Through a climate change lens: Aotearoa New Zealand's COVID-19 Response

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Introduction

Responding to the COVID-19 crisis presented an opportunity to address another crisis: human-induced climate change. Since the start of the pandemic, leaders, experts, NGOs and citizens around the world have been calling on governments to use the COVID-19 crisis as an opportunity to 'build back better'.

To investigate whether the New Zealand Government is heeding this call, this policy brief analyses five aspects of its response. These are:

1) International comparative analysis by Energy Policy Tracker of energy-related economic stimulus throughout the COVID-19 pandemic;
2) The climate alignment of the COVID-19 Response and Recovery Fund, which includes the Jobs for Nature programme and 61 shovel-ready projects;
3) Financial support for Aotearoa New Zealand's aviation industry;
4) The transport component of the New Zealand Upgrade Programme which preceded the COVID-19 pandemic but was subsequently incorporated into economic stimulation measures;
5) Changes in climate-positive spending across Budgets 2020, 2021 and 2022.

This analysis uses an expanded version of the Energy Policy Tracker methodology to classify projects on how climate-aligned or misaligned they are. This analysis covers the period from January 2020 – May 2022.

Key Policy Recommendations

	Recommendation	Explanation / rationale
1	**Develop a climate-positive, shovel-ready project pipeline**	Develop a pipeline of climate-positive projects, pre-screened for emissions impacts and climate risks, so that when the next crisis strikes, decision makers have climate-positive investment options for economic stabilisation and stimulation programmes. This enables a no-regrets approach, even in the circumstance of emergency where due diligence is challenging.
2	**Articulate investment principles for spending, which can guide emergency decision making**	In the circumstances of emergency, decisions must be made in the heat of the moment, often without due diligence. However, by establishing investment principles in 'a cool moment', these can be applied in emergencies. Examples include the European Commission's 'do no significant harm' framework for its Response and Resilience Facility, the principles in the Climate Change Commission's letter to the Minister for Climate Change in April 2020, and the UN Principles for Responsible Investment.

	Recommendation	Explanation / rationale
3	**Make emergency funding conditional through 'green strings attached'**	Some countries demonstrated a capacity for integrated and adaptive policymaking by using the COVID-19 crisis to advance other policy objectives. Policy innovation emerged through 'green strings attached' where recipients of economic stimulus needed to commit to climate actions as a requirement of funding. This was a lost opportunity for the New Zealand Government, especially for the aviation sector where financial support was strategically essential.
4	**Increase the transparency and granularity of funding commitments**	Public scrutiny of expenditure is critical but currently challenging. Transparency and legibility would be improved by updating the accounting protocol for one-off items, such as COVID-19 Response and Recovery Fund expenditure, which Treasury is undertaking. Also, it is currently difficult to disaggregate project spending to distinguish climate-related elements from overall project funding (e.g. cycleways as part of road upgrade). Improvements will facilitate better quality decision making over the long run.

1) Energy Policy Tracker

Energy Policy Tracker (EPT) is an international group of researchers which have tracked COVID-19 recovery spending on energy-related policies by countries and multilateral institutions since the pandemic began. The EPT methodology includes five categories for classifying energy-related policies. Definitions of these categories and examples of policies that fall under each category are shown in the table below.

	Category	Definition	Examples
1	Fossil unconditional	Policies that encourage production or consumption of fossil fuels, without conditions	Coal, oil, and gas products, grey hydrogen, fossil fuel-based electricity
2	Fossil conditional	Policies that encourage production or consumption of fossil fuels, with conditions	Coal, oil, and gas products, blue hydrogen, fuel efficiency standards, increased fuel taxation
3	Clean conditional	Policies that encourage production or consumption of clean energy or policies that may be significantly more energy efficient, with conditions	Large hydropower, energy efficiency in industry, rail, public transport (bus, train, ferry), hybrid and electric vehicles, 2nd and 3rd generation biofuels, biomass and biogas
4	Clean unconditional	Policies that encourage production or consumption of clean energy, without conditions	Renewable energy (wind, solar, small hydropower), energy efficiency in buildings, green hydrogen, active transport (walking and cycling)
5	Other energy	A 'catch all' for those policies that sit outside of the fossil and clean energy categories	Nuclear energy, 1st generation biofuels, biomass and biogas, hydrogen of unspecified origin, multiple energy types (intertwined fossil fuels and clean energy)

The chart below provides an overview of energy-related stimulus spending between January 2020 and February 2022. All monetary values are in USD. In NZD, the headline figures are NZ$2.4 billion for fossil fuel energy at $485.86 per capita and NZ$2.03 billion for clean energy at $412.90 per capita.

New Zealand

Since the beginning of the COVID19 pandemic in early 2020, **New Zealand** has committed at least **USD 3.08 billion** to supporting **different energy types** through new or amended policies, according to official government sources and other publicly available information. These public money commitments include:

- At least USD **1.56 billion** for **unconditional fossil fuels** through 16 policies (15 quantified and 1 unquantified)
- At least USD **87.94 million** for **conditional fossil fuels** through 5 policies (5 quantified)
- At least USD **356.87 million** for **unconditional clean energy** through 22 policies (21 quantified and 1 unquantified)
- At least USD **1.04 billion** for **conditional clean energy** through 12 policies (12 quantified)
- At least USD **33.20 million** for **other energy** through 4 policies (2 quantified and 2 unquantified)

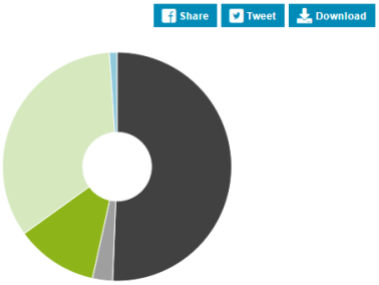
By energy type, New Zealand committed at least **USD 1.57 billion** to **oil and gas** (at least USD 1.54 billion to unconditional oil and gas and at least USD 22.70 million to conditional oil and gas).

In addition, no public money commitments identified for **coal**.

Updated: 2 February 2022

At least
$1.65 billion
Supporting fossil fuel energy
$334.63
Per capita

At least
$1.40 billion
Supporting clean energy
$284.38
Per capita



In terms of the balance of expenditure, Aotearoa New Zealand is roughly in the global average (see all country policies analysis below).

A key difference between Aotearoa New Zealand and international comparators is the 'Other Energy' category, which includes nuclear and hydrogen. The New Zealand Government did not invest as heavily as other countries in these technologies.

Another notable difference is the very high proportion of the New Zealand Government's fossil-related spending on the aviation sector. Of the NZ$2.48 billion spent unconditionally on fossil fuels, 72% went toward aviation (for further discussion, see Section 3). Given that this sector is more strategically important for a remote island nation like Aotearoa New Zealand than for other countries, there is a critical distinction to be made between hard-to-abate sectors like aviation and more avoidable fossil fuel spending, such as electricity generation.

All Policies Analysis

Since the beginning of the COVID19 pandemic in early 2020, 38 major economies have committed at least **USD 1.20 trillion** to supporting **different energy types** through new or amended policies, according to official government sources and other publicly available information. These public money commitments include:

- At least USD **372.30 billion** for **unconditional fossil fuels** through 436 policies (268 quantified and 168 unquantified)
- At least USD **95.39 billion** for **conditional fossil fuels** through 166 policies (108 quantified and 58 unquantified)
- At least USD **104.99 billion** for **unconditional clean energy** through 577 policies (415 quantified and 162 unquantified)
- At least USD **357.51 billion** for **conditional clean energy** through 510 policies (420 quantified and 90 unquantified)
- At least USD **267.16 billion** for **other energy** through 270 policies (153 quantified and 117 unquantified)

By energy type, 38 countries committed at least **USD 270.50 billion** to **oil and gas** (at least USD 232.64 billion to unconditional oil and gas and at least USD 37.87 billion to conditional oil and gas).

In addition, 38 countries committed at least **USD 49.11 billion** to **coal** (at least USD 35.73 billion to unconditional coal and at least USD 13.38 billion to conditional coal).

Updated: 8 June 2022

At least
$467.69 billion
Supporting fossil fuel energy

At least
$462.50 billion
Supporting clean energy

The EPT methodology has notable limitations in scope. Firstly, it focuses only on energy-related investment (for a discussion of climate-related expenditure more broadly, see Section 2 of this briefing). Secondly, EPT focuses strictly on public spending after the start of the COVID-19 pandemic, with a particular focus on spending which was publicly justified by reference to the pandemic. Consequently, the EPT analysis excludes the $12 billion New Zealand Upgrade Programme (however, see Section 4 for an analysis).

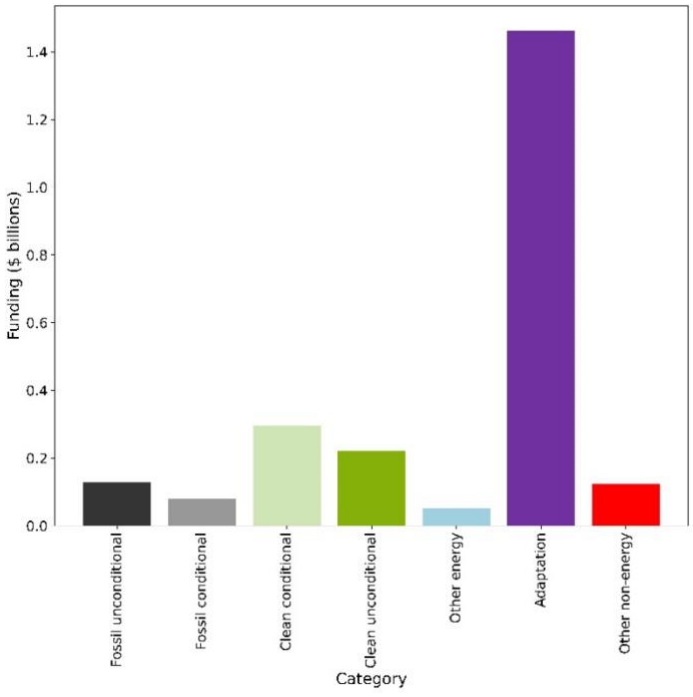
2) The COVID-19 Response and Recovery Fund

Energy Policy Tracker (EPT) focuses solely on energy-related expenditure. However, in Aotearoa New Zealand, as well as other countries, economic stimulus was directed toward other non-energy climate-related projects and activities. To better capture the full breadth of climate-related expenditure, we created an expanded version of the EPT methodology which includes the additional categories below.

	Category	Definition	Examples
6	Unallocated	Money which has not yet been allocated	Portfolio contingency
7	Adaptation	Policies which support adaptation and resilience	Stopbank enhancements, stormwater and flooding improvements, slope stability
8	Governance	Policies which involve planning or building administrative capabilities to achieve emission reductions in the long-term	Support for the Climate Change Commission
9	Other non-energy	Policies which have less obvious climate effects or do not fit into any of the other eight categories	Resource recovery, waste and landfill, marine infrastructure

The bar graph below displays the breakdown of climate-related funding from the COVID-19 Response and Recovery Fund. Specifically, this analysis includes the $1.2 billion Jobs for Nature (J4N) programme and 61 shovel-ready projects (see discussion below). We classify the former as ‘adaptation’ because one of J4N’s objectives is to enhance the resilience of Aotearoa New Zealand’s natural environment. The latter, the shovel-ready projects, includes twelve Climate Resilience Packages that total $211.6 million which we also classify as ‘adaptation’. Consequently, the adaptation category received by far the highest amount of funding.

Allocation of spending ($ billions) across 61 shovel-ready projects and the Jobs for Nature programme



The Jobs for Nature programme

The Jobs for Nature (J4N) programme is a $1.219 billion investment in nature-based solutions across regional Aotearoa New Zealand. Projects focus on making freshwater improvements, restoring biodiversity, and increasing predator and pest control efforts. As of December 2021, 7,197 people have been employed through J4N, with 381 projects approved for funding.

J4N is funded through both the COVID-19 Response and Recovery Fund (CRRF) and Budget 2020 and is administered by multiple government agencies. Its initial rationale was to create near-term employment opportunities while supporting enduring environmental benefits. At the outbreak of the pandemic, environmental job packages of this type were ranked highly in *ex ante* analyses of spending opportunities by international researchers, because they are generally quick to implement and consistent with COVID-19 protocol such as social distancing.

However, a 2021 review by RDC Group found that some projects, particularly larger and less developed ones, required sophisticated governance arrangements which took time to put in place. This compromised J4N's objective of delivering employment opportunities at pace. Nevertheless, it demonstrated a 'new approach to government support for economic recovery, having a direct focus on nature-based employment', which suggests a more holistic evaluation of project outcomes.

The shovel-ready projects

On 9 October 2020, the Infrastructure Reference Group (IRG) published a list of shovel-ready projects that would receive $2.6 billion of Government funding. We classified 61 of these 169 shovel-ready projects as being within the environmental, transport and rail sectors. These have all been deemed climate relevant. This includes twelve Climate Resilience Packages that cover fourteen of the sixteen regions across Aotearoa New Zealand.

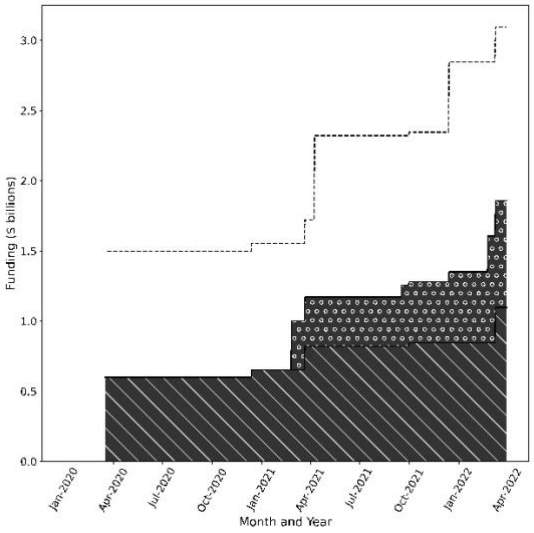
3) Ongoing financial support for Aotearoa New Zealand's aviation industry

A significant proportion of Aotearoa New Zealand's fossil unconditional spending is for the aviation sector. Using our expanded methodology which includes the New Zealand Upgrade Programme (see below), the Standby Loan Facility for Air New Zealand alone counts for 20% of the $9.8 billion of fossil unconditional spending that this policy brief considers.

Crucially, not all the support allocated to the Facility has been drawn down by Air New Zealand (the EPT methodology nevertheless treats this money as spending). The graph below shows how cumulative funding for Aotearoa New Zealand's aviation industry has continued to increase over time. The funding is divided into three types (see next page):

1. Direct support for aviation businesses, including airlines and air cargo carriers (grey with stripes)
2a. Standby Loan Facility for Air New Zealand, total amount drawn down (grey with dots)
2b. Standby Loan Facility for Air New Zealand, total amount remaining on standby (blank space under dashed line)

Cumulative support for the aviation industry since the start of the pandemic

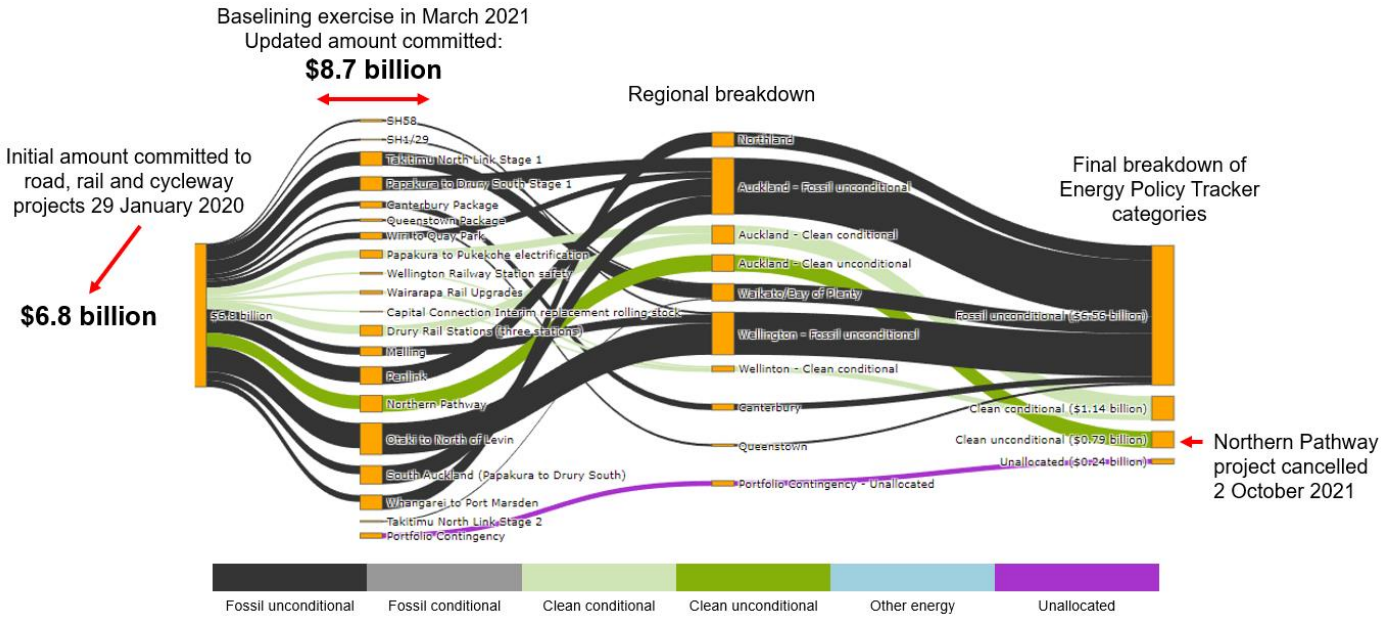


All of this funding is classified as 'fossil unconditional' under the EPT methodology. By contrast, €7 billion of funding for Air France from the French Government and commercial banks was classified as 'fossil conditional' under the EPT methodology, because loans came with 'green strings attached' which required recipient airlines to no longer offer some short-haul flights, and to make energy efficiency improvements.

Arguably, these 'green strings' were not as demanding as they seem, given that before the pandemic began in 2019 only 6% of total passenger carbon dioxide emissions came from flights that were less than 500km in length. Nevertheless, the Air France bailout package demonstrates the potential for adaptive and integrated policy innovation in a crisis. Although Aotearoa New Zealand lacks a train network like France's to substitute for short-haul air travel, the New Zealand Government could have imposed requirements to accelerate sustainable aviation, such as research, development and deployment (RD&D) for sustainable aviation fuels and/or internal carbon pricing to create revenue for RD&D.

4) The transport component of the New Zealand Upgrade Programme

The New Zealand Upgrade Programme (NZUP) is a $12 billion infrastructure investment package that the New Zealand Government announced in January 2020, prior to the outbreak of the COVID-19 pandemic. However, the NZUP was subsequently integrated into the New Zealand Government's economic stimulation strategy when the pandemic took hold. The Sankey chart below shows the transport component of the NZUP. The expenditure has been categorised according to the expanded EPT methodology.



Moving from left to right, the far left-hand side of the chart shows how the initial $6.8 billion was allocated between 24 transport projects across seven different regions of Aotearoa New Zealand, when the NZUP was first announced on 29 January 2020.

Next is the baselining exercise, carried out in March 2021, as project costs began to escalate. The baselining exercise increased the total funding amount for the transport component of the NZUP to $8.6 billion.

Next is the regional breakdown. Auckland and Wellington are the only regions receiving funding for clean energy-related transport projects from the NZUP.

The final section of the Sankey chart shows a breakdown of the funding by EPT category. The one clean unconditional project – the Northern Pathway – was cancelled in October 2021.

5) Budgets 2020, 2021 and 2022

Climate change was overtaken by the urgent priorities of COVID-19 crisis in 2020 and 2021. If we set aside the *extraordinary* spending of the COVID-19 Response and Recovery Fund, explicit allocations for climate mitigation and adaptation through the *ordinary* budget process were limited. However, for Budget 2022, the New Zealand Government signalled that climate change would be a central theme. Crucially, 2022 coincided with the publication of the Government's inaugural Emissions Reduction Plan, which it must produce under the Climate Change Response Act 2002.

A key innovation was the creation of the Climate Emergency Response Fund (CERF) which was capitalised by revenue from the auctioning of units into the Emissions Trading Scheme. In Budget 2022, a commitment of $4.5 billion was announced with an initial allocation of $2.9 billion over four years for emissions reductions. Through the hypothecation of revenue, this makes these climate investments fiscally neutral, not drawing on general funds.

On light-touch examination, however, this climate-positive investment does not represent a significant increase in in volume. We scanned the climate-positive spending in the ordinary spending of the budget process – that is, excluding the extraordinary spending of the COVID-19 Response and Recovery Fund – and found that in 2020 the climate-positive spend was $1.4 billion, in 2021 was $2.8 billion, and in 2022 was $3.1 billion (see more on our methodology below).

Further analysis is needed, in particular to adjust for inflation which increased significantly between 2021 and 2022 and therefore reduced government spending power. However, we conclude that there was no major step-change in the *quantity* of climate-positive spending. There was, however, a change in the *quality* or sophistication of this

spending. With the Emissions Reduction Plan in the background, Budget 2022 is the most integrated approach to climate-positive investment by any New Zealand government. In 2021, the climate-positive spend is significantly weighted by a $1.3 billion investment into rail improvements, whereas in 2022 the climate-positive spending covers an array of spending across all relevant sectors of energy, transport, agriculture, forestry, industry and waste. The shift from the extraordinary stimulus of the early COVID-era to the ordinary (if novel) procedures of the Climate Change Response Act 2002 signalled a more coherent, more targeted approach to climate-positive investment.

Data and method

All of the data for this research has come from publicly available Beehive press releases and documents such as Budgets 2020, 2021 and 2022.

For Section 5, a search for the following six climate-related words and phrases was used to identify climate-positive budget items: *carbon*, *climate change*, *emission*, *greenhouse gas*, *just transition* and *climate adaptation*. A second interpretive search identified budget items that did not include these five words and phrases, but which have climate-positive effects. For instance, these five terms were not mentioned in the description of the *Extending the Warmer Kiwi Homes Programme* in Budget 2021; however, this home insulation programme has implications for climate mitigation through improving energy efficiency.

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