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Submitted by email to taxonomy@sustainablefinance.nz

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Submission on the Aotearoa New Zealand Sustainable Finance Taxonomy

About the submitter

1. Founded by David Farrar and Jordan Williams in 2013, the *Taxpayers' Union*'s mission is Lower Taxes, Less Waste, More Accountability.

2. We enjoy the support of some 200,000 registered members and supporters, making us the most popular campaign group championing fiscal conservatism and transparency. We are funded by our thousands of donors and approximately two percent of our income is from membership dues and donations from private industry.

3. We are a lobby group not a think tank. Our grassroots advocacy model is based on international taxpayer-group counterparts, particularly in the United Kingdom and Canada, and similar to campaign organisations on the left, such as Australia's *Get Up*, New Zealand's *ActionStation,* and *Greenpeace*.

4. The Union is a member of the *World Taxpayers Associations* – a coalition of taxpayer advocacy groups representing millions of taxpayers across more than 60 countries.

5. Nothing in this submission is confidential and we would welcome the opportunity to discuss this submission with you further.

Executive Summary

6. The Sustainable Finance Taxonomy *('the taxonomy')* deviates from a number of key norms in its process.

7. Firstly, it shifts the onus of banking policy away from the *Reserve Bank of New Zealand (RBNZ)* and on to the *Ministry for the Environment (MfE)*. It is not clear to us why it is an improvement to move aspects of banking policy away from being administered by experts in banking toward being administered by an environmental agency.

8. The extent of environmental (and broader environmental, social, and governance) regulation facing the banking sector is currently a live political debate before Parliament. With both the Banking Inquiry's focus on prudential regulation and two Members' Bills overlapping with the remit of this consultation, the *Taxpayers'* Union is concerned that due respect is not being given to ongoing democratic processes.

9. This taxonomy would pose frankly insurmountable economic challenges to New Zealand's agricultural sector, particularly if plans for it to become mandatory do materialise. This runs counter to the Government's stated aims to boost exports and growth.

10. Agriculture is responsible for 81 percent of merchandise exports according to the Government's own figures. Hampering agricultural access to capital would amount to economic vandalism.

11. The *Taxpayers' Union* recommends the Sustainable Finance Taxonomy process be formally disbanded.

Accountability and Regulatory Overreach

12. Financial regulation such as this should fall under the remit of *RBNZ*. Especially given the significant market power held by New Zealand's handful of major banks, even whilst voluntary this taxonomy will in effect be pseudo-regulatory,. However, this consultation also makes clear the intention that this taxonomy will become mandatory in due course.

13. This is akin to prudential regulation by the back door, aiming to establish a regime which will see *MfE* and *RBNZ* competing to deliver the same functions.

14. Creating a framework that affects both the financial and agricultural sectors so heavily should be carried out with proper Parliamentary scrutiny; by contrast, this process seems to be actively circumventing legitimate democratic processes.

15. The *Banking Inquiry* is currently before Parliament, being led by the *Finance and Expenditure Committee*. This Inquiry is due to report back to the House imminently. The *Inquiry* has specifically focussed on the scope of prudential regulations that *RBNZ* imposes on the banking sector, and their effects on both sector-specific competition and other sectors of the economy.

16. Despite this report being due shortly, with clear implications for policy areas covered by this Sustainable Finance Taxonomy consultation, consultation closes before the *Finance and Expenditure Committee's* report-back date.

17. Additionally, there are two Members' Bills which have clear overlaps with the scope of this taxonomy.

    a. *Financial Markets (Conduct of Institutions) Amendment (Duty to Provide Financial Services) Amendment Bill*.

    b. *Financial Markets Conduct (Repeal of Climate-Related Disclosure Requirements) Amendment Bill.*

18. Whilst the scope of environment-related prudential regulation of the banking sector continues to be a live and active Parliamentary debate, it is in our view not appropriate for *MfE* to be facilitating the creation of pseudo-prudential regulation to take the place of what Parliament may very well be about to alter, reduce or remove through its legitimate democratic process.

19. Regardless of whether this is the intention, this would do much to undermine public trust in the policymaking process if it contributes to a perception that *MfE* is content to push ahead with its policy agenda regardless of Parliament's intentions.

Poor Value for the Public

20. For reasons to be explained in further detail later in this submission, this taxonomy's restrictions are almost certainly unworkable when faced with the reality of New Zealand's agricultural economy.

21. Taxpayers' money is being poorly used in two ways. Firstly, the doubling-up of functions between *MfE* and *RBNZ* inevitably means a doubling-up of costs. Secondly, taxpayer money should not be used for what is largely an ideological process rather than one rooted in sound policymaking.

22. The unworkable nature of the taxonomy as it pertains to agriculture, the clear failure in governance demonstrated through not including a single active agricultural worker in the Technical Expert Group, and the aforementioned intention to move the taxonomy forwards despite a live Parliamentary debate all point to the ideological nature of this project.

23. Taxpayers' money should not be used to hamstring private institutions with politically motivated criteria, especially when those criteria will hamper the efficiency and independence of the financial sector and limit market responsiveness.

24. If the intention of the taxonomy is to attract investment for green initiatives, banks are more than capable of designing their own internal taxonomies rather than being reliant on central government directives. Banks are commercially responsive, *MfE* is not, and the sector as a whole

will be better able to respond to market stimuli without additional regulatory or pseudo-regulatory restraints.

25. Both restrictions and compliance costs imposed on lenders through this taxonomy will lead to higher borrowing costs for those working in targeted industries – i.e. the agricultural sector. This is in essence a further regulatory tax on agriculture.

26. For these reasons, it is the *Taxpayers' Union's* view that this taxonomy does not support the interests of taxpayers, the agricultural sector, or indeed the financial sector when taken as a whole.

Impact on New Zealand's Economy and Exports

27. It is the Government's stated aim to double New Zealand's exports by 2034. With *'New Zealand's Second Emissions Reduction Plan – 2026-2030'* highlighting that agriculture is responsible for 81 percent of New Zealand's merchandise exports, that aim is in reality only achievable through substantial growth in the agricultural sector.

28. Clearly a finance regime which disincentivises investment in the agricultural sector and reduces agricultural access to capital - thereby reducing rather than increasing the scale of the sector - is not compatible with this aim.

29. It is simply not feasible for the agricultural sector to meet the requirements laid out in this taxonomy. Despite New Zealand farmers being the most emissions-efficient farmers in the world, the emissions targets laid out in this taxonomy are wholly unrealistic.

    a. 1 tonne CO_2e per hectare per year is well below what is realistically achievable by commercial dairy, sheep and beef farmers. As are the requirements for 80 percent of fertiliser to be low-emission within three years.

    b. Even if commercial farmers could meet these requirements, the taxonomy would lead to significant administrative burdens for farmers to demonstrate their clean credentials through Farm Environment Plans. All of which comes at a cost of time and money.

30. The effect of this will be to shut New Zealand farmers out of 'clean finance' and further impede their already difficult access to capital. This is not a pro-growth formula for an embattled cornerstone sector of the economy.

31. The taxonomy's rigid emissions thresholds and compliance burdens are not just impractical, they risk forcing farmers to choose between meeting unsustainable environmental targets and remaining financially viable.

32. More than most, agriculture is a capital-intensive industry. Most farms could not survive without ready access to the loans that enable them to invest in key assets, new technologies, and finance

year-to-year operations. Limited access to capital will restrict farmers' ability to future-proof operations and compete in global markets.

33. Counter-productively, damaging the emissions-efficient New Zealand agricultural sector in these ways will simply drive more production overseas. Shifting production to less emissions-efficient countries is not amenable to reducing global emissions.

34. Regional and rural growth in particular would be stunted – running counter to the Government's objectives for regional economic development, which hinge on innovation and ready access to investment.

Conclusion

35. The Sustainable Finance Taxonomy represents an overreach by environment agencies into policy areas beyond their remit - banking policy should be left to RBNZ, not MfE-led initiatives.

36. In light of the current democratic debate in Parliament over the role and scope of banking regulation, particularly in relation to environmental outcomes, it is not in our view appropriate for this taxonomy to progress without more direct Parliamentary oversight.

37. This taxonomy represents poor value for the taxpayer. A project is being pursued, no doubt at significant expense, which will worsen governance norms and damage economic growth.

38. The agricultural sector in particular will suffer under this taxonomy. As New Zealand's major exporting sector, attempts to stifle growth in this sector clearly run contrary to the Government's aim to double exports by 2034.

39. In light of the above, it is the view of the *Taxpayers' Union* that the Sustainable Finance Taxonomy process should be formally disbanded.

40. We thank you for the opportunity to submit, and we would welcome the opportunity to engage further with the consultation.

Yours faithfully,
New Zealand Taxpayers' Union Inc.

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