NEW ZEALAND

Submission on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation, in accordance with decision 10/CMA.3, paragraph 2.

May 2023

Key points

- Improving understanding and implementation Article 2.1(c) of the Paris Agreement should be a key priority at COP 28, where Parties should adopt a dedicated agenda item.

- Aotearoa New Zealand's own experience has highlighted the value of adopting an all-of-government approach and public-private engagement in efforts to align financial flows with low emissions and climate-resilient development. This submission also shares a range of policy levers that have proven useful in our national experience.

- Policy levers for aligning public finance with climate goals include ambitious national climate targets; directive for public financial institutions; government procurement rules; fossil fuel subsidy reform; and ending overseas public finance and export credit for fossil fuels.

- Policy levers for aligning private finance with climate goals include emissions pricing; regulations regarding divestment from high emissions activities; the disclosure of climate-related financial risks; green taxonomies; and using public funds to crowd-in private finance, including through multilateral funds and development banks.

- Parties and non-Party stakeholders should also look to leverage the work of the Standing Committee on Finance, the Sharm el-Sheikh Dialogue, the Global Stocktake, and the climate action zones at COPs to elevate and improve understanding of implementing Article 2.1(c).

Context

1. Aotearoa New Zealand welcomes the opportunity to submit views on ways to Achieve Article 2.1(c) of the Paris Agreement. The Intergovernmental Panel on Climate Change (IPCC)'s 6^{th} Assessment Report highlights the critical urgency of accelerating progress towards the goals in Article 2 of the Paris Agreement, including aligning all financial flows with low emissions and climate-resilient development as stated in Article 2.1(c).

2. Current developments across the climate finance landscape also reinforce the importance of advancing our understanding of achieving Article 2.1(c). These include negotiations on the new collective quantified goal on climate finance (NCQG), the operationalisation of Article 6 of the Paris Agreement and international carbon markets, the design of funding arrangements for addressing loss and damage, and wider discussions of reforming international financial architecture to enable greater climate action. Progress on all of these issues could be strengthened and accelerated with greater collective understanding of ways to achieve Article 2.1(c)

3. This submission provides views from Aotearoa New Zealand on approaches for implementation of Article 2.1(c), drawing on our national experiences and observations.

An all-of-government approach

4. Aligning financial flows with a pathway towards low emissions and climate-resilient development will require all-of-government commitment and coordination from Parties. In many countries, including New Zealand, responsibility for different kinds of finance and policy that affects finance fall across different ministries and departments (e.g. the spending of climate finance support; shareholding and governance of international financial institutions; domestic financial regulation; supporting the transition of the finance sector; and domestic public budgeting). Achieving Article 2.1(c) requires action on all of these areas and therefore an all-of-government approach.

5. Developing National development and climate strategies (e.g. Nationally Determined Contributions (NDCs), emissions reductions plans, and National Adaptation Plans (NAPs)) with ambition commensurate with the Paris Agreement are important vehicles for galvanising and driving this all-of-government commitment. They can help align domestic public finance by committing all ministries and departments to have their expenditure aligned. They can also help to align domestic private finance by signalling a clear policy direction and political commitment to low emissions and climate-resilient development. These national strategies can also support the alignment of international finance, particularly by enabling the flow of public and private climate finance to developing countries.

6. In Aotearoa New Zealand, overall direction for the all-of-government approach is provided through a framework piece of legislation: the Climate Change Response Act. A dedicated coordinating entity has also proved useful for driving the all-of-government approach and ensuring accountability. In Aotearoa New Zealand, an inter-departmental executive board called the Climate Change Chief Executives Board provides oversight of New Zealand's all-of-government response to climate change. This provides formalised governance and accountability for delivery of the emissions reduction plan and national adaptation plan, sending a clear policy signal. The Board monitors and reports on the delivery of actions in the emissions reduction plan and national adaptation plan. The Board also engages directly with the private sector.

Public-private engagement

7. Aotearoa New Zealand understands Article 2.1(c) as pertaining to all financial flows, public and private. With the vast majority of global financial flows being of private finance, it is therefore critical that Parties go beyond an all-of-government approach by also working to engage the private sector in approaching the implementation of Article 2.1(c).[1] Action is required by every sector of the economy to reduce emissions and adapt to our changing climate.

8. This public-private engagement can serve to inform the private sector, build support for achieving Article 2.1(c), and help generate context-specific national ideas and recommendations. For example, this could support the removal of barriers and use of public sector levers to support allocation of finance towards activities that are more/verifiably climate aligned. This engagement can also look at different approaches to finance such as joint initiatives and other ways of bringing together the expertise across public and private sectors.

9. In Aotearoa New Zealand, we consider public-private engagement as bring critical to achieving our climate goals and it has been fundamental to the ongoing development of our domestic sustainable finance ecosystem. This includes extensive consultation on policy development, and between 2019-2022, public sector, private sector, and indigenous leaders collectively produced a 2030 roadmap for building an equitable, sustainable, and inclusive financial system. This led to the creation of Toitū Tahua, the Centre for Sustainable Finance as an entity with a remit to accelerate progress towards implementing this roadmap and engage across public and private sectors in New Zealand.

Policy levers

10. Aotearoa New Zealand has experience with a range of policy levers that are relevant to the effective implementation of Article 2.1(c). These address public and private, and domestic and international sources of finance.

Public finance (domestic)

11. It is important that Parties take the lead in ensuring their own domestic public finance expenditure supports implementation of Article 2.1(c) and pathways towards low emissions and climate-resilient development. They should support the implementation of NDCs, NAPs, domestic emissions budgets/targets and other relevant national development and climate strategies.

12. Aotearoa New Zealand has implemented a number of policies to support the alignment of domestic public finance with low emissions and sustainable development. For example, in 2021 the Government established a Climate Emergency Response Fund (CERF) to fund initiatives that meet climate aligned eligibility criteria. The CERF recycles proceeds from the New Zealand Emissions Trading Scheme (NZ ETS) in an enduring, multi-year fund for

[1] We consider the private sector to include the financial sector.

government spending on the climate transition. Enhanced monitoring will ensure a focus on the successes of implementation of finance and ongoing alignment to objectives

13. In 2021, the Government's Crown Responsible Investment Framework directed the state financial institutions (such as the New Zealand Superannuation Fund), with collective assets of over $100 billion on behalf of New Zealanders, to reduce their investment portfolio to carbon neutrality by 2050 and align with interim targets from 2025.

14. In 2020, the Government launched the Carbon Neutral Government Programme, requiring many public sector entities to create and implement emissions reduction plans and offset residual emissions from 2025.

15. In 2019, changes were made to the Government Procurement Rules to place a greater emphasis on using government procurement to support wider goals, with supporting the transition to a net-zero-emissions economy becoming an explicit priority. It requires agencies to support the procurement of low-emissions and low-waste goods and services.

16. Aotearoa New Zealand also considers fossil fuel subsidy reform (FFSR) a priority action for all countries in aligning financial flows with low emissions and sustainable development. The recent IPCC Sixth Assessment Report identifies that the removel of fossil fuel subsidies would reduce global CO_2 emissions by 1–4%, and GHG emissions by up to 10% by 2030. Reforming these subsidies will help reduce the risk of locking in fossil fuel consumption and promote investment in clean energy.

17. Aotearoa New Zealand is a strong advocate FFSR internationally, including through the Friends of Fossil Fuel Subsidy Reform and trade forums. Provisions to promote FFSR have been included in recent Free Trade Agreements between New Zealand and the United Kingdom, and with the European Union. New Zealand is the chair and founding participant of negotiations for the Agreement on Climate Change, Trade and Sustainability (ACCTS), which aims to be a 'first of its kind' plurilateral agreement that demonstrates how trade policy can contribute to addressing the climate crisis, and broader environmental and sustainable development challenges. ACCTS contains a FFSR Chapter that will establish disciplines to eliminate harmful fossil fuel subsidies.

18. New Zealand is a leading advocate for FFSR through APEC, and at the World Trade Organization (WTO), as coordinator of the FFSR initiative. This FFSR initiative at the WTO, launched in December 2021, actively engages stakeholders from the private sector, civil society, international organisations and academia with the aim of rationalising and phasing out inefficient fossil fuel subsidies that encourage wasteful consumption.

19. New Zealand recognises the need to ensure subsidy reform does not harm vulnerable groups and their development needs. Reforms must be carefully designed to not restrict access to basic energy services or to increase poverty.

Private finance (domestic)

20. Parties can consider approaches to align domestic private financial flows with the goals of Article 2.1(c) by both discouraging finance flows that conflict with pathways to low emissions and climate-resilient development and actively encouraging flows that support those pathways.

21. To discourage financial flows that are in conflict with Article 2.1(c), some approaches that Aotearoa New Zealand has pursued include emissions pricing, regulations regarding divestment from high emissions activities, and the disclosure of climate-related financial risks. Green taxonomies are also a tool that other Parties have used to support the allocation of capital towards verifiably 'green' economic activities. New Zealand is in the early stages of exploring such a tool.

22. The NZ ETS was established in 2008 and has been progressively strengthened to create a financial incentive for emissions reductions across the economy. Following developments including setting a cap of units and efforts to align allocations with achieving domestic emissions budgets, the NZ ETS price has increased from $2 in 2013 to $75 in 2022. The Government has also committed to pricing agricultural emissions from 2025, which would be a world first, with decisions to be made in 2023. The alignment of these price incentives with long-term climate goals mutually reinforces to create both a marginal financial incentive and a clear signal to industry and the public about a national direction of travel towards low emissions and climate-resilient development.

23. In 2020, the New Zealand government amended rules guiding investment funds that participate in KiwiSaver, a national programme incentivising private savings. The changes required all funds participating as "default provider" (whose funds are allocated automatically to people joining the scheme who do not actively choose a fund provider when they join) to exclude investments in fossil fuels from their portfolios.

24. In 2021, Aotearoa New Zealand became the first country to legislate mandatory disclosure of climate-related risks. It requires around 200 of the largest financial market participants in New Zealand to disclose clear, comparable and consistent information about the risks, and opportunities, climate change presents to their business. Standards and guidance for these disclosures has been developed and will encourage entities to become more sustainable by factoring the short, medium, and long-term effects of climate change into their business decision.

25. Aotearoa New Zealand has taken positive measures to use public funds to drive private finance towards climate goals in line with Article 2.1(c). In 2019, the government created New Zealand Green Investment Finance (NZGIF) Ltd as a green investment bank to accelerate investment in decarbonisation. Over $400 million of public capital has been committed to NZGIF, which is specifically mandate to invest in way that attracts private finance co-investments into emissions reductions and further develops the market for green investment in Aotearoa New Zealand.

26. New Zealand also operates the Government Investment in Decarbonising Industry (GIDI) Fund, which co-finances projects to accelerate business decarbonisation, optimise energy use, and achieve a just transition. The Government collaborates with private finance providers to increase awareness of GIDI and support the mainstreaming of sustainable finance and offering of competitive rates for decarbonisation projects.

27. Green bonds are a further tool that New Zealand has used to align domestic private finance with low emissions and sustainable development. The Sovereign Green Bonds Framework was launched in September 2022 and in November 2022 the first issuance of $3 billion of New Zealand Sovereign Green Bonds was made. These bonds will finance public sector projects that contribute to climate and environmental objectives and support the development of the sustainable finance market in New Zealand.

Public finance (international)

28. Aotearoa New Zealand sees international public finance as important levers for implementing Article 2.1(c), such as Overseas Development Assistance (ODA) and climate finance support related to Article 9 of the Paris Agreement. These public finance flows themselves should align with low emissions and sustainable development, and can support action in developing countries to align their own financial flows with these objectives.

29. While Article 9 climate finance is a subset of flows associated with Article 2.1(c) and can contribute towards its achievement, Aotearoa New Zealand reiterates its commitment to providing climate finance support and sees its obligations under Article 9 as complementary and distinct from efforts to achieve Article 2.1(c).

30. A key platform for aligning international public finance flows with low emissions and sustainable development is the Statement On International Public Support For The Clean Energy Transition (Glasgow Statement), that was endorsed by many countries at COP 26. Under it, countries commit to end public support for international unabated fossil fuel energy, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement. It also calls on signatories to drive international financial institutions towards alignment with the Paris Agreement goals.

31. This builds on the joint Declaration from OECD DAC members in 2021 to align ODA with the goals of the Paris Agreement. Among other things, this committed members to end ODA for unabated international thermal coal power generation by the end of 2021 and developing an approach for how ODA can best be used to help developing countries transition to net zero.

32. Aotearoa New Zealand fulfilled its core obligations under the Glasgow Statement in 2022 through an update of New Zealand Export Credit's policies to end support for the fossil fuel energy sector, aside from in limited circumstances. Our international development cooperation assistance already aligns with the Glasgow Statement.

Private finance (international)

33. Aotearoa New Zealand considers the most important approach to aligning international private finance with low emissions and sustainable development is the development of robust, ambitious national policy and legislative environments that enable and encourage the flow of international finance towards climate action.

34. Many of the actions described above in relation to the domestic sustainable finance landscape/ecosystem will contribute to the creation of such enabling environments. They will give confidence to international finance providers about the long-term policy commitment towards supporting low emissions and sustainable development, an important factor in the risk consideration for investment in climate action.

35. Leadership through aligning international public finance with Article 2.1(c) can also send strong signals to help guide private financial flows.

36. Public finance can be used to directly leverage or crowd in private finance to supporting low emissions and sustainable development. Doing this effectively and at scale will be critical to helping bridge the enormous financing gap that currently exists for achieving NDCs and the goals of the Paris Agreement. Aotearoa New Zealand is exploring options for doing this across various intervention points. For example, we are examining how to use some of our climate finance support to leverage private finance, having identified it as a priority in our international climate finance strategy *Tuia te Waka a Kiwa*.

37. Multilateral Development Banks, with their convening power and ability to provide concessional finance, have significant roles to play in mobilising private finance to developing countries. Aotearoa New Zealand also sees multilateral climate funds, particularly the Green Climate Fund, as having important roles supporting developing countries to implement Article 2.1(c) and in aligning financial flows with climate objectives.

Discussing Article 2.1(c) in the UNFCCC process

38. Aotearoa New Zealand considers it critical to dedicate significant space to discussing Article 2.1(c) within UNFCCC and at the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (CMA). Article 2.1(c) is one of the long-term objectives of the Paris Agreement and critical to achieving the other long-term objectives for mitigation and adaptation in Articles 2.1(a) and 2.1(b),

39. Aotearoa New Zealand recognises the work of the Standing Committee on Finance (SCF) as having been instrumental in advancing understanding of Article 2.1(c) so far. The SCF should continue to see this as a focus of their work as there are significant technical dimensions on which further work would benefit all Parties, including considerations of transparency and tracking of progress towards achieving the goal.

40. There should also be dedicated negotiation space for Article 2.1(c) at the CMA, given its fundamental importance as a key goal of the Paris Agreement. The decision to establish the

Sharm El-Sheikh dialogue to enhance understanding of the scope of Article 2.1(c) was an important step forward in this regard. Aotearoa New Zealand looks forward to the associated workshops and supports building upon them through the adoption of an agenda item on Article 2.1(c) at COP 28.

41. At COP 28 it will also be critical for Article 2.1(c) to be given significant attention through the Global Stocktake. The Stocktake provides an important opportunity to better understand the progress and barriers towards aligning financial flows with low emissions and climate-resilient development, and “course-correct” as necessary. In a similar vein, Aotearoa New Zealand has also directly funded research to support the understanding of Article 2.1(c) implementation in developing countries.

42. It is important to recognise that much of global finance flows are outside of the direct control of Parties to the UNFCCC. There are significant policy options for influencing these flows, as are discussed in this submission, but the limits of COP and CMA decisions to direct them should be kept in mind during negotiations.

43. In turn, it is worth considering opportunities within the UNFCCC process to enhance engagement between the private sector finance community and Parties outside of the negotiations. The Marrakech Partnership for Global Climate Action and the climate action spaces at COPs would be appropriate forums for this.