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# **Climate Leaders Coalition Launch briefing – speaking points**

*Speaking notes from a panel discussion in Auckland*

*On 12 July 2018*

*By Adrian Orr, Governor*

Firstly, congratulations.

To see so many companies agree to the following is a moment of rejoice.

By signing the CEO's Climate Change Statement<sup>1</sup>, business leaders have committed to:

- Measuring and reporting their greenhouse gas emissions;
- Setting a public emissions target; and
- Working with suppliers to reduce greenhouse gas emissions.

These businesses are also supporting the 'Paris Agreement' (COP22) aimed at capping the rise in global temperature over coming decades. In addition, they are supporting the introduction of a climate commission and carbon budgets enshrined in law.

The best time to start this process is 30 years ago, or today. So I am privileged and proud to be a Kiwi sitting on this stage with so many New Zealand companies involved.

### **Why does climate change matter?**

Climate change used to be called 'pollution' – smog from carbon emission. Pollution was a very hard thing for firms to deny.

Pollution then morphed into 'global warming'. We all seemed to think global warming either sounded nice and/or could be disproved. More reason to take little collective action – even though it was still smog at its core. So now 'climate change' has arrived in our lexicon.

Climate change has removed a lot of the argument of whether it is getting warmer or cooler, brought reality and (some) urgency to the issues. Wetter, wilder, drier, windier, more dangerous - are words that tend to better promote human action.

We all love progress, it is change we hate.

### **What are the business impacts?**

Change has a real impact on us all, business included, whether you believe it, like it, or think it is only something for the future. Why?

Because change is expected and its implications have been brought forward into our behaviours today – prices, regulation, consumer behaviour, societal expectations, social cohesion, and more. In face of the 'carbon reduction' challenge businesses will thrive, die, or at least transform. None will stay the same.

The impact on business will come from:

- consumers wanting some sense of intergenerational justice and awareness (just like food labelling demands of 30 years ago);
- investors wanting to be properly rewarded for risk, and be able to manage or mitigate unrewarded risk e.g., stranded assets, mispriced carbon risks, and missed opportunities ahead;
- insurers wanting to manage risks and price insured risk properly i.e., not be caught under-capitalised, or denying or mispricing insurance;
- regulators are wanting to impose constraints and expectations on investors and firms, and insist on risk mitigation; and
- Humans want some sense of security and quality of life – especially for our mokopuna in generations to come.

Climate change, if not addressed, will create unforeseen social disruption and displacement.

## **The economic challenge and why business efforts matters now**

In the world of climate change and carbon emissions, the 'tragedy of the commons' has been rephrased as the 'tragedy of the horizons' - where we not only pass negative externalities (costs and problems) on to each other now (e.g., pollution), but build untenable problems for future generations (e.g., climate change).

For a long time now carbon emissions have gone unchallenged via pricing, quantitative restrictions, or even consumer preference. This is changing rapidly through a variety of mechanisms.

The challenge of carbon reduction can't be conquered by any one individual, or group of: businesses, industries, regulators, investors, or consumers (or even this generation). Meeting the carbon reduction challenge instead takes a clear alignment of sticks, carrots, culture, moral conduct, and ownership. What we are seeing today is:

### *The stick?*

Businesses today are saying: I will not be able to continue, I will be competed away. I will be regulated/legislated out of practice.

### *The carrot?*

Business are saying: I can be a leader. I will receive a better margin. I will receive better risk premiums when investing. I will access a broader market. I will attract, retain and motivate future investment and people.

### *The culture?*

Businesses today are saying: I am a concerned citizen of this 'one planet'. I love my children. I have a long-term strategic horizon.

### *The ownership?*

Businesses today are saying: I need to start here, with what I can influence and lead by example.

## **What is New Zealand's role?**

New Zealand can't change the world. But, the world expects New Zealand to lead.

What do we have at risk?

We are a small Island state; agriculturally dependent; we live mostly on coastlines; have significant foreign dependency on insurance (re-insurance) and capital allocation; sell a 'pure brand'; need tourists; and must retain foreign market access.

We can be a brand leader on climate change in the world given our starting point.

We are small, green, open, lightly populated, kaitiaki in spirit, young, have a strong moral compass, and have strong rule of law.

We have less embedded costs and risks associated with making change (e.g., very limited fossil fuel production and dependency). We have least to lose and most to gain.

## Why do I believe we can lead?

### Experience:

I have been fortunate to have witnessed great transformation in thinking and behaviours – such as the business commitment today - related to responsible investing.

My own experiences include involvement in:

- The UN's Carbon Disclosure Project (which the New Zealand Super Fund (NZSF) led and had pushed back at us by so many New Zealand businesses – there is no 'I' in denial);
- Our leadership of the International Forum of Sovereign Wealth Funds (IFSWF) on responsible investing, and the 'One-Planet' initiative that the NZ Super Fund only last week promoted and signed;
- The NZSF's own courage in reducing their carbon exposure and engaging companies and searching for new alternative energy uses; and
- 'The Focusing Capital on the Long-term' initiative where, globally, business investors, and regulators are working together to break down the barriers of horizon and myopia that is incentivised by modern day capitalism.

These examples are just to mention a few. And, New Zealand-led.

### **This leadership will continue with other regulators and central banks.**

The regulatory world believe financial stability is at risk from a lack of awareness, or action on climate change issues.

Regulatory coalitions and standards are being rapidly formed and embedded in global financial systems, and NZ will be part of this – whether we willing accept it or not.

Some recent regulatory collaboration efforts include:

- The G20 Financial Stability Taskforce has produced recommendations for corporates and investors to report on governance, strategy, practices, scenarios, and metrics (including carbon footprints) related to carbon reduction.
- The 'Central Banks and Supervisors Network for Greening the Financial System' is designed to help strengthen the global response by enhancing the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments.

The carbon transition challenge is both a quantitative and qualitative challenge.

Quantitative in terms of the massive scale of investment needed. Globally, the so-called Green Bond market is growing rapidly, but it will be insufficient. Capital will need to be generated/directed along the lines of green loans, securitisation, derivatives, crowdfunding platforms, and listed and private equity.

On the qualitative side, discussion on the "green asset supporting factor" will perhaps also need to be supplemented with a "brown asset penalising factor" entered into asset pricing. A carrot and a stick for changing behaviours. The latter would have the advantage of spurring banks and insurers to improve their risk management capabilities for climate-related risk.

For the Reserve Bank of New Zealand, we need to do more and will.

This will be via working/joining with some of these central bank coalitions, meeting international standards that are being set, and discussing with the banks and insurers how they are identifying, managing, and pricing all climate change related risks.

This is a process that is important, urgent, and will not be resolved by any one group. We need to work together – I congratulate all of the business who have signed this pledge today.

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<sup>i</sup> Climate Leaders Coalition - <http://www.climateleaderscoalition.org.nz/>