Submission to the Climate Change Commission

Mindful Money

Mindful Money is a charity, aiming to reorient the flows of investment away from climate-damaging business towards climate solutions. Our main activities are to:

- promote ethical and responsible investing with the public and finance sector
- provide radical transparency on KiwiSaver and other retail investment portfolios
- make it easy for investors make ethical choices that align with their values
- support the transformation of the finance sector towards sustainable finance

We commend the thorough work of the Commission and the consultation undertaken including the inclusion of Te Ao Māori perspectives and the need for a just transition. We support the overall thrust of the report:

"Priority areas for action include increasing the number of electric vehicles on our roads, increasing our total renewable energy, improving farm practices and planting more native trees to provide a long-term carbon sink."

We would like to offer suggestions for strengthening the report and encouraging strong government policies.

A clear pathway for carbon pricing

The Commission has been asked to provide advice to the government on policies. Perhaps the most important advice is on the level of a carbon price, set through the Emissions Trading Scheme. Proper pricing of carbon is not sufficient – we need other policies as well - but a higher carbon price is absolutely necessary for the transition to a zero carbon economy.

Companies and markets respond to pricing signals. Investment decisions made by the finance sector, business, government and individuals will reduce climate impacts if prices reflect the true costs of climate change. A crucial role of government is to set the costs for business at a level that reflect the costs of social and environmental damage.

The report recognises that the carbon price has been far below its true cost. The minimum price is still $20 per tonne, rising by 2% per year. The Commission suggests that the ETS and other policies should result in abatement costs of $140 per tonne by 2030 and $250 per tonne by 2050. The Commission should set out a clear and predictable pathway for pricing to ratchet up to that level so that finance and business can have predictable framework for their investment decisions.

The Commission should:

- Recommend a minimum price for carbon (set through the Emissions Trading Scheme) at a sufficient level to kick start the necessary transition. This should be at least $50 per tonne (the current NZ price is around $36 per tonne and the EU price is over $65 per tonne).
- Include a larger carbon price escalator that increases the price over time towards the 2030

abatement cost in order to provide long term predictability
- Recommend a more rap[d phase-in of the primary sector to stimulate innovation and support New Zealand as a leader in low carbon, regenerative agriculture
- Rule out loopholes like the purchase of overseas carbon credits and instead use the price mechanism to ensure we can meet our internationally-agreed target
- Call for revenue from ETS auctions to be used to fund a just transition and accelerate emissions reductions
- Hypothecate auction revenues in order to support those adversely affected through the transition, including low-income communities and vulnerable people, including those with disabilities, disadvantaged Māori and Pasifika communities, young people and the regions.

Meet our targets without allowing loopholes

The purpose of the Zero Carbon Act is to reduce NZ's domestic emissions. However, the Commission's report calls for the purchase of 43 million tonnes CO_2e from overseas to meet our United Nations target.

The Commission should rule out buying overseas carbon units in order to meet our UN Nationally Determined Contribution (NDC) target to reduce our emissions by 30% from 2005 levels by 2030. It is a better option to invest in transitioning our New Zealand economy to a lower emissions pathway, rather than paying money overseas to others to reduce their emissions.

Buying overseas carbon units opens up the settings for political meddling, as was shown by the collapse of carbon prices in 2011-2015. This undermined the credibility of the ETS, sent the wrong price signals for investment decisions, and resulted in unfair losses for some companies and unscrupulous profit taking by others.

A change in approach is needed. The Commission's approach has been to define a feasible pathway for emissions reductions. The result is that we will miss our target by around 6.8% of projected emissions over the 2021-2030 period, and we will need to buy carbon credits from overseas. Within the Commission's pathway, there are ample opportunities to increase the level of ambition in the electricity sector, transport, industrial process heating, waste, buildings, food and agriculture in order to meet the target.

The Commission should not specify a pathway of least disruption – that is the government's role. The Commission should set the level of ambition and budgets needed to meet our UN target by 2030 and zero net emissions by 2050. The government's role is to design the policies to achieve that pathway.

It is time for us to step up to our responsibilities to future generations, to the international community and to ourselves. The Commission's emissions pathway should accept this challenge.

Ramp up finance for climate solutions

Switching the flows of finance from polluting companies to low emissions companies, carbon sequestration and climate resilience is essential. Finance is a powerful lever for change. A comprehensive roadmap towards sustainable finance has been developed by the Sustainable Finance Forum, but the Commission has failed to include most of the key recommendations, aside from a general call to investigate and develop plans to mobilise private sector finance.

Amongst the Sustainable Finance Forum's recommendations are three key changes required:

Education: Support education and capability-building about climate change and climate finance amongst company Directors, financial advisers and other financial institutions, across central and local government, universities and schools and members of the public. The process of engagement and follow-through is important. These audiences and the public need to understand the rationale for climate policies so they can change their behaviour, respond positively and support cross-Party consensus.

Regulation: Establish regulatory standards for finance that will set a framework for re-direct funding from fossil fuels and carbon intensive companies towards low carbon companies and climate solutions. These standards for the finance sector need to be included in Codes of Conduct and regulations governing KiwiSaver and other investments. This needs to be supported by extending the government's requirements for climate disclosure to include large private companies and the public sector.

Governance: Require company Directors and Trustees to take climate issues into account in their policies and decision-making.

Taking advantage of opportunities

The Commission report mentions some co-benefits from climate action but understates the important benefits from climate action. The impression that climate action is a cost to the economy is reinforced by costings showing a potential cost to GDP, with the corresponding estimates of the economic benefits from carbon reduction and the co-benefits from improved health, less waste and higher levels of well-being.

The reality is that climate action is increasingly a requirement for business. Consumers are increasingly demanding high standards from producers, including carbon neutral certification. Climate action by business is no longer an option for exporters – it is increasingly a requirement in order to sell into international supply chains. This is especially the case for long distance exports where a strong and verified story is required to assure consumers that they are not buying products with high levels of embedded carbon emissions.

The producers and service providers that do provide a convincing carbon story, or deliver climate solutions, will be rewarded by consumers and investors. The Commission's report should include analysis of the growth potential for New Zealand in a range of sectors, including products using renewable energy, plant-based protein and low emissions, regenerative agriculture.

This analysis should include the significant benefits to the finance sector and to New Zealand society from establishing a reputation as an investment hub for world-leading companies and funds that are climate-innovative, have verified zero emissions portfolios (or plans to get there) and providing climate solutions.

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