



ENVIRONMENT POLICY PROPOSAL

Continuation of the Green Investment Fund

April 2019

OFFICIAL POLICY OF THE NEW ZEALAND YOUNG NATS.
NOT NATIONAL PARTY POLICY.

ISSUE

The Young Nats believe that climate change is the single most important environmental issue facing young people today. In order for New Zealand to effectively mitigate and adapt to climate change, we must invest in new technologies aimed at reducing emissions. However, there is currently an under-investment in emissions-reduction technology.

PROPOSAL

- 1.1 The Young Nats propose the continuation the Green Investment Fund established under the Labour Government in 2018.

BAKCGROUND

- 2.1 The Green Investment Fund is a body that aims to provide capital to New Zealand businesses to develop new technologies and ideas aiming to mitigate climate change and its impacts.
- 2.2 The Fund's mission is to accelerate domestic, low emissions investment and aims to achieve this through four objectives:
 - (i) Make investments that lower domestic emissions: There is a focus on domestic emissions primarily because of the relatively small size of the fund as well as the small total of government capital being invested.
 - (ii) Crowd-in private finance: Address market failure by seeking out fiscally viable but higher risk investments that do not typically appeal to open market investors whilst also encouraging co-investment.
 - (iii) Invest on a commercial basis: Ensure the sustainability and accountability of the fund and sets out risk and return expectations through cumulative measures over time.
 - (iv) Undertake a market demonstration and leadership role: Ensure transparency with an added proposal from the Cabinet paper to have the fund initially focus on "the dispersion of existing technologies, where there is limited low emissions activity within New Zealand".
- 2.3 Budget 2018 provided \$100 million of funding for Green Investment Fund investments, along with a further \$1 million to aid in its establishment. \$4 million in 2018/2019 will be provided and a further \$30 million over subsequent six years for operational costs.
- 2.4 The fund is required to have at least two Shareholding Ministers that hold an equal number of shares,¹ therefore they are personally invested in the success of the fund to ensure government accountability.
- 2.5 A formal review of the fund will occur no later than June 2023, with five yearly reviews thereafter. Any reviews of the scope or modifications to the Green Investment Fund's scope would have to be carried out by Shareholding Ministers.

¹ Crown Entities Act 2004.

SUMMARY OF SUPPORTING INFORMATION

- 4.1 Continuation of the Green Investment Fund will help to address the current under-investment in emissions-reduction technology in New Zealand. The Fund offers a way to address the issue of climate change through innovation and enterprise.
- 4.2 Similar Funds have been successful in other jurisdictions, such as in Australia and the United Kingdom.

SUPPORTING INFORMATION

- 5.1 In order for New Zealand to effectively mitigate and adapt to climate change, we must invest in new technologies. However, there is currently an under-investment in emissions-reduction technology due to the "externality" and "imperfect information"² problems. The Green Investment Fund aims to correct these market failures and increase this much-needed investment.
 - 5.1.1 Emissions-reduction technology possesses a "positive externality". In other words, the benefits of investing in it will be greater for society than for the individual private investor. As a result, the private market underinvests in emissions-reduction technology compared with what society needs and wants.
 - 5.1.2 The "imperfect information" problem occurs when there is limited research, data and skills in a new technology, making it too unfamiliar and risky for investors to invest in. The Green Investment Fund aims to overcome this problem by offloading some of the financial risk from investors, and therefore encouraging a greater level of investment.
- 5.2 Similar investment funds have already been established in other jurisdictions such as Australia and the United Kingdom.
 - 5.2.1 Australia's Clean Energy Finance Corporation (CEFC) invests \$10 billion in clean energy products on behalf of the Australian government - a similar model to New Zealand's green investment fund. The CEFC has its own risk management framework that is utilised to monitor risks of their investments through governance, strategy, risk identification and management plans. One possibility to enhance the existing Green Investment Fund is to formulate a more intensive risk management framework modelled from the CEFC's to mitigate risk.
 - 5.2.2 The United Kingdom's scheme differs slightly from New Zealand's as it penetrates the borders of developing countries in a bid to help them mitigate climate change. The United Kingdom's fund has had success through the ICF by reducing or avoiding 10.4 million tonnes of greenhouse gas emissions, installed 590 MW of clean energy capacity and mobilised 3.3 billion pounds public and 910 million pounds private finance for climate change purposes in developing countries.

² The Treasury "Establishing New Zealand Green Investment Finance Cabinet Paper", 2.

- 5.3 The Green Investment Fund supports New Zealand's responsibilities under the Paris Agreement, which requires us to reduce our emissions by thirty percent below 2005 levels by 2030. However, the fund's relatively small amount of current capital investment levels limits its ability to reach our Paris agreement commitments. Substantially more investment is needed.
- 5.4 The Green Investment Fund promotes enterprise, innovation, and the sustainable development of our environment. These values are at the core of the Young Nats and therefore are an important guide in the mitigation of New Zealand's contribution to climate change.

IMPLEMENTATION

- 6.1 It is important to initially invest domestically only, as offshore investment would limit any potential domestic benefits from technology and skill transfers.
- 6.2 The Green Investment fund is established as a Schedule 4A company as this allows for minority (less than 50%) private shareholders, subsidiary companies that can be more responsible and flexible in their operations than crown entity company subsidiaries and a corporate form with which potential co-investors and invitee companies have more experience and comfort- this upholds Young Nationals values of limited government.
- 6.3 There is a proposed benchmark return for the Green Investment fund of the 5-year New Zealand Government bond rate plus 2%, this is set out to manage risk and return expectations from the Government and provide an accountability framework.

ADDITIONAL CONSIDERATIONS

- 7.1 It will be imperative to closely monitor other investment programs similar to the Green Investment Fund in other jurisdictions. If we do pay attention, we can hopefully distinguish a best practice mechanism and learn from other's mistakes.
- 7.2 There is always going to be an element of risk with regards to any initiative that is aiming to mitigate a wicked problem like Climate change.

YOUNG NATS AMENDMENTS

- 8.1 As it stands the Green Investment Fund will not invest in large scale electricity generation, forestry, carbon capture and storage, or the state sector. The Young Nats propose that carbon capture and storage technology becomes eligible for investment by the Fund, as this will be a crucial lever in reducing New Zealand's emissions in the short-mid term.
- 8.2 The Young Nationals also propose improved accountability mechanisms to ensure taxpayer money is being spent efficiently. Once the Fund's board is elected and

accountability mechanisms formalised, it will be imperative to look for any issues that may arise from this.

- 8.3 The Young Nats also propose that both established businesses and start-ups should be eligible to apply for funding. All investment proposals will be judged on a case-by-case basis and the ideas with the best perceived outcomes for the environment will be selected regardless of their business level. The Young Nats value enterprise and entrepreneurship - start-ups can bring value to the fund through new, innovative ideas.