

Submission on the Climate Change Commission's Draft Advice

This submission is from **Harbour Asset Management Limited** – a New Zealand owned and operated funds management company whose investment philosophy includes promoting best-practice Environmental, Social and Governance (ESG) practices among listed companies and relevant stakeholders. This encompasses advocacy of climate change considerations and the pathway to meeting New Zealand's net zero emissions target by 2050 as well as the Nationally Determined Contribution under the Paris Agreement.

Harbour manages over \$5.5bn for New Zealand clients, including many clients that manage KiwiSaver schemes.

Overall, we are supportive of the emissions pathway and multi-sector approach proposed in these emissions budgets, particularly taking into account considerations such as inclusiveness, iwi/Māori rights, employment and ensuring the transition is fair and equitable.

As a fund manager, we are involved in the financing of listed companies affected by these recommendations through being significant shareholders and allocators of capital. Given our expertise in researching company and sector level information, we have elected to focus our submission on the sector specific policy recommendations rather than the over-arching climate science that forms the basis of the emissions pathways.

Transport Sector

Regarding the transport sector, we agree that the electrification of the light vehicle fleet should be a priority action and **favour the idea of a 'feebate' system to both incentivise the uptake of electric vehicles and penalise the use of high emissions vehicles.**

In 2019, we provided a submission to the Ministry of Transport discussion document on a Clean Car Standard and Clean Car Discount. We reiterate our belief that an emissions target for new light vehicles of 105g CO₂ per km by 2028 **lacks aspiration and will happen organically** given that our major import partners already have emissions targets that are far lower than that of this proposal for New Zealand (i.e. we will import their standards automatically). Setting the target lower would show best-practice leadership and signal a genuine ambition to decarbonise the transportation sector. **A more ambitious target of 60-70g of CO₂ per km by 2025 would send a much stronger signal of policy intentions and genuine willingness to decarbonise the transport fleet.**

In terms of the structure of a potential EV feebate scheme, our preference would be to see New Zealand take a lead from Norway with respect to a progressive penalty regime for higher CO₂ emissions, although the French bonus-malus system is another appropriate case study.

Heat, Industry and Power Sector

For the heat, industry and power sector, we concur that setting a target for renewable energy rather than targeting 100% renewable electricity is more appropriate and economically viable. Whilst we are supportive of the need for power generation companies to transition away from coal fired generation assets, we believe that natural gas has a role to play in being a transition fuel particularly in the context of the risk of dry years that would impact the country's ability to generate sufficient electricity to meet seasonal demand. We believe that existing users of natural gas should be gradually transitioned away from this fuel source until renewable capacity has adequately scaled up to cover expected demand needs.

On industrial heat, although not a silver bullet, industrial heat pumps will need to be a significant part of the solution for the dairy industry in our view. Heat pumps have the lowest emissions compared to coal, gas, and biomass with several chilled and hot water applications in the industry.

The buildings sector should focus on reducing emissions from heating, ventilation and air conditioning (HVAC) through the replacement of refrigerants. Refrigerants commonly used today for low temperature refrigeration and air conditioning applications such as R-22 and R-410A should be replaced by the refrigerant R-32 in new equipment. This new refrigerant reduces electricity consumption because it efficiently conveys heat and according to research from the IPCC, has an approximately 30% lower global warming potential than R-22 and R-410A. We believe this should be Government mandated for equipment where this refrigerant is compatible. This would help achieve the targets to reduce emissions from hydrofluorocarbons assumed in the emissions pathway.

Finally, we also believe that there needs to be **additional funding provided from Government to public services such as schools and District Health Boards to be used for decarbonisation purposes**. Whilst companies in the private sector can rely on capital market financing to aid in efforts to pursue decarbonisation opportunities, public hospitals and schools are reliant on Government funding that is primarily used for essential services rather than covering environmental externalities. Providing Government funding to these organisations will also provide quick wins for action and set as examples for the private sector how to move forward.

In aggregate, we are generally supportive of the emissions pathways and policy recommendations across sectors but from an asset manager perspective would highlight the role that capital markets could play in financing the green transition. The recommendations within the advice document are largely focused on the Government's role in forming the emissions reduction plan and providing funding for many of the initiatives however we would emphasise the collaboration needed across the public and private sectors, particularly the role that investors can play in financing companies through green bonds for example.
