

Submission

to the

Ministry for the Environment

on the

Discussion Document: Transitioning  
to a low-emissions and climate-  
resilient future

24 November

## About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA:
  - ANZ Bank New Zealand Limited
  - ASB Bank Limited
  - Bank of China (NZ) Limited
  - Bank of New Zealand
  - China Construction Bank
  - Citibank N.A.
  - The Co-operative Bank Limited
  - Heartland Bank Limited
  - The Hongkong and Shanghai Banking Corporation Limited
  - Industrial and Commercial Bank of China (New Zealand) Limited
  - JPMorgan Chase Bank N.A.
  - Kiwibank Limited
  - MUFG Bank Ltd
  - Rabobank New Zealand Limited
  - SBS Bank
  - TSB Bank Limited
  - Westpac New Zealand Limited

## Introduction

3. NZBA welcomes the opportunity to provide feedback to the Ministry for the Environment (**MfE**) on the Discussion Document: Transitioning to a low-emissions and climate-resilient future (**Discussion Document**). NZBA commends the work that has gone into developing the Discussion Document.

## Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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## Introduction

NZBA acknowledges MfE's work in producing this comprehensive Discussion Document. We agree with MfE that finance is an important catalyst for lowering emissions, and have focused our submission on the "funding and financing" section of the Discussion Document. We also wish to express our support for the Centre for Sustainable Finance's submission.

### **Barriers and gaps in allocating private capital to low-emissions investment**

We agree with MfE that the investment needs of a climate change response cannot be met by public finance alone. Banks recognise they have a significant role to play in supporting businesses to understand and manage their emissions, fund the transition to a low-carbon economy, and to support innovation and new technology that will help New Zealand halve greenhouse gas emissions by 2030 and meet our net-zero emissions target by 2050. NZBA recognises that reaching emissions reductions in line with limiting global warming to 1.5 degrees above pre-industrial levels is of critical importance and urgent action is required to achieve this.

We note that the Discussion Document only provides two examples of how the banking industry may assist in supporting the transition, with a focus on agricultural sector lending and lowering barriers Māori face in accessing capital. In our view, limiting focus to these examples underestimates the impact the banking sector can have. Banks are already heavily active in such financing and have the potential to drive significant change in New Zealand's emission profile through allocation of capital to low-emissions investment. However, banks could help drive greater change with government support and facilitation. Below we set out some of the barriers and gaps we see, and how Government can address these barriers and gaps.

### ***Understanding the carbon emissions of small businesses***

To help allocate more capital to low-emissions investment, banks require adequate data about the emissions profile of businesses. Most businesses don't have the time or expertise to measure their emissions or understand their emissions profile and the cost of doing so remains a barrier for some. While the recently introduced Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (**Bill**) will require entities to develop their capability in this area, the Bill only applies to certain large entities, creating a risk that smaller businesses will fall behind in understanding their emissions. We are not suggesting that the Bill needs to apply more broadly to smaller entities, but we think that Government needs to consider how it assists businesses in developing an understanding of their emissions profile.

New Zealand does not currently have a common data set to evidence the emissions of businesses. We acknowledge that there are some resources available, including MfE guidance and third-party services, but note that these resources still require dedicated time and effort by businesses, as well as being costly (in the case of third-party services). StatsNZ provides industry averages of carbon emissions which provides a helpful baseline, but this information is very high level, meaning it is not particularly helpful in assisting banks' credit and lending decisions. We recommend the Government reviews the role Crown

Research Institutes could play in sharing data with businesses and other organisations with a view to encouraging partnerships and innovation.

We consider that the Government has a key role to play in assisting smaller businesses in this area, which in turn will remove some of the barriers to allocating capital to low-emissions investment. In our view, education is crucial to help small businesses understand why measuring their emissions is important, the likely impact that measuring (or not measuring) their emissions will have on their business, and how they can develop their capabilities in this space.

As well as education, we support the Government facilitating greater access to emissions and sustainability data for businesses and the housing market (for homeowners and housing developers alike). In our view, climate and emissions data should be as readily available as all other financial information. For example, the Government could issue “carbon returns” in the same way as tax returns, and banks would be able to rely on this return to inform their lending decisions, or homes could be subject to an energy efficiency rating such as NABERSNZ (used in parts of Australia). We believe broader access to this information will result in more innovation, as well as emissions reductions. The benefit of this is not only in helping us reach our emissions budgets but will also help New Zealand businesses meet legislative requirements in other jurisdictions, such as the recently approved European Carbon Border Adjustment Mechanism, and in some cases may provide a competitive edge internationally.

### ***Supporting businesses to transition to a low carbon economy***

While understanding emissions is important, it is only the first step in transitioning to a low-emissions economy. The next step is designing an emissions reduction roadmap, often with sectoral and/or third-party guidance. Once a roadmap is in place, implementation requires finance. Many businesses will require both private and public sector finance to transition to a low carbon future.

We acknowledge our role, as private sector financiers, in supporting businesses by providing access to finance to support their transition activities (e.g. funding for new equipment or technology to adapt to climate change). In some cases, businesses may need to transition faster than existing business projections and budgets allow for, or they may need to trial or develop new technology to drive reductions. A gap exists between traditional forms of grant funding and commercial funding.

The banking industry applauds the government on the increase in capital available to the NZ Green Investment Fund as a key mechanism to stimulate innovation and investment in initiatives designed to lower emissions. However, we believe the government has the opportunity to sit alongside private finance to further facilitate this change by:

- Providing a transition finance plan or strategy for government investment with guidance for New Zealand businesses on how to prioritise transition investments that complement the government’s plan and how to access public funds for these activities.

- Such a plan or strategy should consider medium and long term strategies, cost estimates and a clear indication of what the Government has committed to provide and how. This would provide clarity to the private finance sector on the remaining funding required and where those funding opportunities are likely to exist.
- Use the crown balance sheet to offset/ transfer risk, for example by using an impact finance model whereby the government underwrites longer-term returns based on outcomes and thereby encourages private investment in initiatives that take a comprehensive and climate-friendly approach.
- Align government agencies' investment and operational policies with net zero ambitions and create sustainability financing frameworks across government to raise capital aligned to climate change commitments and the Living Standards Framework as well as market demand. For example, Kāinga Ora and Auckland Council have such frameworks in place and the Government has announced a green certification plan for government buildings.

### **Suggested Government priorities in directing public and private finance into low-emissions investment and activity**

We note that the Discussion Document does not refer to the Sustainable Finance Forum's (SFF) roadmap for a sustainable finance system by 2030 (**Roadmap**). We suggest that Government refer to the Roadmap (particularly pages 43 – 44) when setting their priorities in directing public and private finance into low-emissions investment and activity.

Page 24 of the roadmap outlines the eleven key recommendations to achieve a sustainable financial system. We see a role for government in recommendations 3, 4 & 5 – encouraging consistent governance, data and disclosure, as well as recommendation 9 - develop a whole of government strategy for sustainable finance.

The Central Government could also play a role in supporting a shift in capital requirements to support initiatives that can help banks lower their risk weighting for sustainable finance. Some international examples include Santander and Tesco and HSBC and Walmart where the banks give lower risk weights and advantageous pricing to customers that demonstrate sustainable farming practices. We understand the Reserve Bank of New Zealand is interested to explore capital adequacy's role in supporting the transition but note that international evidence in this area is nascent. The Government could play a role in providing certainty in policy that enables forward modelling to make the case for changes in risk weightings.

### **Supporting new low carbon technologies**

International and domestic research points to the significant investment in innovation that will be required. In our view, Government funding for research and development of these technologies is crucial and combined with later stage financing can create a thriving economy for New Zealand. We have a strong history of doing this and there are companies that are currently developing innovative technologies here. By having research and development funding that is targeted to support the challenges New Zealand and the world faces in creating a low emissions future, we can ensure that jobs and businesses stay in

New Zealand. This forms an important part of a sustainable finance system and de-risks new technologies so that the banking sector can support them in later stages to reach scale.

### **Clear and consistent public communication**

A successful transition to a low carbon future requires both technology and financing. A fundamental component of success also lies with people and, in practice, helping New Zealanders to both understand the adaptation risks of climate change and the opportunities presented by a low carbon future. There is a risk that a lack of clear and consistent communications from all actors who are supporting the low carbon future, from local and central government to industry and the community sector, will fail to bring New Zealanders on the journey and hinder our ability to meet our emissions budgets. Central government, as the coordinator of the overarching Emissions Reduction Plan and the soon to be released Climate Change Adaptation Plan, need to coordinate these communications and ensure there is cross-sectoral support for the plan to help manage this change. The banking sector would welcome the opportunity to work with government on this and use our voice to support the low emissions economy.

### **Genuine partnership**

The scale and urgency of the necessary transition towards net zero requires genuine partnership between government, business, iwi and communities. These partnerships must go beyond formal consultation to focus on the co-development of solutions, leveraging capabilities and capacity across all of society. NZBA and its members are committed to work closely with Government and other sectors on this mahi and are open to explore different models and forums for ongoing engagement. We would welcome the establishment of a cross-sectoral forum to ensure alignment and begin to work on these challenges together. As specific opportunity for this could be to work collaboratively to develop an adaptation approach to support our coastal communities retreat or defence from climate change events.

Above all, the banking sector recognises the scale and urgency of the challenge that climate change presents Aotearoa and urges the government to act to achieve this.