New Zealand Banking Association
Te Rangapū Pēke

Submission

to the

Climate Change Commission

on the

Draft advice on the second emissions reduction plan

27 June 2023

NEW ZEALAND BANKING ASSOCIATION – TE RANGAPŪ PĒKE
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About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**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 eighteen registered banks in Aotearoa New Zealand (**NZ**) 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.
- KB Kookmin Bank Auckland Branch
- 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 Climate Change Commission (**CCC**) on the draft advice on the second emissions reduction plan (**draft Advice**). NZBA commends the work that has gone into developing the draft Advice.

Contact details

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

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Summary

The banking sector welcomes the draft Advice on the emissions reduction plan from the Climate Change Commission and supports the Government's efforts to achieve net zero emissions of long-lived greenhouse gases by 2050. The NZBA recognises that climate change poses significant risks and opportunities for our economy and society, and we are committed to playing our part in the transition to a low emissions future.

We believe that providing a certain policy environment is crucial at this stage. Uncertainty can make navigating these complex issues challenging, whereas clarity in policy settings can be instrumental in guiding our collective efforts. Policy certainty will fuel confidence in long-term decision-making, enabling the banking sector to align its strategies with the ultimate goal of a sustainable, low-emission future. This approach will guide collective efforts and keep New Zealand on the right path towards achieving its climate goals.

We appreciate the Commission's consultation on potential measures to reduce emissions and mitigate climate risk. We are keen to engage constructively with the Commission, the government, and other stakeholders on this issue and provide our insights and expertise as financial intermediaries.

Below is a summary of our response to the draft Advice, followed by a detailed response including to each of the recommendations.

The NZBA:

- calls for a robust approach to net-zero long-lived gas emissions, with a clear gross emissions goal and sector-specific targets, providing certainty for the banking sector's financial initiatives
- supports a broad transition strategy, endorsing incentives for emissions reductions, a shift towards low-emission alternatives, and scaled-up vehicle charging infrastructure
- advocates for a NZ-specific sustainable finance taxonomy and de-risking pathways for green technologies to stimulate investment, emphasizing an integrated approach to risk management and innovation
- acknowledging sector-specific challenges, proposes enhancing data collection and accessibility, providing regulatory clarity, and offering renewable energy financing solutions
- supports predictable market mechanisms, transparent reporting, collaborative climate policies, and urges the government to simplify processes and invest in capacity and skills
- endorses the integration of Mātauranga Māori into climate solutions and advocates for climate adaptation strategies to enhance societal resilience and sustainability
- calls for enhanced transparency, stakeholder engagement, rigorous risk assessment, and suggests integrating the concept of 'opportunity' into the Climate Change Commission's prioritisation framework.

GENERAL COMMENTS

Pathways to a low emissions future: Defined Emissions Goal and Comprehensive Transition Strategy

In light of the limited effectiveness of emissions reduction policies to date, the NZBA urgently calls for a strengthened and coherent approach to NZ's transition towards net-zero emissions. We are concerned that New Zealand will be unable to meet its climate goals without significant enhancements to policy and implementation. The necessity for a clear gross emissions goal is critical, not only to provide certainty and predictability but also to ensure effective and meaningful progress.

A well-defined objective, backed by consistent government messaging and cross-party support, is imperative to enable the banking sector to accurately anticipate policy shifts, comprehend the policy landscape, and assess the risks and opportunities that lie ahead. This level of commitment and clarity is crucial in providing the banking sector with the assurance needed to finance emissions reduction and adaptation initiatives.

Beyond setting an overarching goal, the NZBA also urges the government to establish more granular, sector-specific intermediate targets. This not only allows for the crafting of more precise policies but also facilitates the identification of opportunities for improvements.

We endorse a broad and equitable transition strategy that encompasses both mitigation and adaptation measures. The banking sector, we believe, has a crucial role to play in managing the financial risks climate change poses to society and funding the transition to a low emissions future. The NZBA supports an inclusive, fair, and equitable transition strategy, including a focus on sustainability.

The NZBA is supportive of incentives that encourage reductions in emissions. We view the agricultural emissions pricing system in a positive light, subject to certain considerations. Furthermore, we believe in the potential of merging this emissions pricing system with financing as a way to encourage farmers to reduce their emissions. In the realm of urban development, we are in full support of initiatives aimed at reducing carbon emissions and transitioning towards a low-carbon economy. We endorse integrated urban planning that encourages vertical expansion and mixed-use development. Retrofitting of both commercial and residential properties is seen by the NZBA as a significant opportunity for reducing emissions, and we support this, given that there are robust mechanisms in place to evaluate the feasibility and cost-effectiveness of such retrofits.

We are in favour of a shift away from fossil fuels and towards low-emission alternatives. We support the prohibition of new fossil gas installations in buildings and the promotion of renewable electricity generation, despite the potential financial risks this may entail. We acknowledge the necessity for process heat decarbonisation and support integrated objectives for the role of forests. Finally, we recognise the importance of efficient planning and financing for the development of integrated transport networks.

The NZBA advocates for the quick scaling up of vehicle charging infrastructure and incentives to accelerate the adoption of zero-emissions commercial vehicles. We acknowledge the need to address the discrepancy between current landfill gas capture and set targets as part of New Zealand's commitment to sustainable practices.

Opportunities and challenges by sectors: Banking's Role in Low-Emission Transition

The NZBA understands the central role of the banking sector in supporting the transition to a low-emissions economy. To maximise this role, we advocate for the creation of an NZ-specific sustainable finance taxonomy. This taxonomy would guide the development of innovative financial products and services, explicitly designed to mitigate climate change.

However, we also acknowledge a persistent gap in the financing of early-stage, not-yet-commercialised green technologies – a gap that the banking sector is not ideally positioned to bridge. A clear pathway to de-risk these innovative technologies and solutions is essential to encourage investment in this crucial area.

With the establishment of a comprehensive and effective de-risking mechanism, the sector could drive much-needed investment towards these new technologies, stimulating innovation and accelerating the process of decarbonisation. Capital relief for green financing, in line with the proposed sustainable finance taxonomy, would also provide a significant incentive for such investments.

Simultaneously, we recognise the potential for increased demand for green technologies and the opportunities they offer for carbon offsets, particularly through afforestation. In this complex and evolving landscape, an integrated approach – encompassing risk management, innovation, and sustainable finance – is vital for the transition to a low-emissions economy.

Specifically, within the agricultural sector, the NZBA endorses the development of the emissions pricing system, albeit in principle. We acknowledge the complexities involved in measuring and pricing agricultural emissions, along with the potential economic implications for farmers and the broader economy. We urge a careful and thoughtful approach to the system's design and implementation.

We identify a notable lack of farm-level emissions data as a significant challenge within the farming sector, and propose enhancing data collection as an essential initiative. Although we express concern regarding the potential financial burden that the agricultural emissions pricing system could impose on farmers, it is essential that farm-level emissions data is made more widely available, including to the banking sector.

In the context of urban planning, the NZBA is aware of potential financial risks, particularly those relating to property development loans and mortgages. We seek clarity on the regulatory framework that governs this system including adaptation and particularly how managed retreat will be conducted in the future.

We see potential in offering financing solutions that prioritise renewable energy. However, we acknowledge the financial risks associated with a rapid transition away from fossil fuels (for all sectors), and the challenges involved in the decarbonisation of heat and other industrial sectors due to their reliance on fossil fuels. We also recognise the substantial financial investment required for large-scale projects, such as integrated transport networks.

There are opportunities in partnering with infrastructure funds and other investment entities for expanding charging infrastructure, and in forming cooperative partnerships with businesses to transition their fleets to electric vehicles. Nonetheless, we recognise the challenges, including the potential financial risks and operational costs associated with expanding charging infrastructure and implementing landfill gas capture systems.

Creating and enabling environment for lasting change: Predictable Market Mechanisms, Transparent Reporting, and Collaborative Climate Policies

The NZBA backs an emissions pricing system that separates incentives for gross emissions reduction from those linked to forestry. We believe that such a system could offer a more predictable market mechanism than regulatory methods. We further promote the establishment of transparent reporting standards and the disclosure of indicative levels of gross emissions and carbon dioxide removals.

We favour using existing mechanisms to manage the impacts of climate policies rather than deferring climate action. We advocate for transparency and communication in the implementation of climate policies and stakeholder involvement in policy development and execution.

In terms of integrating the emissions pricing system with financing, we support initiatives like loan products that aid farmers in making emissions-reducing investments. Within urban planning, we are keen to contribute to shaping the regulatory framework and support the prioritisation of financing for sustainable urban projects. We back the idea of exploring public-private partnerships to share the costs and benefits of retrofitting schemes.

We support clear strategies that include measures to address financial risks and ensure an equitable transition, financing options supporting renewable energy, and strategic plans including financial support mechanisms for industries. We urge the government to maintain visibility on funding sources and carry out thorough risk analyses for large-scale projects.

We propose that the government simplify and standardise permitting processes, invest in production capacity and workforce skills, and provide incentives linked to the use of renewable energy, while still giving proper consideration to potential environmental and social impacts. We encourage the design of incentives for adopting zero-emissions vehicles and efficient data collection and reporting systems, potentially supported by government resources, to facilitate sound decision-making.

Māori and climate change: Resource Allocation and Climate Education for Iwi, Integrating Mātauranga Māori into Climate Solutions

We endorse the recommendation to explore and introduce mechanisms to allocate resources directly to Iwi and to increase funding to Māori landowners. We recognise the significant potential in providing financial services to Iwi and Te Ture Whenua entities that foster new emissions reduction and climate change adaptation initiatives. We also support initiatives aimed at increasing climate literacy and encouraging climate-friendly behaviours across New Zealand.

We back the integration of Mātauranga Māori into climate change solutions, acknowledging that local solutions can foster economic stability and align with the sector's ESG principles. We propose financial education initiatives as part of the resources provided to Iwi/Māori.

We support the goal of establishing integrated objectives for the role of forests in mitigating emissions and adapting to climate change, in line with the principles of Te Tiriti o Waitangi.

Adaptation: Financial Sector's Role in Climate Adaptation

Recognising the critical role of climate adaptation, the NZBA endorses strategies to enhance societal resilience and sustainability in the face of climate change, particularly in agriculture and housing sectors. We are acutely aware of the adaptation and mitigation challenges climate change poses, and we underline the banking sector's role in managing these risks and fostering a fair transition.

We call for greater clarity in adaptation policies, such as nature-based solutions for extreme weather protection and managed retreat as a last resort. Clear guidance in these areas will provide a solid framework for banks to finance adaptation.

In the built environment, we encourage strategies like integrated urban planning and extensive retrofits to reduce emissions and foster sustainability. We also support the challenging transition to renewable energy, and we back conservation and restoration efforts despite potential costs.

Acknowledging the urgent need to expand vehicle charging infrastructure, we advocate for incentives to accelerate the adoption of zero-emissions commercial vehicles. Our support of climate adaptation and resilience underlines all these initiatives.

Monitoring, reporting, and review: Enhanced Transparency, Stakeholder Engagement, and Rigorous Risk Assessment

As part of its monitoring, reporting, and review process, the NZBA urges the provision of more detailed and frequent updates on progress towards these goals. This will inform policy development, foster public trust and engagement, and ensure that the banking sector and other stakeholders can accurately assess the government's progress towards meeting these objectives.

The NZBA calls for better alignment between proposed policies and stated emissions reduction targets, ideally broken down by sector. This alignment is especially crucial in cases where existing policies risk driving higher emissions or exacerbating adaptation outcomes. We advocate for transparent communication of the rationale behind policies, their anticipated benefits and costs, and the strategies in place to mitigate their impacts.

Furthermore, we emphasise the importance of involving stakeholders in both the formulation and execution of these policies. By achieving greater policy-target coherence and fostering inclusive policy-making, we believe that a more effective and equitable transition towards a low-emissions future can be realised.

The NZBA highlights the critical role of data across various sectors, including agricultural, residential, commercial, and industrial, in driving decarbonisation and green financing. In particular, we believe that making national and regional energy ratings and energy efficiency data for buildings publicly available would greatly facilitate improved reporting and decision-making.

In the context of agricultural emissions, we underline the importance of transparency and stakeholder consultation in the pricing system's implementation. We recommend the development of clear methodologies and stress the need to enhance farm-level emissions data collection to monitor and track progress in emissions reduction.

By advocating for open access to key data, we aim to enable more informed decisions, foster transparency, and promote accountability in our collective efforts to reduce emissions.

The NZBA advocates for the management of climate-related risks, including the screening and measurement of loans for their environmental, social, and governance (ESG) risks. It stresses the importance of thorough risk assessment and management across sectors and stakeholders in climate change mitigation, and the need for clear visibility on funding sources and rigorous risk analysis for large-scale projects.

Regarding data reporting, the NZBA asserts the importance of accurate and transparent data to inform investment decisions and risk assessments related to landfill gas capture systems.

Prioritisation framework: Integration of 'Opportunity' Concept

With respect to the Climate Change Commission's prioritisation framework, the NZBA notes that the framework might not fully incorporate the consideration of potential opportunities. While the framework accounts for some "co-benefits", it is not evident that all elements that could offer an opportunity-oriented perspective have been evaluated in this way. Consequently, the NZBA respectfully suggests that the Commission's prioritisation framework would benefit from a thorough integration of the concept of 'opportunity', assuming this has not already been done.

PART 1: FUNDAMENTALS FOR SUCCESS

Recommendations 1 & 2: Commitment to a specific level of gross emissions

The NZBA recognises the value of a defined gross emissions goal, as it can contribute to clarity and reduce risks inherent in transitioning to a low-carbon economy. The banking sector, prioritising stability and forecastability in NZ's shift towards net zero emissions of long-lived greenhouse gases, sees the merit in this recommendation.

A lack of a clearly defined gross target could complicate the decision-making process for banks when assessing where to direct investments. This could potentially result in long-term financial consequences or overlooked opportunities. The NZBA affirms that a well-defined gross emissions goal could provide the necessary stability and predictability.

By delineating a gross emissions goal, the government can provide the banking sector with a tool to better comprehend the policy environment, anticipate potential regulatory shifts, and assess risks and opportunities. Such a target would provide valuable insight into governmental expectations and the general trajectory of NZ's climate policy. With a long-term gross emissions target in place, the government can help the sector in shaping its strategic planning for the long term.

Moreover, a transparent gross emissions objective could act as a market signal, demonstrating the government's commitment to tackling climate change. This could foster investment in green technologies and businesses, thereby promoting the creation of innovative financial products and services geared towards climate change mitigation. Therefore, the government must ensure that the communication of indicative levels is accompanied by clear policy signals and incentives that encourage businesses and households to take action to reduce their emissions.

The NZBA acknowledges that achieving sufficient emissions reductions will require a comprehensive approach that involves setting ambitious targets, regularly reviewing and updating those targets based on new evidence, and implementing a range of measures across various sectors of the economy. Consequently, the NZBA is in favour of the establishment of a clear gross emissions goal, which aligns with NZ's emissions reduction target and with the latest scientific evidence on climate change. This could involve regularly reviewing and updating the targets based on new scientific evidence and changes in technology or economic conditions. We propose that this goal be supplemented by more detailed, sector-specific intermediate targets to allow for more nuanced policy and better identification of opportunities for improvement. We also recommend the government provide more detailed and frequent updates on progress towards these goals to guide policy development but build public trust and engagement. This may require development of transparent reporting standards, which could serve as a gauge for the government's progress towards meeting these objectives. The NZBA further encourages the disclosure of indicative levels of gross emissions and carbon dioxide removals, offering long-term clarity for the banking sector and aiding in risk evaluation and investment strategy. Finally, the NZBA also recognises that it will likely be beneficial to consider additional measures beyond just gross emissions reductions.

Recommendation 3: Emissions pricing

The banking sector, with its primary focus on policy consistency and accurate risk and return assessment, views clear emissions pricing, specific incentives, and a distinct long-term policy direction as beneficial. Fluctuations and uncertainties in these areas could potentially instigate concerns and necessitate adjustments.

The NZBA is generally in favour of emissions pricing, as it establishes a predictable market mechanism that may prove to be more consistent than regulatory methods. A distinct pricing signal can facilitate the transition towards a low-emissions economy and provide incentives for businesses (including those financed by the banking sector) to lower emissions, which could potentially enhance their value.

The process of decarbonisation could stimulate innovation and a demand for green technologies, while afforestation might present opportunities for carbon offsets. The NZBA agrees that separating the policies for decarbonisation and afforestation may lead to more focused and effective strategies and could reduce investment risks that depend on the emissions price. This distinction could also potentially provide banks with a clearer understanding of the investment landscape, enabling them to better evaluate risks and returns in each area.

As a result, the NZBA supports an emissions pricing system that differentiates the incentives for gross emissions reduction from those related to forestry. It is suggested that this system should align with emissions reduction objectives and that this separation should be implemented during the second emissions reduction plan.

Recommendation 4: Mechanisms to allocate resourcing direct to Iwi

The NZBA is in favour of the recommendation to explore and introduce mechanisms to allocate resources directly to Iwi, and to augment funding to Māori landowners.

Iwi/Māori collectives manage a substantial asset base. The banking sector acknowledges the significant potential in providing financial services to Iwi and Te Ture Whenua entities, that facilitate new emissions reduction and climate change adaptation initiatives. The support of the banking sector to sustainable finance encompasses the consideration of environmental, social, and governance (ESG) factors in investment and lending decisions. Advocating for Iwi/Māori-led initiatives aimed at emissions reduction and climate change adaptation aligns with these sustainability commitments.

Climate change presents challenges to the stability of the financial system. The banking sector endorses initiatives that aim to mitigate these risks by reducing emissions and bolstering societal resilience to the impacts of climate change. These could include establishing platforms for knowledge exchange where the broader community can learn from Māori practices and vice versa. It could include partnering with Iwi/Māori to develop and disseminate educational materials about climate change, its impacts, and potential mitigation and adaptation strategies. This could help build climate literacy and encourage climate-friendly behaviours across New Zealand, leading to more sustainable practices being adopted across the motu, potentially leading to further emissions reductions.

Along with increasing funding to Māori landowners, it could be beneficial to provide specific support for the implementation of sustainable land management practices. This could include training and education, access to experts, or funding for the implementation of specific sustainable projects. Additionally, Iwi/Māori led conservation efforts could lead to positive environmental outcomes. Providing support to such initiatives could offer additional paths for emissions reductions. Supporting these initiatives assists the banking sector in upholding its Treaty obligations, thereby mitigating potential legal or regulatory complications.

With the continued growth of the Māori economy, there will be increased opportunities for banks to offer financial services to Māori businesses and communities. Endorsing climate initiatives can assist the banking sector in establishing and fortifying relationships with Iwi/Māori, positioning it effectively to capitalise on these future opportunities.

Recommendation 5: Integration of mātauranga Māori into policy design

The NZBA is in agreement with the integration of Mātauranga Māori into climate policies and solutions. Climate change presents a notable risk to the financial sector. Extreme weather occurrences, sea-level rise, and shifting weather patterns can disrupt economies and affect the credit status of borrowers. By endorsing local climate change solutions informed by Mātauranga Māori, the banking sector can contribute to a wider effort to offset these risks.

The local solutions formulated through Mātauranga Māori aim to enhance the resilience of communities in response to climate change. This enhanced climate resilience can indirectly foster economic stability. Increased funding and resource provision for Mātauranga Māori-led initiatives and research could potentially yield new sustainable technologies and practices. This paves the way for new investment and financing opportunities for the banking sector by engaging with and supporting Iwi/Māori-led initiatives. Additionally, supporting initiatives that respect and integrate Mātauranga Māori and rangatiratanga aligns with the broader environmental, social, and governance (ESG) principles.

The NZBA endorses initiatives promoting inclusivity and equity in climate policy. We stand prepared to support initiatives that encourage diverse perspectives and inclusive climate action. We propose the inclusion of financial education initiatives as part of the resources provided to Iwi/Māori.

Recommendation 6: Enabling a fair, inclusive, and equitable transition

A low emissions economy transition that is equitable and inclusive can mitigate potential disruptions, reducing the risk of financial instability that could have considerable implications for the banking sector. By managing the shift to a low emissions economy in a way that minimises adverse impacts on well-being and supports all individuals and communities, especially the most vulnerable, we can minimise the risk of economic disruption and social unrest. This, in turn, lowers the risk to the financial system. Consequently, the NZBA endorses facilitating a fair, inclusive, and equitable transition by broadening the scope of the Equitable Transitions Strategy to encompass the compounding impacts of climate change and adaptation, as well as mitigation. This could involve prioritising funding and support for initiatives that foster job creation in the green economy, particularly in areas where jobs are lost due to the decline of carbon-intensive industries. This could include investment in skills training and education for green jobs, support for innovation in clean technologies, and programs that encourage the development of local, sustainable businesses. In respect of adaptation, this should ensure any steps taken (i.e., managed retreat for residential housing as a last resort) are taken from a socially equitable viewpoint. Furthermore, the strategy could incorporate measures to address the higher energy costs that can result from the transition to low-carbon energy sources, which can disproportionately affect low-income households. This could include energy efficiency programs, subsidies for clean energy technologies, and income support measures.

The banking sector plays a vital role in managing societal financial risk. Climate change introduces substantial risks, not only in terms of direct impacts such as extreme weather events but also indirect impacts such as policy changes and evolving consumer preferences. By endorsing a comprehensive and equitable transition strategy that includes both mitigation and adaptation, banks can improve their understanding and management of these risks. The transition to a low emissions future will also necessitate significant investment in new technologies, infrastructure, and industries, and the banking sector will be integral in financing this transition. By supporting an inclusive and equitable transition strategy, the banking sector can contribute to ensuring that these investment opportunities are widely distributed and can benefit all segments of society. The banking sector is a component of the societal fabric, and its long-term success is contingent on the overall health and prosperity of the societies in which it operates. Supporting a fair, inclusive, and equitable transition strategy aligns with its long-term goals.

Therefore, the NZBA agrees with the need for a just transition that takes into account the socioeconomic impacts of climate policies. This recommendation aligns with the NZBA’s sustainability goals, and the banking sector will continue to support such transitions through its financial services and initiatives.

Recommendation 7: Use of existing mechanisms to manage impacts of climate policies

Financial risks are inherent in the banking sector through its lending and investment activities. By endorsing policies that foster equitable transition and climate action, banks can offset these risks by ensuring their borrowers are better equipped to manage the transition, thus reducing the likelihood of default. An equitable shift to a low-carbon economy is likely to be more successful and sustainable in the long run as it reduces social inequities and ensures a fair distribution of the benefits and burdens of climate action. This stability yields a more predictable and secure operating environment.

Consequently, the NZBA supports the utilisation of existing mechanisms to manage impacts of climate policies, rather than deferring climate action. This stance encourages policies that promote climate action, help manage financial risks, attract investment opportunities, and enhance corporate social responsibility. It requires transparency and communication in the implementation of climate policies. This could involve clearly communicating the rationale for policies, their expected benefits and costs, and the measures in place to manage their impacts. In addition, the government should engage with stakeholders, including the banking sector, in the development and implementation of policies. This could help to ensure that policies are well-understood, that concerns are addressed, and that the benefits of climate action are widely shared.

PART 2: CREATING LOW EMISSIONS OPTIONS

Recommendation 8: Enhance advisory and extension services to farmers

This recommendation aims to recognise a broader range of emissions-reducing practices and technologies, and to incentivise gross emissions reductions in line with the 2050 target.

In principle, the NZBA supports the advancement of the agricultural emissions pricing system. It is recognised that pricing emissions is an effective way to incentivise emissions reductions, as it can make emissions reduction technologies and practices more financially attractive. It can also stimulate innovation in the agricultural sector and prompt farmers to adopt new, emissions-efficient practices and technologies.

However, the NZBA would like to note that this system would need to be designed and implemented in a careful and considered way, to ensure it is both effective and equitable. The system would need to provide sufficient incentives to drive emissions reductions, while also recognising the diverse circumstances of different farmers and the varying potential for emissions reductions across different agricultural practices and technologies.

Furthermore, there are significant practical challenges associated with measuring and pricing agricultural emissions. These include the complexities of measuring emissions from biological processes, such as methane from livestock and nitrous oxide from fertiliser use, and accessibility of farm-level emissions data to the banking sector. There are also concerns about the potential for emissions pricing to increase costs for farmers, which could have broader economic implications.

Therefore, while the NZBA supports the advancement of the agricultural emissions pricing system in principle, it emphasises the need for a detailed and thoughtful approach to its design and implementation. This approach should take into account the practical challenges of measuring and pricing agricultural emissions, as well as the potential economic implications for farmers and the wider economy.

The NZBA acknowledges that the banking sector has a role to play in supporting the transition to a low emissions agricultural sector. Banks can contribute to this transition by incorporating emissions considerations into their lending decisions and by collaborating with farmers to support their emissions reduction strategies. They can also collaborate with other stakeholders to develop best practices for setting net zero long-lived gas emissions targets for their agricultural loan portfolios. This collaboration, however, requires clear guidance from the relevant regulatory bodies to ensure it does not infringe upon anti-competitive behaviour laws, while achieving positive climate outcomes.

By supporting this recommendation, the banking sector would be aligning its practices with the global trend towards net zero long-lived gas emissions targets. It would also be contributing to the broader societal effort to mitigate climate change, while also improving the sustainability and long-term viability of the businesses they finance.

Recommendation 9: Advance the agricultural emissions pricing system

We refer to our submission to the Ministry for the Environment on the *Consultation Document: Te tātai utu o ngā tukunga ahuwhenua – Pricing agricultural emissions* dated 18 November 2022 (https://www.nzba.org.nz/wp-content/uploads/2022/12/221118-NZBA-Submission-on-Agricultural-Emissions-Pricing-.pdf).

The NZBA recognises the importance of mechanisms to incentivise reductions in emissions, including the agricultural emissions pricing system. While we acknowledge the challenges of implementing this system, such as the complex nature of emissions reduction in the farming sector and the current lack of granular farm-level emissions data, we do not support further delays in its introduction.

Our focus remains on the technical design of the regime, ensuring that the data collected and provided under this system is consistent and interoperable. We firmly believe in the need for a centralised calculator managed by the implementation agency to ensure standardised and equitable emissions reporting across all farms. We support the proposal that emissions be calculated using this method and do not endorse any further delays in its introduction. We suggest improving the collection of farm-level emissions data through a consistent methodology, documented and available to other sectors. This includes defining who is required to report what (for example, who reports stock under share milker arrangements etc.).

We believe that, despite the hurdles, it is crucial to proceed with implementing pricing mechanisms. A clear position on sequestration and a centralised data-collection solution are indeed needed. This data is vital for banks to measure and monitor emissions reduction, engage constructively with clients on their emissions reduction journey, and foster beneficial competition by comparing performance.

By balancing the need for immediate action with the challenges inherent in such a system, we aim to support a just and effective transition towards lower emissions in the agricultural sector.

The NZBA identifies the enhancement of farm-level emissions data collection and its widespread sharing as a critical step towards addressing emissions tracking concerns. Recognising that farmers are already required to gather this data; we believe there's potential in encouraging them to share it more broadly. This could for example be approached in a manner similar to tax reporting, ensuring consistency and ease of data sharing while maintaining proper confidentiality. Encouraging farmers to share this data could further promote transparency and accountability in emissions management.

The effectiveness of the emissions pricing system might be enhanced by pairing it with other initiatives. For instance, it could be part of a broader policy package supporting research and development into low-emissions farming practices and technologies.

The NZBA supports the implementation of an equitable, farm-level agricultural emissions levy. We believe that, with careful design and implementation, such a levy can play a crucial role in driving the transition to more sustainable farming practices. To this end, it is crucial to have a meaningful reporting entity and framework to avoid asking farmers to produce multiple GHG inventories at different levels, leading to unhelpful duplication of effort.

We are mindful of the potential financial strain this system could introduce, particularly for small and medium-sized enterprises. However, we believe that these challenges can be managed through a strong focus on investment in research and development. This investment will help to identify and promote innovative, cost-effective methods for emissions reduction in the agricultural sector, ultimately mitigating potential financial hardship and credit risk increases.

In addition to this, we consider it imperative to have specific support mechanisms, such as subsidies or phased pricing, tailored towards farming classes or landowners disproportionately affected by emissions pricing and with limited mitigation options. These include, but are not limited to, sheep and beef farmers, and those operating on marginal land with limited sequestration possibilities.

Creating loan products that support farmers in making emissions-reducing investments could help to mitigate potential credit risks. We envisage the possibility of integrating the emissions pricing system with financing, where banks and other financial institutions align their loan portfolios with the emissions pricing system.

In this way, the NZBA advocates for a balanced approach, combining immediate action on emissions with targeted investment to support our agricultural sector during this critical transition.

To promote transparency and acceptance of the system, it is imperative that the system incorporates clear methodologies and adequate consultation with farmers and other stakeholders. This approach will likely enhance the perception of the system as fair, thereby increasing its effectiveness. To alleviate potential financial pressures on farmers, the emissions pricing system should incorporate safeguards for vulnerable businesses. For instance, specific support mechanisms, such as subsidies or phased pricing, could be tailored towards farming classes or landowners disproportionately affected by emissions pricing and with limited mitigation options. These include, but are not limited to, sheep and beef farmers, and those operating on marginal land with limited sequestration possibilities. Such targeted measures would assist these farmers in their transition towards more sustainable practices. Creating loan products that support farmers in making emissions-reducing investments could help to mitigate potential credit risks. This strategy could turn emissions pricing from a potential financial risk into an opportunity for growth and diversification.

The NZBA envisages the possibility of integrating the emissions pricing system with financing, where banks and other financial institutions align their loan portfolios with the emissions pricing system. This strategy could encourage farmers to reduce their emissions, as those with lower emissions could receive more advantageous financing terms.

The NZBA strongly supports the implementation of agricultural emissions pricing. We seek greater clarity around implementation timelines, levies, and the impact of sequestration. While we understand the complexities involved, we do not endorse any further delays. Our focus is on progressing towards a sustainable, low-emissions agricultural sector as swiftly and effectively as possible. Encouraging gross emissions reductions in line with the 2050 target would not only assist banks in achieving their own emissions targets but would also encourage their clients in the farming sector to minimise their carbon footprint. An emissions pricing system could foster market conditions that enable and reward the transition to a low-carbon economy.

Recommendation 10: An integrated planning system that builds urban areas upward

The NZBA acknowledges and supports the goal of reducing carbon emissions, and we continue the process of aligning our practices with principles of sustainability. We understand the significance of transitioning towards a low-carbon economy and recognise the role of the banking sector in facilitating this shift.

The concept of integrated urban planning, which encourages vertical expansion and mixed-use development, holds promise in terms of reducing carbon emissions. Higher-density living, reduced commuting distances, and bolstered local economies are all potential benefits of such an approach, leading to more sustainable, lower-emission businesses.

However, while we recognise the benefits of this strategy, the NZBA must also consider potential financial risks that could arise from such urban planning, particularly in relation to property development loans and mortgages. Further details about the proposed system's implementation and regulation are necessary for us to fully understand the implications for our sector. We would welcome greater clarity on the regulatory framework for this system and the associated financial risks. Such an understanding could be achieved through close collaboration involving the banking sector, the government, and urban planning experts.

It is crucial that regulatory bodies play a proactive role in facilitating the banking sector's contributions to improving climate-related outcomes. This guidance should encourage collaboration among banks without infringing upon anti-competitive behaviour laws. It is critical that guidance outlines clear parameters for cooperative initiatives focused on climate change, ensuring they do not compromise market competition or consumer interests. For instance, these parameters could allow banks to share research on sustainable practices. By doing so, the dual aims of climate sustainability and market competition, can be effectively promoted. As part of our ongoing support of sustainable investment and climate risk mitigation, we are eager to contribute to discussions shaping this regulatory framework.

In line with this, we continue to provide finance for sustainable and well-considered urban projects, thus actively supporting the shift towards greener urban development. In light of this, the NZBA is in favour of this recommendation, as it aligns with our dedication to sustainable investment and addressing climate risks.

Recommendation 11: Incentivise comprehensive retrofits

The NZBA acknowledges that retrofitting buildings has the potential to significantly reduce emissions. However, there are challenges for the banking sector in providing the necessary financing, particularly for older buildings where retrofit costs may exceed property value. To effectively support emissions reduction in the building sector, we propose greater availability of building energy usage data and the introduction of mandatory energy ratings, similar to the NGERs scheme in Australia. This would provide valuable data to incentivise building retrofits and help drive down associated costs.

Additionally, we advocate for increased investment in construction materials with lower embodied emissions to further decrease retrofit construction expenses. To promote retrofitting over rebuilding, we also suggest incorporating appropriate costs into waste treatment.

In short, a comprehensive strategy is needed, combining a robust scheme to assess the feasibility and cost-effectiveness of retrofits, clear financial incentive frameworks for building owners, and forward-thinking policies that favour retrofitting and the use of low-carbon materials. Exploring public-private partnerships could also be beneficial to share the costs and benefits of such a scheme.

In general, we support this recommendation as it promotes the retrofitting of existing buildings to enhance their environmental performance. The banking sector has a crucial role in providing capital for retrofitting projects. To further encourage such initiatives, it can offer preferential lending rates and issue green bonds. Additionally, financing retrofit projects can help create more sustainable properties, thereby strengthening the resilience of loan portfolios by mitigating financial risks associated with inefficient, high-emissions buildings.

Recommendation 12: Prohibit the new installation of fossil gas in buildings

The NZBA acknowledges the importance of shifting away from fossil fuels and embracing low-emissions alternatives, and supports the prohibition of new fossil gas installations in buildings and the promotion of renewable electricity generation. While we acknowledge concerns around the financial viability of existing gas infrastructure investments and potential cost implications for consumers, we believe that the installation of new fossil gas in buildings should be limited. This limitation should apply except in instances where no viable renewable option is available. In this way, we advocate for an approach that respects existing investments and consumer costs, while prioritising the transition to renewable energy sources in line with our commitment to reducing emissions.

However, we acknowledge the potential impact of a complete prohibition on the financial viability of existing gas infrastructure investments and the potential cost implications for consumers. To ensure a successful transition, a clear strategy is necessary, encompassing measures to address financial risks and ensure an equitable transition for affected communities. This could involve a phased approach to the prohibition and providing financial support to consumers as they transition to low-emissions alternatives.

In general, this recommendation aligns with the banking sector's commitment to reducing financed emissions and supporting the transition to a low-carbon economy. We recognise the need to move away from financing fossil fuel-based systems in buildings, particularly when viable and cost-effective alternatives are available. To support this transition, the banking sector can offer financing options and solutions that prioritise renewable energy and energy-efficient systems while discouraging the continued investment in fossil gas infrastructure.

Recommendation 13: Prioritise and accelerate renewable electricity generation build

The NZBA fully supports the primary goal of reducing emissions while understanding the importance of maintaining economic stability. We see the considerable upfront investment necessary for the transition to renewable energy not as a risk but as an investment in a sustainable future, which can contribute to economic stability in the long run. We acknowledge there may be some, albeit limited, challenges posed by the intermittency of renewable energy sources such as wind and solar. However, we also see these challenges as catalysts for innovation in energy storage and grid management, which could lead to increased stability of our electricity supply.

It is important to ensure effective management of potential environmental and social adverse impacts that new renewable projects might bring, but recommend proactive engagement with this transition through, for example, tailored financing options for renewable energy projects. By effectively managing the inherent challenges and strategizing for the variability of renewable energy sources, we believe it is possible to harmonise the banking sector's objectives with the goals in the emissions reduction plan. The NZBA advocates for the creation of financial incentives and investment opportunities to facilitate this shift. We see this transition as an opportunity to contribute to a sustainable and resilient future while also enhancing the growth and stability of the economy.

Recommendation 14: Pursue more widespread process heat decarbonisation

While we recognise the challenges inherent in decarbonising heat and other industrial sectors, we believe that failing to transition and continuing to use high-emission energy sources will pose an even greater risk of financial instability. It is important to remember that the entrenched reliance on fossil fuels within these domains is not sustainable in the long term.

The government should continue to support initiatives like the GIDI fund and recent co-financing projects such as the Glenbrook Steel ARC furnace, provided that free carbon credits are then downscaled appropriately. By doing so, we can mitigate potential costs, manage financial risks, and maintain employment while driving a necessary and decisive shift towards sustainable industry practices.

The banking sector is well-placed to support businesses in this critical transition towards low-carbon and energy-efficient operations, including the decarbonisation of process heat. However, greater clarity is needed on NZ’s strategy for alternative fuels, such as hydrogen and biofuels.

A clear strategic roadmap would help to define investment risk in these areas and enable the banking sector to provide more effective assistance. By understanding the government's long-term plans for these alternative energy sources, we can better align our support and services to help businesses navigate their transition towards a more sustainable future.

To this end, the NZBA believes that the creation of concise policies and strategic plans is critical. These should encompass financial support mechanisms for industries and comprehensive plans for workforce transition.

By implementing these measures, it will be possible to mitigate potential adverse effects on the economy and the workforce, thus fostering an environment in which the banking sector can extend financial support with assured confidence.

Recommendation 15: Set and implement integrated objectives for the role of forests

The banking sector has acknowledged its significant part in combating climate change, particularly through conscientious lending practices. This acknowledgement comes with an understanding of the growing demand for banks to proactively manage climate-related risks. As such, for several years, banks have been taking necessary steps to manage these risks, including screening, and measuring loans for their environmental, social, and governance (ESG) risks.

The NZBA affirms the importance of establishing and implementing integrated objectives for nature-based solutions, including the role of forests and wetlands, in mitigating emissions and adapting to climate change, consistent with the principles of Te Tiriti o Waitangi/The Treaty of Waitangi. We recognise the urgent need for conservation and restoration efforts, not just for forests, but across all biodiversity, acknowledging its critical role in both climate change mitigation and adaptation. This includes a broader recognition of the role that biodiversity can play in emissions reduction, and the potential of other nature-based solutions in combating climate change and promoting climate resilience.

The banking sector is supportive of aiding these objectives. Nevertheless, it is critical to bear in mind the potential financial repercussions of aligning lending portfolios with climate goals. The complex nature of climate change mitigation, which encompasses a multitude of sectors and stakeholders, also demands careful consideration.

This recommendation underscores the escalating urgency for action on climate change and requires banks to take a proactive stance in addressing climate-related risks within their lending activities. It is recognised that this recommendation aligns with the principles of Te Tiriti o Waitangi. While the banking sector is conscious of its role in supporting these goals, it is also mindful of the need for careful risk assessment and management.

Recommendation 16: Simplify planning and increase funding of integrated transport networks

The NZBA appreciates the significance of efficient planning and funding mechanisms for the successful execution of large-scale projects. Efficient planning and increased funding can expedite the development of integrated transport networks, which are essential for reducing the environmental impact of the transport sector.

Integration within transport networks can enhance accessibility and convenience for users, which in turn could foster increased use of public transport. Thus, simplifying planning processes and bolstering funding for transport networks that prioritise public and active modes of transportation is a promising approach for improving network integration.

The NZBA is therefore supportive of the goal to transition to a low-carbon economy. However, it is important to underscore the fact that large-scale projects necessitate significant financial investment and a sound, long-term funding model. The banking sector plays an integral role in funding these initiatives, and it is equally important to work collaboratively with the government, local and regional councils, utilities, real estate providers, and other stakeholders to address these challenges effectively. To this end, it is crucial to maintain clear visibility on funding sources and conduct thorough risk analysis.

Recommendation 17: Rapidly resolve the barriers to scaling up vehicle charging infrastructure

The NZBA recognises the urgency of expanding vehicle charging infrastructure. However, it is important to acknowledge that such rapid scaling up poses substantial challenges, including regulatory constraints, limitations in grid capacity, resource shortages, high costs, and the necessity for renewable energy sources.

Emphasis should be placed not just on the quantity, but also on the strategic positioning of charging stations. Refined, data-informed planning can help pinpoint optimal locations, taking into account factors such as traffic patterns, local grid status, and other pertinent factors. Streamlining the permitting processes could expedite the installation of charging stations. Furthermore, partnerships with infrastructure funds and other prospective investment partners could serve as alternative funding avenues for the construction, installation, and operation of public chargers.

A well-defined strategy addressing these issues will be required. We suggest that the government simplifies and standardises permitting processes, invests in production capacity and workforce skills, and provides incentives tied to the use of renewable energy.

Recommendation 18: Develop incentives to accelerate the uptake of zero emissions commercial vehicles

The NZBA recognises that incentives could be a powerful means to expedite the adoption of zero-emissions commercial vehicles. There may be merit in incentivising businesses to transition their fleets to electric vehicles. While considering subsidies for the purchase and operation of zero-emissions vehicles, we must also extend our focus to include the waste systems for discarded high-emitting vehicles. For example, alongside incentivising the use of zero-emissions vehicles through preferential rights of road usage, such as access to bus lanes or parking privileges, we should also explore ways to manage and reduce the environmental impact of retiring high-emitting vehicles. This comprehensive approach ensures that we address all aspects of the vehicle lifecycle, contributing to a more sustainable transportation sector.

Cooperative partnerships with business owners could be a promising strategy to accelerate this transition. Nonetheless, the design of these incentives needs careful consideration to ensure the effective utilisation of public resources and to prevent unintended consequences. Consequently, the NZBA anticipates detailed information on the types of incentives to be implemented and evidence of their effectiveness.

Recommendation 19: Address the misalignment between current landfill gas capture and targets

This recommendation aligns with the banking sector's support of sustainable practices and financing technologies that aid in reducing greenhouse gas emissions. However, the NZBA acknowledges the potential financial risks associated with the initial costs of implementing these systems. Regulatory pressures may prompt hasty implementation of systems that could turn out to be less efficient or more costly over time. Therefore, ensuring the financial viability of such actions is crucial, for instance, through government subsidies or incentives that could help landfill operators offset the upfront costs of these systems.

While we appreciate the potential administrative load of data gathering and reporting, we believe that improved collection and monitoring of reliable waste data, categorised by volume, type, and region, along with methodologies to calculate waste emissions, are necessary to accurately track emissions and emissions reductions. This requirement holds true across many industries, and waste management should not be exempted based solely on the perceived effort involved.

The NZBA advocates for greater accuracy and transparency in this area, which would facilitate sound decision-making and more efficient resource utilisation, a goal shared by the banking sector. Enhanced transparency and precise data reporting could inform investment decisions and risk assessments related to landfill gas capture systems.

Moreover, we argue for an increased focus on reducing waste to landfills, particularly organic waste, recyclables, and construction waste. We encourage support for onshore and local systemic solutions, in order to mitigate the dependency on offshore markets and transportation for managing recyclables. While we understand these measures might potentially increase operational costs for landfill operators, we believe that they are crucial steps toward a more sustainable future and should be pursued.