



Westpac New Zealand Limited

Submission to the Environment Select Committee on the Climate Change Response (Zero Carbon) Amendment Bill

16 July 2019

Westpac New Zealand Limited

1. INTRODUCTION

- 1.1 This submission to the Environment Select Committee is made on behalf of Westpac New Zealand Limited (**WNZL**) in relation to the Climate Change Response (Zero Carbon) Amendment Bill (**Bill**) which will amend the Climate Change Response Act 2002.

2. WNZL SUPPORTS URGENT ACTION ON CLIMATE CHANGE

- 2.1 The Bill is the major driver of the country's response to the Paris Agreement and to the global climate change challenge. The Bill establishes a foundational framework for this government, and for successive governments, to set necessary and transparent long-term targets, budgets, plans, and accountability into a critical transformation on which our economy must embark with urgency.
- 2.2 WNZL welcomes the Bill and the kaupapa that will underpin the future prosperity of New Zealand, creating the opportunity for New Zealand to shift its financial system to better support sustainable social, environmental and economic wellbeing.

Finance is a key lever to shift the needle on climate change

- 2.3 Climate change will have a significant effect on the global economy and in turn the financial system that operates within it. The financial system can play a key role by supporting New Zealand consumers and businesses through proactive climate change adaptation and transition initiatives.
- 2.4 By doing so, the financial sector can support the creation of a 'new climate economy' that is aligned to incorporate the realities, risks and opportunities of climate change. As the New Zealand financial sector is heavily represented by banks, the onus is on these lenders to both directly and alongside investors be strong contributors to the various parts of the solution.
- 2.5 WNZL's co-leadership of the Sustainable Finance Forum (part of The Aotearoa Circle) provides an important opportunity to understand how we can collectively advance the role of the country's financial system in this global and domestic shift, and reshape the regulatory and financial policy towards long-term economic prosperity and sustainable development. The Forum demonstrates the collective goal of the financial sector to get the market settings right in order to increase efforts to address unsustainable practices, scale up capital flows to solutions, and help New Zealand businesses and consumers transition to a more sustainable economy.
- 2.6 WNZL is also a founding partner of the Climate Leaders Coalition and supports the *Climate Leaders Coalition 2017 Climate Change Statement (Coalition Statement)*, which incorporates setting emissions budgets in legislation and establishing the Climate Change Commission.
- 2.7 We note that the Coalition Statement and Westpac Group's *Climate Change Position Statement and 2020 Action Plan* both refer to emissions reduction targets that are consistent with keeping within two degrees Celsius of warming above pre-industrial levels. Since these documents were released, we have reviewed and entirely accept the conclusions of the Intergovernmental Panel on

Climate Change's (IPCC) Special Report released in 2018 'Global Warming of 1.5°C'. We will continue to update our work in light of the IPCC's report and will release the results of this work in 2019.

- 2.8 WNZL is deeply committed to helping guide the necessary paradigm shift and doing everything we can to support New Zealand businesses and everyday New Zealanders to play their part in helping this country to mitigate and adapt to this critical 21st century challenge.

Bipartisanship and the way forward

- 2.9 To date, New Zealand has not experienced a stable carbon or predictable policy environment. This has reduced overall business confidence in climate change policy (particularly the emissions trading scheme) and has noticeably hindered investment in emissions reduction infrastructure, alternative technologies and forestry.
- 2.10 In order to transition urgently to an ultra-low emissions economy, and make the necessary long-term investments and commitments with confidence, the business sector needs clear, directional and consistent signals.
- 2.11 The Bill sets up the framework to achieve these outcomes but it is essential that this framework endures parliamentary cycles and changes of government. WNZL therefore, strongly desires a bipartisan commitment to the Bill in its final legislative form.

Whakapiri tātou, hei manaaki tāngata, hei manaaki whenua
Join together, to care for the people, to care for the land

- 2.12 We believe that the above Māori whakatauki can provide a framework that can bring us as New Zealanders together under a common kaupapa to address climate change and find a way forward.
- 2.13 Using this whakatauki as a guiding principle, the amendments WNZL proposes to the Bill are set out below.

3. PURPOSE: PART 1, SECTION 4

- 3.1 WNZL supports using a proportion of high-quality international carbon units to meet its zero carbon targets (when such options are viable, credible and open to New Zealand). However, it is important that domestic emissions reductions remain a core focus of policy framework in order to ensure New Zealand continues to invest in new technologies, upgrade redundant technologies, and reduce its emissions domestically:
- The Purpose of the Bill should incorporate an explicit goal of reducing domestic emissions.

4. CLIMATE CHANGE COMMISSION: PART 1A, SECTIONS 5A-5N

4.1 Climate change policy, by its very nature, requires a long time horizon and the outcome of decisions made may not be visible until the longer term. It is crucial that policy decisions with such a long lead time remain consistent, and focussed towards the achievement of the longer term goals. WNZL therefore supports the Climate Change Commission (**Commission**) being independent from government with the aim of depoliticising its recommendations.

4.2 The Commission's core purpose should incorporate keeping New Zealand on track with its 2050 target:

- Section 5B(b) should be amended so that the Commission has as its purpose to also monitor and review the Government's progress towards the 2050 target.

The Commission's funding must be protected

4.3 The work programme for the Commission is extensive and New Zealand's data and modelling capacity and capability is currently inadequate to undertake the tasks required, potentially requiring additional expertise sourced from offshore. Additionally, as the Emissions Trading Scheme is amended by the government, further tasks and functions may be added to the Commission's portfolio (for example, the Commission may need to advise on target-consistent emissions prices).

4.4 The effectiveness of the Commission will depend in part, on its resourcing. To ensure the Commission can fulfil its functions in the Bill, it must be adequately resourced with protected budget appropriations:

- Consideration should be given to the funding of the Commission being safeguarded in some way to prevent subsequent governments from reducing the Commission's resources.

Modelling capability and capacity needs to be improved

4.5 Data collection and modelling is critical to informing the design and understanding the consequences of the emission budgets and the emission reduction plans. As noted above, New Zealand's data and modelling capability and capacity is inadequate for the tasks contemplated in the Bill.

4.6 For the Commission to fulfil its responsibilities, New Zealand will need to significantly invest in climate change mitigation modelling capabilities. The Commission will need to be empowered to leverage expertise and resources across government and non-government providers, increase the rigour, transparency and credibility of modelling outputs, and invite international engagement and peer review (we would note that both the public and private sectors will benefit from this activity).

Accountability and transparency of targets, budgets and progress is important

- 4.7 The Bill has a key role to play in setting up the right architecture to enable the policy and market signals to position the country to make this transition.
- 4.8 While based, in part, on frameworks and other institutions established in other jurisdictions, the Bill's zero carbon architecture is novel in New Zealand. It is important that we build in optimal accountability, independence and transparency into the architecture from the outset to ensure that the legislative framework is achieving its objectives:
- Section 5N should be amended to clarify that the Commission must make available to the public as soon as reasonably practicable all reports and advice it provides to the Minister under the Bill.
 - To further support transparency, the Bill could clarify that where the Minister departs from any advice from the Commission, the Minister is required to formally respond to the Commission. This response should be released publicly as soon as reasonably practicable.

5. EMISSIONS REDUCTION: PART 1B, SECTIONS 5O-5ZL

- 5.1 WNZL supports the Bill's objective of limiting global warming to 1.5°C above pre-industrial levels. WNZL also supports treating biogenic methane differently from other greenhouse gases and having a split 2050 target.

2050 Target – Subpart 1

- 5.2 WNZL would recommend the following adjustments to the Bill in relation to the target:
- Section 5R: The timeframe within which the Minister must advise the Commission of the government's response to a recommendation by the Commission to review the 2050 target should be less than 12 months (ideally 6 months) to ensure transparency, timely decision making and accountability.
 - The Minister should be prevented from changing the target without first obtaining advice from the Commission (even though the target is initially set in legislation, the Bill doesn't expressly prevent the target from being amended unilaterally).
 - The Bill should clarify the interaction between the 2050 target and the cap setting and price management tools in the New Zealand Emissions Trading Scheme (**ETS**) (both the price floor and the cost containment reserve).
 - The Bill should clarify the interaction between the 2050 target and New Zealand's Nationally Determined Contribution under the Paris Agreement.
- 5.3 There is merit in the Bill stating a 2030 target for all greenhouse gases other than biogenic methane. There is an urgent need for impactful emissions reductions across all sectors of the economy. Including a domestic 2030 target will provide a useful signal for near term domestic policy action and will assist with the trajectory of the ambition and preparation of emissions budgets.

Emissions Budgets – Subpart 2

5.4 WNZL would recommend the following adjustments to the Bill in relation to the emissions budgets:

- Section 5U / 5V(2): As the Bill splits the 2050 target by treating biogenic methane differently to other greenhouse gases (see section 5O), the emissions budgets set out under subpart 2 should also be split in the same way.
- Section 5V: The Bill should require that all emissions budgets contain a progressive ambition to ensure that New Zealand is progressively reducing its emissions each cycle rather than delaying reductions until later in the emissions budget cycles (which could cause economic shocks).
- Section 5V: The Bill should require the emissions budgets be expressed on a sectoral basis together with government’s objectives for that sector. This has been done recently by Ireland (refer Ireland’s *Climate Action Plan 2019*). This requirement will send clear and targeted signals to each sector and take into account the capabilities of each sector to make emissions reduction.
- The Bill should ensure that emissions budgets are aligned with the NZ ETS to ensure compatibility.

Role of the Commission in setting emissions budgets - Subpart 3 – Banking and Borrowing

5.5 Given the existing operation of the ETS and the large number of units already banked by participants, the volume of the bank is relevant and impactful on the policy framework of the Bill and the future stability of the ETS. WNZL would recommend the following adjustments to the Bill in relation to banking:

- The Bill should require that any decisions made about banking align with the ETS.

5.6 As a principle, there should be no borrowing across emissions budget periods. Borrowing from future emissions budgets impairs the credibility and effectiveness of the Bill and the ETS, and risks the environmental integrity of the 2050 target (and subsequent budgets). Having any borrowing provision (even with a low percentage) expressly in the Bill creates a risk that the percentage may be increased further in the future without scrutiny. It would be significantly more preferable from an environmental perspective to purchase credible overseas mitigation units than to borrow units from future emissions budget periods. WNZL would therefore recommend the following adjustments to the Bill in relation to borrowing:

- Section 5ZC(2) (which permits borrowing across emissions budgets) should be removed.

5.7 Alternatively, if a provision for borrowing needs to remain in the Bill to help manage unforeseen risks, then the Bill should prevent the Minister from borrowing from more than two consecutive emissions budgets. This will help

ensure targets remain achievable and help reduce the risk of adverse economic impacts in subsequent emissions budgets.

Role of the Commission in setting emissions budgets - Subpart 3 – Emissions reduction plan to be prepared

- 5.8 The emissions reduction plans are fundamental to the outcomes the Bill is seeking. By bringing the 2050 target and emissions budgets into reality, these plans will help devolve the Bill's aspirations across the economy.
- 5.9 WNZL would recommend the following adjustments to the Bill in relation to the emissions reduction plans:
- As the Bill splits the 2050 target and treats biogenic methane differently, the emissions reduction plans set out under subpart 3 should also be split.
 - Emissions reduction plans need to be expressed on a sectoral basis together with a detailed sectoral roadmap that is designed to deliver a cumulative reduction in emissions over the relevant budget period.
- 5.10 To ensure alignment of the provisions of the Bill across the broader policy framework, consideration needs to be given to how emissions reduction plans relate to sector strategies (and the policy plans underneath them), set by government departments.

Effect of 2050 target and emissions budget - Subpart 5

- 5.11 Given the magnitude and urgency of climate change, and its broad spread and impact across the economy, WNZL believes that the Bill, once law, should become an integral document of the New Zealand Parliament and be considered throughout the policy, legislative and decision-making processes.

Incorporating the Bill into policy and law-making processes

- 5.12 Further research needs to be carried out to identify ways that the provisions of the Bill could be practically incorporated into the policy development and legislative processes. For example, Cabinet and parliamentary procedures could be updated so that officials and ministers are required to take the Bill into account when preparing policies and Cabinet papers.
- 5.13 Proposed legislation could also be reviewed against the Bill to ensure compliance and alignment with the provisions of the Bill in the same way that policy makers are required to consider the implications of the draft policy and legislation upon the Bill of Rights Act 1990, the Human Rights Act 1993, and gender and disability considerations (supported by consultation with the relevant Ministry as to potential impacts if relevant).

Incorporating the Bill into public decision making

- 5.14 It is vital to the outcomes the Bill seeks to achieve that the 2050 target, emissions budgets and emissions reduction plans are devolved as far as practically possible across the public sector.

- 5.15 The potential impact of decisions upon the objectives and outputs of the Bill (i.e. the target, emissions budgets and emissions reduction plans), and climate change more broadly, needs to be meaningfully taken into account by decision makers when executing their public duties.
- 5.16 Section 5ZK should be amended to require government bodies to take targets and emissions budgets into account.

Whakapiri tātou, hei manaaki tāngata, hei manaaki whenua
Join together, to care for the people, to care for the land