Submission on the Second Emissions Reduction Plan

from Climate Action Aotearoa and Philanthropy New Zealand I Tōpūtanga Tuku Aroha o Aotearoa.

Response to draft recommendations from Climate Change Commission for strategic direction of second emissions reduction plan (covering the 2026-2030 Emissions Budget)

Introduction and overview

This submission is contributed to by the Combined Community Trusts of Aotearoa, Climate Action Working Group on behalf of Climate Action Aotearoa: Funders Commitment on Climate Action, and members of the Philanthropy New Zealand Climate Action Funders' Network. It provides perspectives from the philanthropic sector about the support required from central government to plan for the implementation of the Second Emissions Reduction Budget.

Overall, we agree with the Climate Change Commission's advice on the Second Emissions Reduction Plan. We stress that as a significant holder of community and philanthropic funds, the philanthropic sector in Aotearoa New Zealand is ready to further mobilise capital investment and grants to address climate change, but needs leadership, direction, prioritisation and collaboration from Government, as set out in this submission.

Amongst the recommendations made by the Commission, we particularly wish to note support for some fundamental and critical shifts that require urgency, such as:

- Adding gross emission reduction targets of at least 362 MtCO2e for the second emissions budget, and at least 322 MtCO2e for the third. As opposed to net emissions reductions, these figures do not include the benefit from forestry capture of greenhouse gases. This approach should also be applied for indicative targets out to 2050 and communicated to the public - alongside expectations of forestry sequestration.

- Redesigning the NZ Emissions Trading Scheme (ETS) to make it fit for purpose, including splitting out forestry. This month, the Commission advised specific changes including reducing the number of units available, raising trigger prices for cost containment and auction reserves, and changing to a two-tier cost containment reserve.

- Using policy levers like the Winter Energy Payment and welfare payments to support people to deal with the increased costs associated with climate action, rather than delaying climate action. This seems necessary after the government delayed action on ETS pricing controls, stating that it would put pressure on households during the cost-of-living crisis.

- Working with iwi and Māori to accelerate reductions - including via a direct funding scheme for Māori landowners, and integrating matauranga Māori into local and central government policy processes.

- Adding adaptation to climate change (e.g. flood defences, managed retreat etc.) into the government's Equitable Transitions Strategy, which aims to support lower-income households with the changes.

Supporting a just 'tika' transition takes collaboration between the government and the philanthropic sectors

As philanthropic and grantmaking organisations, we are committed to supporting a just and equitable transition to a low carbon society. But what makes it a uniquely Aotearoa approach is that it must also be 'tika', upholding Te Tiriti o Waitangi and enabling Māori-led solutions and with urgency.

We urge the Climate Commission to more comprehensively apply this lens of enabling a 'tika' and just transition across all topic areas and recommendations covered in its advice to Government. Our sector holds significant funds (including those owned by the community, for the community) which can be utilised alongside government funds to facilitate the transition but we need proactive focus and engagement from Government on these issues.

Co-investment opportunities

The Climate Change Commission advice recognises that the role of private finance in emissions reduction is growing, and that this requires an enabling environment from Government. We feel that it should also be acknowledged that the current Government approach is slower than it could/should be if capital was not constraining these initiatives.

There is a key opportunity now for Government and its agencies to collaborate with non-government investors to obtain financial leverage from other sources which will assist in delivering the Government led programmes/funds that are directed towards climate change. The pooling of private capital (including philanthropy) in partnership with Government would reduce risk and create directional alignment.

Knowledge sharing

There are knowledge gaps in many sectors about what to fund in the climate space and how best to measure impact. Creating channels for the philanthropic and other sectors to access governmental expertise and information on specific climate action, would enable more philanthropic funders to identify and prioritise funding towards the initiatives that would have the most impact in supporting a tika transition for communities.

More broadly, the philanthropic sector already works closely with communities to understand their needs and aspirations, and measure the impact of different initiatives. It would also be beneficial to create more regular opportunities for learning to be shared about community impact by other sectors with Government, for the purposes of tackling climate change mitigation and adaptation.

There are specific opportunities in energy, transport, and forestry where the involvement of the philanthropic sector and government already converge, and increased collaboration in knowledge sharing and funding could benefit a tika transition. We have highlighted below areas where we see more gains can be made.

Energy

We support recent Government announcements around expansion and increased investment in insulating, heating and repairing homes to keep them adequately warm and energy efficient. Funders in low socio-economic areas such as Trust Horizon, Foundation North and The Tindall Foundation have worked in partnership with EECA to contribute to the insulation and heating of thousands of homes in Eastern Bay of Plenty, Northland and Auckland. However, one of the key challenges observed is that buildings often need significant repairs before insulation and heating can be installed. We recommend that EECA's mandate and funding is expanded to ensure repairs can also be undertaken before insulation takes place (otherwise these homes are not supported to become energy efficient). Repair programme funding currently sits with MBIE as part of the Energy Hardship (SEEC) funding. Philanthropic funders have also discovered that there are opportunities to assess water supplies, repair pipes and explore solar installation at these residences at the same time.

We support incentives being used to help develop locally owned and managed energy generation for reasons set out by the Commission, and in line with the recommendation in the recent discussion paper from the Energy Hardship Expert Panel which outlines ways to address energy hardship and boost community resilience in times of environmental impacts.

Overseas there are many examples of successful community energy projects and the challenges faced by communities in setting them up. Some examples can be seen here: https://d2e1qxpsswcpgz.cloudfront.net/uploads/2020/03/ukerc-wp_evolution-of-community-energy-in-the-uk.pdf. It is also worth noting that philanthropy is already co-funding the business case for at least one iwi-owned renewable energy project with the potential to produce electricity for green hydrogen manufacture.

Transport

The largest levers in transport transformation, for example those that relate to major population centres and commercial vehicles do not necessarily achieve equity in transition for all New Zealanders.

There is a significant lag time between government direction through funding or policies and viable transport models being set up for communities that are remote or rural and/or under deprivation. We would like to see more being done now to support low income and rural communities to transition, recognising there is significant learning required and iteration to achieve viable transport models in these communities. Mode-shift away from cars/utes is a significant climate lever and whilst there are a variety of viable models in densely populated centres (public transport, cycling, micro-mobility etc), outside of these areas very little is being done to understand the challenges and options in the future. We would like to see more done to support vulnerable communities under the Government's equitable transitions strategy.

Increased analysis in the Commission's advice on tangible ways to enable low-income households to access EVs or shared vehicles is essential, recognising car transport may remain the only viable means of transport in these communities for some time. One way is to reinstate the social car leasing scheme and proceed with the three pilots previously planned by MBIE. A pilot in South Auckland funded by philanthropy is demonstrating that this type of scheme can be funded as an investment and has many benefits for low-income families, including slashing weekly fuel bills, building awareness of electric vehicles and avoiding the financial pressure of owning a vehicle that requires significant upfront funds (which can lead to debt and exposure to predatory lenders).

The ageing EV fleet in New Zealand should also be addressed in the advice (for example early Nissan Leafs) because it is these lower cost/range second-hand vehicles that ultimately will become available to lower income families for purchase. Battery repair, repurposing and lease schemes (given that batteries can form 30-40% of the EV cost) could be supported and destination charging infrastructure significantly expanded to allow for more regular charging for daily/regular commuting or journeys that are required to subsist. Electric vehicle chargers should also be part of the expected infrastructure in existing and new public/social housing developments to enable home charging.

Forestry

As mentioned by the Commission, there is much interest from Māori led initiatives to develop native afforestation and transitional forest strategies. Iwi in some regions have inherited exotic forests as part of their Treaty settlements. These will be increasingly a liability, as fire risks and pests take hold with climate change. Given the biodiversity, well-being and cultural benefits of native forests, we recommend that there is an immediate review of incentives (including in the Overseas Investment Act) which currently favour Radiata plantations over native forests.

Linked to supporting these efforts, we would like to stress the importance of research and technology in supporting this shift – for example exploring how to plant native forests at scale and properly evaluating whether Radiata forests can be safely transitioned into native forest without impacting the land quality. While the Commission has cautioned that we cannot plant our way out of climate change, we believe there is huge potential from investing in large-scale regeneration of native forests across Aotearoa. Philanthropic funding supports a range of activity in this area, not only to achieve carbon sequestration, but the wider ecosystem service benefits (e.g. clean water, improvements in soil quality, erosion protection and wildlife recovery).

We welcome the recent Government amendments to the National Environmental Standards for Plantation Forestry which will include reviewing the incentives in the current ETS to favour permanent carbon forestry using monoculture radiata plantations.

While philanthropy is supporting work on native forest regeneration, achieving this on a large scale will require development of new finance and investment models. We urge the Government to speed up the work being done in partnership with philanthropic funders, community organisations, and private funders on development of a biodiversity credit.

Acknowledging the adaptation finance gap

Prior to this Second Emissions Budget, there has been no analysis of the adaptation finance gap in Aotearoa New Zealand; and yet the fiscal headroom of government (reaching debt-limits and having no funds) is receding at the same moment that funding for adaptation is needed the most.

How Government acts following the ERP Second Emissions Budget has the potential to have a major impact on our society and economy. A lack of action or budget shortfalls[1] are likely to cause a greater litigious environment and a society questioning 'who pays?' The philanthropic sector believes that Government has the key role in developing cohesive strategy for addressing the Adaptation Finance Gap, so that it doesn't fall to the philanthropic sector to fund major adaptation programmes.

Policy and legislation will set the scene for how the government considers and makes decisions about how the costs of climate change/adaptation will be shared. With advice and forward planning, private philanthropic investment could play a similar role to government in de-risking investments and enabling supportive eco-systems for sustainable and impact investment. A good example of enabling advice can be seen here: https://www.mbie.govt.nz/dmsdocument/19701-government-support-for-social-enterprise-briefing

The government can collaborate with philanthropic organisations such as the Combined Community Trusts Aotearoa and Philanthropy New Zealand to facilitate and establish a partnership approach. If co-funding and partnership is going to be successful between government (local and central) and others then we must first acknowledge the adaptation finance gap.

Government leadership

In addition to transparency and planning around adaptation financing, there are two critical areas of Government leadership required in relation to this Emissions Reduction budget as we see it:

Systemic transformation

The recommendations in this submission are targeted at a whole-of-system change. These recommendations do not simply rely on government adding "environmental and social factors" into existing legislation, norms and frameworks. We see a sustainable economic system as one where the impacts on the planet, people and profit are afforded equal importance. This takes transformative thinking.

There needs to be an urgent escalation of climate issues to the top of the priority list in every department and Ministerial portfolio, with a focus on achieving significant emissions reductions in every sector before 2030, and a major refocusing of resources across the whole of Government to ensure that the necessary policies are developed and implemented promptly and in an effective manner.

We require a mindset shift, and a shift in the power dynamics associated with systemic transformation. Shareholders are critical to capitalism; without their risk capital, organisations could not operate. To enable a shareholder to stakeholder shift, we recommend the Government accelerate development of a collaborative data governance

[1] There may well be funding shortages for the purposes of compensation, research, new infrastructure, upgrades for existing infrastructure, building capacity, partnership, participation and engagement, supporting the utilisation of mātauranga Māori, and the protection of the tāonga and the natural environment.

platform for environmental and social data. This is considered fundamental to investor confidence and the redirection of capital flows to sustainable activities.

The data governance platform initially focuses on providing data and information to support the analysis of climate-related financial risks, and enables climate-ready investments but we also see this as an opportunity to incorporate measures around a Tika transition and stakeholder interest.

Given the solutions do not yet exist for some industries and sectors, the Commission's advice needs to further examine a centralised finance strategy to include standardising the 'market framework' and advocating for taxonomies, and for those taxonomies to be led by community stakeholder interest rather than corporate shareholder interest. See the second bullet point in the section below:

Sustainable Finance

Philanthropic funding is also supporting work on the sustainability of our finance and investment system. We endorse the priorities identified by Toitū Tahua – The Centre for Sustainable Finance (based on recommendations made by the Sustainable Finance Forum), which would mobilise the use of private capital (including from the philanthropic sector) into transitioning our economy. We ask the Climate Change Commission to further investigate these action areas.

We were encouraged to see the statement made on 8th June by the Climate and Finance Ministers of New Zealand and Australia which provides strong recognition of the value and strength of Australia and Aotearoa New Zealand working together to ensure that financial flows support emissions reduction and adaptation through actions such as:

- Using green sovereign bonds to finance government programs
- Aligning approaches to sustainable finance frameworks such as taxonomies
- Coordinating implementation of climate-related disclosure requirements using internationally aligned standards
- Developing best-practice modelling approaches to climate change, mitigation and adaptation
- Strengthening the integration of climate related spending into government budget reporting
- Establishing a sustainable finance strategy working group to support this work and positioning the region as a robust green finance market.

Conclusion

We are pleased to see government recognition of the need for strengthening our emerging sustainable finance frameworks, and the Climate Change Commission's advice around the strong cooperation needed to achieve this. We are committed to supporting a tika transition to a low carbon Aotearoa. Our submission outlines how our sector can benefit from improved government leadership and collaboration.

Thank you for the opportunity to submit to the Climate Change Commission's Advice on the Second Emissions Reduction Plan.

About Climate Action Aotearoa

Climate Action Aotearoa is a collective of Community Trusts of Aotearoa New Zealand and other signatories to Climate Action Aotearoa's Funder's Commitment. Its purpose is to provide a platform for funders in Aotearoa to better understand climate action needs, issues and opportunities, show leadership and undertake individual and collective action on these issues accordingly. It aims to accelerate a just (tika) transition to a low carbon society in Aotearoa, in partnership with iwi/hapu/Māori.

About Philanthropy New Zealand

Philanthropy New Zealand | Tōpūtanga Tuku Aroha o Aotearoa (PNZ) is a not for profit organisation and the peak body for philanthropy and grant-making in Aotearoa New Zealand.

We have over 200 members including individuals who give donations and bequests as well as structured philanthropy and grant making from corporate organisations and foundations, family foundations, gaming machine societies, Community Trusts, energy trusts, community foundations, and local and central government.

PNZ's purpose is to grow effective giving and to inspire more and better philanthropy whilst helping build a stronger philanthropic and grant-making sector. PNZ is a connector of organisations (including with the Government), offering representation, networking, professional development and information to the philanthropic sector.