund's investment portfolio, and the companies we invest in, should respond to the risks and opportunities stemming from climate change.

The Climate Change Commission's final advice estimates that taking action to tackle climate change will reduce New Zealand's GDP by 1%. Given the severe impacts projected to occur if climate change is not limited to 1.5°C, it is clear that taking action to mitigate emissions is in the long-term interest of New Zealanders. While we expect the emissions reduction plan to have significant implications for some of our assets, we recognise the cost of inaction would have a much greater impact. We support ambitious and immediate action.

Earlier this year, the Crown Financial Institutions (CFIs) welcomed the introduction of the Crown Responsible Investment Framework, which provides for the CFIs to transition their portfolios and commit to net zero emissions by 2050. The NZ Super Fund has signed up to the Paris Aligned Investment Initiative's Net Zero Asset Owners Commitment, a global best practice framework designed to help us achieve net zero carbon emissions by 2050. The Guardians manages a large fund, which is projected by the Treasury to be worth $330 billion in 2050. To transition a fund of this scale and complexity to net zero, without compromising long-term investment returns, is a challenging and demanding task.

It is not possible to get to net zero by simply excluding carbon-intensive companies from the Fund. In order to achieve our emissions commitment, we will need companies from all sectors of the economy to make net zero commitments of their own and develop plans to get there. To contribute to this we will continue to engage with our investee companies to assist them in reducing their emissions. We will also be working with our external investment managers to ensure they are engaging with companies in portfolios managed on our behalf. It is through this collective effort that the ambitious level of systemic change required will be achieved.

As noted in the consultation document, finance is an important catalyst in this area, both in terms of lowering emissions, and in driving the innovation that will contribute to building the path towards a low-emissions global economy. To fulfil this role, we acknowledge the need for significant and sustained investment, and we are committed to continuing to identify and invest in climate change-related opportunities.

The consultation document notes the role of the Government in acting as catalyst to boost private sector investment. This is crucial, and requires greater emphasis. In our view, the future emissions reduction plan must include clear signals from Government to industry that immediate investment to unlock opportunities to reduce future emissions is necessary. To be effective and efficient this needs to be done in a way which incentivises businesses and investors to select the most efficient solution for themselves, rather than locking in a particular solution through regulation.

While New Zealand has plentiful land, there is a risk that excess forestry credits could forestall the incentive to make meaningful emissions reductions. However, given that the world is a long way from a 1.5^{o} pathway, it is imperative that the country both reduces emissions as fast as possible, as well as sequestering as much carbon as possible. In relation to the latter, it is important to ensure that that carbon is locked up for the long-term, either through permanent forests or long-life wood products.

Therefore, the Government will need to remove the risk of an oversupply of forestry credits domestically while continuing to incentivise the planting of trees. There are a number of ways in which this could be achieved, for example, by linking carbon markets with other schemes, or by providing a grant scheme as an alternative to access to the Emissions Trading Scheme. To achieve the necessary balance it will also be important that foresters are rewarded for the life of their wood products post-harvest rather than being provided an industry average.

It is our related submission that care needs to be taken to ensure that an overly-narrow, climate-centric approach to emissions regulation and standards is avoided. Such an approach involves the very real risk of driving perverse, unintended outcomes in wider social and environment arenas – especially so for disadvantaged people and/or native flora and fauna. We must embrace this opportunity to invest in a coordinated ‘Triple Transition’ towards sustainability across the related spheres of climate, nature and society.

In both the infrastructure and primary sectors there are a number of specific policy issues which need to be considered. The remainder of our submission focuses on these areas.

Infrastructure

Infrastructure should be a central consideration, driven both by the need to adapt to climate change challenges and in light of the significant infrastructure deficit the country faces today.

Investment in the right types of infrastructure can help accelerate carbon reduction in transportation and energy systems, support higher density urban development, and provide resilience to increased natural hazard risks such as floods and coastal erosion.

We believe a focus on infrastructure, in terms of both innovation and delivery, has an important role to play in driving early action in sectors where solutions are clear, while also unlocking options for further emissions reductions. In an increasingly competitive global market place, such an approach will both help create new employment opportunities and enhance the productivity necessary for New Zealand’s long-term prosperity.

To unlock the delivery of critical infrastructure and achieve our collective goals, a set of strategic policy recommendations and planning changes are required. While a larger amount of capital of a broader scale is required, the current lack of certainty, in terms of both financing and policy, represents a material constraint. To help address this, it is our submission that the Government should cast a wider net in terms of its financing and delivery partners. At present, we almost exclusively rely on a public delivery approach constrained by limited resources (particularly post-COVID).

If the Government is to attract the international capital and expertise needed to realise targeted projects and reduce emissions, it will need to be proactive in creating an enabling environment in terms of policy, regulation, and funding. Other countries have introduced specific programmes to support and incentivise investors to participate in the shift to sustainable infrastructure, providing long-term certainty and supportive tax settings to encourage additional financing. There are also examples of programmes that provide incentives for investors to test and pilot innovative new technologies to address the climate crisis. It is our submission that these are the sorts of policy options that need to be explored.

We note that the consultation document makes clear the plan will set in place a number of longer-term actions that will initiate emissions reductions during budgets two and three. This is important, as many infrastructure initiatives, particularly large-scale ones, need to be planned over longer time horizons.

Set out below are observations in relation to the transportation, waste management, energy and building sectors.

On Energy, which is expected to comprise the largest share of emissions reductions, a greater level of ambition is needed beyond just setting a renewable energy target. For example, there is the opportunity to capitalise on New Zealand’s exceptional natural wind resource to overbuild large-scale renewables (Denmark is a good example of this approach) and ensure we have a grid that can support enhanced electrification. This will create optionality in electrifying energy use, help to better manage energy independence and security of supply, meet goals of accessibility and affordability of energy to households, and make New Zealand an attractive location for the development of (clean) energy intensive industry for domestic use and export. Such an approach will not only contribute to a growing economy in a manner consistent with net zero objectives, it will deliver a globally competitive energy system.

To capture the above opportunity, the Government will need to play a part in unlocking investment into large-scale renewables, transmission and storage solutions. There are currently a number of barriers constraining investment in renewables. At a high-level, these include:

- the uncertainty in spot market power prices;
- the lack of a long-term power purchase agreement market; and
- regulatory settings where consents for large-scale projects can be prohibitively time-consuming and expensive.

If the energy sector is to make a meaningful contribution to addressing the climate emergency, there needs to be greater urgency in consenting projects which make a significant difference to the 'greening' of New Zealand's energy mix.

On transport, the second most significant sector in terms of emissions reduction targets, we note that achieving better transport options in cities will require significant investment in public transport and transit alternatives. While there are a number of policy options, they invariably take time to impact meaningfully. The Infrastructure Commission, for instance, has recommended the adoption of further demand-side measures such as congestion charging to shift people from private to public transport. Land use charges (i.e. promoting densification or transit-oriented development) can make a positive contribution, but will take decades before their impact is realised. The long lead time associated with these tools, however, is not an argument against their use, instead it is the reason they should be implemented as soon as practicable. Finally, in relation to transport, New Zealand has been slow to implement measures around electric vehicles and emissions standards compared to other developed nations. In our view, this needs to change.

In terms of waste, we note that New Zealand has one of the highest rates of waste to landfill in the OECD (~63%). A great deal more can be done to improve the economics of alternative waste management systems to allow for the implementation of systems in common use across Europe. The waste recommendations outlined in the consultation document, which focus on organic waste and the implementation of projects like landfill gas, do not in our view go far enough. Meaningful policy responses are also required in relation to the carbon impact of waste streams from the construction sector, large industry and consumer goods.

And finally, building. Progressing build-to-rent opportunities in New Zealand would allow for the construction of low, net-zero carbon buildings along with positive social outcomes. Such an approach has been slow to develop, however, as a result of restrictive legislation. We note that to "green" buildings successfully in New Zealand is in large part a question of logistics. Material costs are high and the range of materials restrictive due to complex logistics and supply chain inefficiencies. If these constraints are to be overcome the Government, in our view, will need to take a considerably more active role. In practice, this could amount to:

- adopting international building standards;
- prioritising New Zealand rather than export timber for New Zealand green construction; and
- chartering our own ships rather than relying on international shipping companies who see New Zealand routes as of low commercial value.

Primary Sector

If emission reduction budgets are to be met, it is important that options are created in the primary sector. New Zealand has one of the most productive land sectors in the world, representing a considerable comparative advantage. Our horticulture sector produces exceptional returns per hectare. Our dairy and livestock sectors are the most efficient at producing milk and meat in the world. Our exotic forestry offers one of the fastest and cost effective natural solutions for sequestering carbon on the planet and our indigenous forests embody rich and unique biodiversity.

While it is unclear how demand for these various products will evolve over time, it is important that the public and primary sectors work together to ensure New Zealand is well positioned to continue to derive exceptional returns from its land.

We support the proposal to provide advice and research into breakthrough technologies to reduce on-farm/forestry emissions. This research agenda needs to include:

- Identifying and supporting the development and scaling-up of promising horticultural opportunities;
- Continuing to drive investment in farming efficiencies and breakthrough technologies to reduce on-farm emissions;
- Utilisation of agricultural and forestry residues as part of an integrated biomass use strategy;
- Supporting research and development of technologies which lock carbon into post-harvest wood products and deliver improved environmental and social co-benefits (such as selective harvesting);
- Exploring viable approaches for establishing indigenous forests, such as using exotic forests as a nursery crop or by creating a network of seed sources across the country so land owners can support natural regeneration.

If objectives are to be met, land sector leaders will need to continue to play a constructive role in driving these outcomes through *He Waka Eke Noa.* As owners of agriculture and forestry assets we do, and will continue to, play in active role in supporting and advancing this initiative. To this end we acknowledge and support the submission of our investee company Timberlands Limited on the forestry specific questions in the emissions reduction plan discussion document.

Summary

In summary, we welcome the Ministry for the Environment's proposals to shape the emissions reduction plan. This plan will have significant implications for some of our assets, but the cost of inaction would have a much greater impact. Nationally, it is vitally important that we keep our options open. This means, for instance, avoiding using regulation to advocate for a particular solution and instead creating the right incentives and an enabling investment environment. Through this approach, businesses and investors will choose the most efficient method to respond.

The public sector needs to send clear signals if it is to drive the immediate investment necessary to unlock opportunities to reduce future emissions. There are two sectors where investment is particularly vital: infrastructure and land. The role of finance is critical in New Zealand's response to the challenges presented by climate change, and the Guardians will continue to focus on investing to this end.

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