What would it take to mobilise investment to achieve New Zealand's climate goals?

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Highlights

This research:

- is motivated by the vital role that climate investment (public and private investment aimed at reducing emissions and adapting to the effects of climate change) plays in achieving Aotearoa New Zealand's climate goals, and by the fact that climate investment faces known challenges
- is based on in-depth interviews with 33 key informants across 24 organisations – people with expertise, knowledge and experience about climate change, climate investment and its financing, and affected industries and groups
- explores the question: What would it take to mobilise investment to achieve New Zealand's climate goals?
- finds that mobilising investment to achieve New Zealand's climate goals would take:
  - considerably scaled-up and accelerated investment, especially in adaptation in which less progress has been made than mitigation
  - more data and better tools to inform investment decisions
  - building on recent policy developments which have provided more clarity about the trajectory of climate policy and greater certainty to support long-term investment decision-making
  - a wide range of other actions across public and private sectors to overcome system inertia and shift investment patterns.
- implies that:
  - despite some momentum towards mitigation investment, much more needs to be done, and quickly, to make climate investment consistent with New Zealand's climate goals.

Background

New Zealand has committed to significant goals around reducing emissions (climate change mitigation) and adapting to the effects of climate change (climate change adaptation). The mitigation goals are to reach net zero emissions of long-lived greenhouse gases (GHGs) by 2050 and reduce biogenic methane emissions between 24-47% by 2050. The adaptation goals are to reduce vulnerability to the impact of climate change, enhance adaptive capacity and consider climate change in decisions at all levels and strengthen resilience to climate change.

Investment is a key enabler in achieving climate goals. For example, spending on low-emissions technologies and energy systems and climate-friendly business models (mitigation investment) can help lower emissions, and spending on climate-resilient infrastructure and assets (adaptation investment) can help adapt to climate change effects. We term this broad type of spending "climate investment".

Climate investment faces a range of challenges that are reasonably well understood. These include short-termism in investment decision-making, the risks and deep uncertainties involved in climate change, and lock-in, or systemic forces that perpetuate high-emissions infrastructure despite known environmental costs and the existence of effective remedies. All of these challenges work to lower and postpone climate investment.

What is less well understood are the solutions and how to enact them in the New Zealand context – the foci of this study.

We used a qualitative approach to explore the question: *What would it take to mobilise investment to achieve New Zealand's climate goals?*

The approach involved us interviewing **33 key informants across 24 organisations** based on an earlier literature review.[1] The organisations spanned industry associations, peak bodies, financial institutions, iwi and Māori asset owners, research institutions, relevant overseas organisations, and local and central government agencies.

The interviews were conducted from February to April 2022. One point to note about this timing is that it was after the first draft of the Government Emissions Reduction Plan (ERP) was released for consultation, which meant that some key informants were familiar with the content of the draft ERP and indeed some had made submissions, but the ERP was not finalised. However, this timing was before the first draft Government National Adaptation Plan (NAP) was released.

Mitigation investment is moving in the right direction

Key informants indicated that there is considerable momentum towards mitigation investment.

More clarity about the direction of climate policy has provided greater certainty to support long-term investment decision-making. This includes the establishment of the Climate Change Commission which looks beyond electoral cycles, and the establishment of the overarching regulatory framework for climate change (Climate Change (Zero Carbon) Response Act 2019).

> *Well, I guess I would say what anyone in the business community would probably say, which is just certainty. . .And so we were very pleased to see the climate change act come in, under the last government. You know the sort of bipartisan approach that was taken. . .We absolutely think it's the right thing.* (Industry association/peak body)

The new climate-related disclosures regime is starting to bite, and ultimately will have far-reaching effects as banks etc influence the investment behaviours of businesses.

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1 Pells, S. 2022. *How can policy help stimulate climate investment? A literature review.*

The private sector sees considerable opportunities for "cleantech" and other mitigation investment opportunities, reflecting that markets are thought to be moving strongly towards lower-emissions activities.

What would it take to mobilise investment to achieve New Zealand's mitigation goals?

Despite the momentum towards mitigation investment, key informants considered that much more needs to be done to make it consistent with New Zealand's climate goals – see bullets below for the main suggestions. Note that the suggestions were wide-ranging and inter-related, and no single theme dominated. Having said that, in general demand-side issues like regulatory settings were more of a concern than some supply-side ones like access to finance. Also note that, while many of the suggestions were targeted at central government, others have implications for the private sector, local government, and other actors.

- **Increased scale/pace of investment** – increase public investment in renewable energy and electrification, science in areas like reducing methane emissions and new energy technologies, public transport, and low-emissions hospitals and schools.
- **Greater certainty and clarity of policy** – develop long-term policy targets; align the Emissions Trading Scheme (ETS) and regulatory settings with climate goals; provide clear signals and choices in critical markets like energy.
- **The right incentives** – increase the price of carbon, phase out free allocation of units in the ETS and price agricultural emissions as soon as possible; amend regulations/policies to encourage investment in low-emissions buildings and transport etc.
- **Data and tools** – improve data on small and medium enterprises' (SMEs)' carbon footprints; educate SMEs/households about the benefits of mitigation investment and the tools available; lower discount rates to encourage long-term mitigation investment.
- **Access to finance** – address a key financing gap, regarding new low-emissions technologies not yet commercialised, by using government's balance sheet to de-risk such technologies; improve access to climate finance for groups that may struggle with access (eg Māori, SMEs, start-ups, and low-income households).
- **A change in mindsets** – develop a positive narrative about mitigation investment that makes it real for people and the opportunities transparent; signal resoluteness to mitigation action eg by pricing agricultural emissions as soon as possible.
- **Partnering with Māori** – partner with Māori on mitigation investment in an authentic way and further develop capabilities to do so; make greater use of te ao Māori which holds many insights for mitigation investment; encourage Māori-led solutions to mitigation investment.
- **System-wide change** – encourage investment in nascent low-emissions technologies/industries; partner more across public and private sectors to address hard-to-tackle issues like lock-in and status quo bias; lift capabilities and adopt new policy tools about systems thinking etc.
- **Managing the social consequences** – manage the pace of the transition so that households do not face steep price increases and communities can adjust; improve access to finance.

There are challenges for adaptation investment

Key informants painted a less positive picture about adaptation investment compared with mitigation investment.

> *I think it [adaptation] is an elephant in the room and I think it's probably almost a little too scary to actually sit down and think about it, because if you costed it out it would be quite daunting to look at what we might need to do in the future.* (Investor/financial services)

While some key informants discussed the considerable benefits from investment in more climate-resilient infrastructure and assets, others saw few opportunities for private investment in adaptation. One oft-cited example was seawalls – while affected property owners would benefit from investing in a seawall, the private returns from financing this type of investment to avoid damages were seen as limited. Relatedly, careful consideration needs to be given to how the costs of adaptation investment are shared across private and public sectors.

New Zealand faces difficult decisions around investment for managed retreat, essentially a last resort for relocating communities that face progressive climate risks. Anticipatory planning and investment can help avoid increased exposure to climate risks and shift activities and communities over time. However, there is also a need to rectify the problems of the past by, for example, investment in managed retreat.

What would it take to mobilise investment to achieve New Zealand's adaptation goals?

Key informants considered that far greater investment in adaptation is needed and much more needs to be done to make investment consistent with climate goals – see bullets below for main suggestions. Note that improving access to data was the most frequent suggestion. Also note that, while adaptation investment tended to be more of a concern than mitigation investment, there are fewer themes below than for mitigation investment. This is partly because many (but not all) key informants had less familiarity with adaptation investment, likely reflecting that, in New Zealand and elsewhere, less progress has been made around adaptation.[2]

- **Increased scale/pace of investment** – rapidly scale-up and accelerate adaptation investment given the lack of progress to date.
- **Granular, accessible data** – make publicly available some valuable climate modelling data that are not currently publicly available; collect and share data on climate risks and impacts in a comprehensive and harmonised way based on authoritative sources; regulate the disclosure of climate (and other) risks for public assets, commercial buildings, houses, catchments etc.
- **Local governments having a clear mandate** – develop a much clearer legislated mandate for local government around climate change that includes short- and long-term actions that reduce exposure to climate risk.
- **Better local planning and managed retreat** – promulgate "dynamic adaptive pathways", "climate leases" and other adaptation tools; integrate climate risks into planning and asset management decisions; (for new infrastructure and intensification) invest in low-risk locations, and (for existing infrastructure in locations facing progressive climate risks) start planning now for managed retreat in a staged manner.

2 Other reasons for fewer themes for adaptation investment include that the themes came through slightly more strongly and were less diverse than those about mitigation, and some of the themes (such as partnering with Māori and a change in mindsets) apply to both mitigation and adaptation and are not repeated above.

- **Community engagement** – engage extensively with local communities and balance the need to address top-of-mind issues like flooding while avoiding maladaptation; develop tailored responses that recognise the interests and rights of Māori communities and their ties to whenua.
- **Sharing and partnering in investment** – clearly allocate the sharing of the cost of adaptation investment across public and private sectors, especially for managed retreat, as early as possible to avoid maladaptation; better quantify and communicate the co-benefits from adaptation investment.

Conclusions and implications

Key informants indicated that things are moving in the right direction for climate investment, especially around mitigation investment.

However, they also identified that much more needs to be done and quickly. While some suggestions are covered in the ERP and NAP, others, including extensive investment in adaptation, are not. The suggestions should help policymakers as they implement the ERP and NAP and look ahead to what more might be needed.

Overall, a key message is that all policies (economic, social, and environmental) need to align with climate goals and be coherent. Key informants were quick to pick up on inconsistencies in policy and indicated that these inconsistencies could reduce the motivation to invest.

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