

# **Westpac New Zealand Limited and Westpac Banking Corporation (NZ Branch)**

Submission to  
the Ministry for the Environment on  
*The Review of the New Zealand Emissions Trading  
Scheme*

11 August 2023



## 1. INTRODUCTION

- 1.1 This submission to the Ministry for the Environment (the **Ministry**) is made on behalf of Westpac New Zealand Limited (**WNZL**) and Westpac Banking Corporation (New Zealand Branch) (**WBC NZ Branch**) (together, **Westpac**) in respect of the Review of the New Zealand Emissions Trading Scheme (**Consultation Paper**). Thank you for the opportunity to provide feedback on the Consultation Paper.
- 1.2 Westpac welcomes the review of the New Zealand Emissions Trading Scheme (**NZ ETS**) and considers that it is timely and needed to support and incentivise gross emissions reductions. Westpac recognises that the NZ ETS plays a key role in New Zealand's response to address the significant effects of climate change.
- 1.3 Westpac's contact for this submission is provided separately.

## 2. KEY SUBMISSIONS

- 2.1 Westpac makes the following key submissions:
  - (a) Consistent with scientific consensus, Westpac supports the proposition that the primary focus of the NZ ETS should be on gross reductions.
  - (b) Further detail and more robust cost-benefit analysis (such as comprehensive modelling data) is needed in respect of each of the proposed options, to allow for meaningful consideration of the short-term, medium-term and long-term impacts of each option.
  - (c) Westpac recommends that the Ministry provides a fully articulated view on the intended balance between gross emissions reductions and net removals including a cost-benefit analysis that takes into account social, environmental and economic impacts.
  - (d) Westpac recommends that the Ministry considers the role of complementary policies, strategies and actions that are needed outside the NZ ETS to achieve climate targets, manage impacts and assist with a just transition, taking into account the longer-term view of Te Ao Māori.
  - (e) Westpac asks the Ministry to provide urgent clarity with regards to the grandfathering of existing commercial arrangements backed by NZUs, existing forests registered in the NZ ETS and registry holdings of NZUs, should major changes be made to the scheme.

## 3. SUMMARY OF POSITION

- 3.1 Westpac agrees that the NZ ETS should provide robust support for greater emissions reductions, to ensure that New Zealand is on track to meet its climate targets and contribute to global efforts. Westpac is committed to this objective.
- 3.2 Westpac agrees that a strong price signal delivered through the NZ ETS is fundamental to achieving this objective and reducing New Zealand's gross emissions. While a focus on net emissions reductions may meet New Zealand's Nationally Determined Contribution (**NDC**) targets, it is less

effective in assisting the transition to a low carbon economy, which requires significant gross emissions reductions. Delays to New Zealand's acceptance of the need to reduce gross emissions is likely to increase the overall cost of the economy's low carbon transition by potentially introducing the need for more rapid change at a later date, with the associated uncertainties and disruption.

- 3.3 Westpac considers that achieving the appropriate balance between gross emissions reductions and net removals requires a robust, science-based analytical framework which takes into account the contribution of emissions reductions and removals to reach the desired objective. To this end, Westpac considers that there should be a fully articulated Government view on the intended balance between gross emissions reductions and removals.
- 3.4 There is currently insufficient detail and analysis on the proposed draft assessment criteria and the proposed options to allow for an informed comparison and assessment with regards to the resulting impacts of each of these. Based on the limited data available, Westpac considers that it is not able to expressly endorse one of the proposed options (but this should not be taken to mean that it dismisses all the options proposed). As such, Westpac recommends that the primary assessment criteria are further developed, additional detail is provided, and robust analysis is carried out by the Ministry in respect of the proposed options.
- 3.5 Westpac asks that the Ministry provides urgent clarity with regards to the grandfathering of existing commercial arrangements backed by NZUs, existing forests registered in the NZ ETS and registry holdings of NZUs, to alleviate the current investor uncertainty and to restore confidence to the market. Westpac believes that a loss of trust and confidence in the NZ ETS would result if existing participants' rights were not protected, and abrupt changes were applied without appropriate grandfathering provisions in place to allow time for participants to review their respective positions. In particular, in this context, Iwi could be disproportionately impacted through the value of their relatively high volumes of exotic forestry investments, which were made in good faith at the time.
- 3.6 Westpac acknowledges and supports the role of complementary policies, strategies and actions outside the NZ ETS (such as those outlined in the wider Emissions Reduction Plan) to reduce barriers to action where possible, such as making available further GIDI funding to assist industry decarbonisation, supporting investment in enabling infrastructure (e.g. EV charging) and continuing to provide funding for research and development in decarbonisation technologies (e.g. agriculture).

## 4. RESPONSE TO CONSULTATION QUESTIONS

**Question 2.1: Do you agree with the assessment of reductions and removals that the NZ ETS is expected to drive in the short, medium and long term.**

- 4.1 We agree with the analysis that we can use a combination of gross emissions reductions and afforestation to drive net emissions reductions, particularly in the short-term. We acknowledge that forestry removals contribute to meeting our net emissions reduction target in New Zealand's NDC and recognise New Zealand's comparative advantage in deploying afforestation to absorb carbon. However, in all time periods, it is critical that gross emissions reductions are the primary goal as overreliance on sequestration is inconsistent with the goal of keeping global warming to 1.5 degrees Celsius above pre-industrial levels. Sequestration from exotic forestry does not provide a permanent carbon sink and is, therefore, an interim measure that supplements the primary objective of cutting gross emissions.

**Question 2.2: Do you have any evidence you can share about gross emitter behaviour (sector specific, if possible) in response to NZU prices?**

- 4.2 WBC NZ Branch has been a major intermediary in the NZ ETS secondary market since early 2010. WBC NZ Branch provides liquidity in the spot market and offers risk management solutions to enable gross emitters to manage multiyear procurement and price risk.
- 4.3 Many large gross emitters have significant annual surrender liabilities and will manage this risk through a treasury or trading team in line with their treasury policies. The introduction of NZ ETS auctions has provided gross emitters access to liquidity four times a year which may have otherwise been difficult to obtain easily in the secondary market. Many emitters hold a view on where NZU prices should be as well as a future expectation that these prices are likely to increase. As such, the NZ ETS auctions have enabled gross emitters to hedge multiyear risk within treasury policies. This helps provide certainty in budgets, forecasting and cash flows and investment decisions.
- 4.4 As part of a portfolio approach of managing surrender obligations, we are aware of gross emitters investing directly in afforestation projects for carbon, generated through forestry removals.
- 4.5 We are aware (based on anecdotal evidence and our lending activities) that many large emitters are investing in low emissions alternatives such as renewable electricity generation and capturing and flaring gas in landfills. However, many sectors who participate in the NZ ETS have long-term assets, and long-term journeys towards a lower emissions future. As such, policy certainty is required to enable significant and long-term investment decisions.

**Question 2.3: Do you have any evidence you can share about landowner and forest investment behaviour in response to NZU prices?**

- 4.6 We regularly speak to many forestry consultants, forestry NZ ETS participants and WNZL Agri or forestry customers with respect to the NZ ETS. Based on these conversations, we understand that the price signal delivered through the NZ ETS has resulted in significant land use change, namely the loss of productive pastoral land to forestry and impacted land prices as landowners weigh up the attractiveness of different land use options.
- 4.7 With the recent fall in NZU prices and general uncertainty as to the potential reform of the NZ ETS, we understand that a significant amount of investment and planting plans have been put on hold (as a result of this uncertainty).
- 4.8 It is worth noting that there are certain barriers to viable commercial opportunities for land that is unsuitable for other productive uses or difficult to actively farm due to specific governance arrangements (for example diversified ownership with respect to Iwi-owned land). Afforestation can provide a viable pathway for Iwi to unlock the financial potential of such land which would otherwise be difficult to do.

**Question 2.4: Do you agree with the summary of the impacts of exotic afforestation? Why/why not?**

- 4.9 Yes. We agree that the ability to offset 100% of emissions at source with exotic forests has incentivised the planting of pine trees, and that has led to changes in land use. Furthermore, given current NZ ETS settings, this is likely to remain the case for the foreseeable future as emitters continue to opt for least cost options to meet their obligations under the NZ ETS.

- 4.10 We also agree that there is a limit to the benefit that can be derived from afforestation but believe that its use can buy valuable time as gross emissions reductions accelerate and new technologies that reduce emissions can be deployed at scale.
- 4.11 We note that there has been a significant increase in exotic forestry plantation since 2019. Our view is that current and future negative environmental and social externalities associated with exotic afforestation (such as productive land use change, supply of farmland, forestry slash, ecological damage, loss of biodiversity and social impact concerns, including a potentially disproportionate impact on Māori communities) should be addressed by targeted regulatory interventions that lie outside of the NZ ETS.

**Question 3.1: Do you agree with the case for driving gross emissions reductions through the NZ ETS? Why/why not? In your answer, please provide information on the costs of emissions reductions.**

- 4.12 Yes, we agree that the NZ ETS should be one of the main tools for driving gross emissions reductions. Complementary policies, strategies and actions will be needed outside the NZ ETS (such as those outlined in the wider Emissions Reduction Plan) as well as removal of barriers where possible, such as through making available further GIDI funding to assist industry decarbonisation, supporting investment in enabling infrastructure (e.g. EV charging) and continuing to provide funding for research and development in decarbonisation technologies (e.g. agriculture).
- 4.13 The NZ ETS provides a powerful market-based solution to incentivise desired behaviours. It is accepted as being robust, trusted and reasonably mature. It creates a relatively fast and transparent transfer of cost to emitters. If gross emissions reductions are not driven by the NZ ETS, then in our experience, the focus switches to the lowest cost to offset which in the absence of other policy measures, leads to potentially unintended outcomes (such as increased exotic afforestation and its documented downstream impacts). While this may assist in meeting New Zealand's NDC targets, it does little to assist the long-term transition to a low carbon economy. Delaying gross emissions reductions would likely lead to an increase in the overall cost of the economy's low carbon transition given New Zealand would instead need to reduce emissions more rapidly at a later date.
- 4.14 However, we do believe that the case for driving gross emissions reductions through the NZ ETS could be more clearly articulated and the cost-benefit trade-offs of a net versus gross emissions objective be undertaken before any further development of the reform options for the NZ ETS is carried out.
- 4.15 In this context, we do recognise the role that exotic afforestation can play as a supplementary measure, due to its capacity to absorb significant CO<sub>2</sub> emissions from the atmosphere over a comparatively short period. In doing so, it helps address the need to urgently decrease GHG concentrations in the atmosphere, while gross emissions reductions accelerate.
- 4.16 To determine the ideal balance between gross reductions and sequestration, we suggest that there is development of an analytical, science-based framework that clearly specifies the goal that it wishes to achieve and the medium-term objectives that must be reached to address and meet that goal. It can then assess the contribution of various combinations of reducing emissions at source and offsets (such as forestry) to achieve the desired outcome. This framework will also need to take into account the relative cost-benefit analysis of each of these combinations (including the potential for unintended social and / or environmental impacts).

**Question 3.2: Do you agree with our assessment of the cost impacts of a higher emissions price? Why/why not?**

- 4.17 Emissions pricing is designed to incentivise change through a clear and strong price signal. We agree that a stronger focus on gross emissions reductions would result in a higher NZU price. Because of this, it is inevitable that a higher emissions price will impact consumers and households. Where possible, consumers and households may need to change how they consume and behave, which may ultimately help drive gross emitter behaviour. However, we acknowledge that individual consumers will face different choices and opportunities to reduce emissions, depending on their circumstances (e.g. in the face of higher overall electricity prices).
- 4.18 We agree that some households will be impacted more than others through higher emissions prices. To this end, we recognise that there may be a need for further targeted policy from the Government outside the NZ ETS to address the regressive effects of higher emissions prices on certain households and communities as part of the wider Emissions Reduction Plan and ensuring a just transition.
- 4.19 The counterfactual should also be considered, which is that failing to incentivise gross emissions reductions is likely to have a longer-term impact on consumers in terms of price instability if New Zealand does not decarbonise in line with other countries, for example by exposure to international oil prices.

**Question 3.3: How important do you think it is that we maintain incentives for removals? Why?**

- 4.20 The role of removals is important for New Zealand meeting its domestic and international climate change goals. We believe that forestry offsets have a part to play if New Zealand is to reach its emissions reductions targets, particularly in the short-term. We consider that our international and domestic emissions targets, both of which are expressed in net terms, are achievable through a combination of decarbonisation and forestry offsets, with respective weightings changing over time. The appropriate balance could be assessed through an analytical, science-based framework (referred to in our response to question 3.1).
- 4.21 We would note, however, that the net nature of our NDC targets has been subject to international criticism, and that New Zealand is required under the Paris Agreement to update its NDC targets every five years (the next update due in 2025). As such, we would caution an overreliance within the NZ ETS on removals in the medium and long-term, except for hard to abate sectors which do not have the option to rapidly decarbonise.
- 4.22 Policy settings, whether it be for exotic or indigenous forests, wetlands or other forms of removals, and alternative programmes such as a voluntary carbon market or biodiversity credits, should be set to drive the desired outcomes and provide long-term investment certainty where needed. Westpac considers that Māori and Iwi perspectives should be considered in relation to indigenous forest programmes or biodiversity credits, should they eventuate.
- 4.23 We believe in the need to balance the different benefits and attributes between native and exotic forestry, noting the differences in sequestration profiles, exposure to physical risks and wider social and environmental impacts. While in principle, we consider that the contribution of native forests in respect of reducing emissions should be market driven, additional policy and legislative measures outside of the NZ ETS may be required to account for other benefits.

- 4.24 We would support the development of a national sequestration strategy that identifies opportunities for nature-based sequestration, assesses alternative uses of resources, and balances choices against the need to value and protect Aotearoa's natural capital. This strategy should then underpin the choice of the policy instrument to reward these activities.

**Question 4.1: Do you agree with the description of the different interests Māori have in the NZ ETS review? Why/why not?**

- 4.25 We agree with the Consultation Paper's description, noting that there are a diverse range of interests and views on forestry outcomes amongst Māori.
- 4.26 On the one hand, some landowners have chosen to keep their land planted in indigenous forests and we encourage the Ministry to treat these landowners with fairness and recognise the value of their contribution to maintaining biodiversity. Consideration needs to be given to how such landowners can access longer term funding to match the intergenerational investment which has been made and will be made in these forests.
- 4.27 On the other hand, some landowners are able to gain revenue from exotic plantations on otherwise unproductive land. We note that a high proportion of land restored to Māori ownership through *Te Tiriti o Waitangi* settlements is situated on marginal land and therefore was not highly productive or profitable before entering into the NZ ETS. Accordingly, any proposed reforms to the NZ ETS should take into account the potential disproportionate impact of such reform on these landowners.
- 4.28 We believe that a holistic, system-wide approach which incorporates the longer-term view of Te Ao Māori is needed to achieve a desired and balanced outcome for Māori.

**Question 5.1: Do you agree with the Government's primary objective for the NZ ETS review to consider whether to prioritise gross emissions reductions in the NZ ETS, while maintaining support for removals? Why/why not?**

- 4.29 Yes. We believe that New Zealand needs to prioritise gross emissions reductions to:
- (a) reflect scientific consensus;
  - (b) address concerns over New Zealand's reliance on afforestation; and
  - (c) ensure that emissions reductions are not left to future generations.
- 4.30 We also note that prioritising gross emissions is consistent with the Intergovernmental Panel on Climate Change's models that prioritise reductions before using forestry or technology to remove residual emissions. This approach is also in line with Toitū Envirocare's framework (based on the Science Based Targets initiative) which Westpac is committed to as part of the Toitū net carbon-zero programme.

**Question 5.2: Do you agree that the NZ ETS should support more gross emissions reductions by incentivising the uptake of low-emissions technology, energy efficiency measures, and other abatement opportunities as quickly as real-world supply constraints allow? Why/why not?**

- 4.31 We agree that the NZ ETS should encourage gross emissions reductions via rapid deployment of known and available technology at scale which, in our view, is required to achieve significant gross emissions reductions. In addition, the NZ ETS should be encouraging the uptake of any new and emerging technology as it becomes available. We do, however, acknowledge that there needs to be

consideration of the costs of these technologies, and the flow on impact to communities and households. As noted earlier, complementary and targeted policies may be needed to address negative social externalities associated with such higher costs.

**Question 5.3: Do you agree that the NZ ETS should drive levels of emissions removals that are sufficient to help meet Aotearoa New Zealand's climate change goals in the short to medium term and provide a sink for hard to-abate emissions in the longer term? Why/why not?**

- 4.32 As noted in our response to question 3.3, the role of removals is important for New Zealand in meeting its domestic and international climate change goals, particularly in the short-term. Westpac recognises that there are some industries (aviation in particular) which will be hard to abate and may require a continued reliance on removals in the medium and longer term.
- 4.33 In the longer term, for hard to abate sectors where technology still does not exist or is not financially viable, Westpac considers that it will be important for the long-term nature of any residual emissions to be matched with a long-term removal solution (e.g., preferably native afforestation rather than exotic, or permanent carbon capture and storage).

**Question 5.4: Do you agree with the primary assessment criteria and key considerations used to assess options in this consultation? Are there any you consider more important and why? Please provide any evidence you have.**

- 4.34 We don't consider that the set of primary criteria proposed have been sufficiently developed to ensure an orderly transition of focus from net to gross emissions. We think that additional criteria should be developed and used to assess each of the options proposed by the Ministry.
- 4.35 Accordingly, it is difficult to assess the options against the primary assessment criteria given the lack of detail that is provided (including a lack of detail around the proposed NZ ETS settings). Westpac has developed an additional set of criteria which we think are appropriate to consider – these are explained in the response to question 5.5, below.
- 4.36 In terms of the key considerations outlined, if the NZ ETS is going to be one of the main tools to drive gross emissions reduction levels, then we believe that the most important consideration should be '*Affects the functionality of the NZ ETS market.*' If the NZ ETS market is functioning effectively, it should support meeting New Zealand's NDC and support co-benefits. If there are problems with the functionality of the NZ ETS, it is likely that all other considerations will also be impacted.

**Question 5.5: Are there any additional criteria or considerations that should be taken into account?**

*Grandfathering*

- 4.37 Significant consideration should be given to grandfathering of existing commercial arrangements when assessing various options in this consultation. Some of the proposed options have the potential to have significant consequences for participants across all sectors in the NZ ETS, as well as intermediaries and banks.
- 4.38 There are a broad range of commercial arrangements that various participants have entered into and need to be considered from a grandfathering perspective. Some of those considerations include (but not necessarily limited to) the following:
- (a) Long-term offtake agreements between foresters and emitters, some of which may run for 10-15 years plus.



- (b) Long-term forward contracts that financial intermediaries have entered into with foresters and emitters, again these will go out multiple years.
  - (c) Under option 4, clarity is needed around the treatment of stockpiles held by participants if there is a change to a gross and / or removal units. For instance, will NZUs held for future surrender obligations be able to be used?
  - (d) The financial impact could be significant for many stakeholders if existing NZUs are reclassified or existing forestry units trade at a discount to other units.
  - (e) With NZUs possibly being discounted or removed from the NZ ETS completely (into a 'removals market'), options 3 and 4 potentially have considerable impact on bank lending agreements and lending metrics against afforestation with security against NZUs and / or debt serviceability depending on the price of carbon.
  - (f) Landowners and foresters have made significant investments in forests along with some emitters. Clarity is needed as to whether these arrangements will be grandfathered.
- 4.39 We believe that a loss of trust and confidence in the NZ ETS would result if existing participants' rights were not protected, and abrupt changes were applied without appropriate grandfathering provisions in place to allow time for participants to review their respective positions. Abrupt changes and the lack of protection of incumbent investors will result in ongoing nervousness about the robustness and predictability of the NZ ETS and its currently understood purpose and function.
- 4.40 In particular, we note that Iwi could be disproportionately impacted through the value of their relatively high volumes of exotic forestry investments, which were made in good faith at the time, if the rules on existing positions are changed abruptly and without grandfathering provisions in place.
- 4.41 We note that there is currently considerable uncertainty in the NZ ETS market as a result of the Consultation Paper as well as the upcoming general election. Clarity around grandfathering treatment of existing arrangements would alleviate this uncertainty to some degree, especially around option 4 (which, in our view, represents the most significant structural change to the NZ ETS and as a result, significant impact on participants).
- 4.42 Aside from grandfathering, additional consideration should be given to the impact of possible NZ ETS changes on these types of agreements and arrangements in the future. The ability for participants to allocate and manage various risks is extremely important whether that be bilaterally or through the NZ ETS secondary market, or both.

#### *Additional Criteria*

- 4.43 We believe that in order to robustly assess the merits of each of the four options proposed, the following additional criteria should be considered:
- (a) **The role of government should be minimised.** The Ministry should set the rules of the scheme and then leave economic actors and markets to price and allocate resources and risks.
  - (b) **The ETS should deliver the required decarbonisation adjustment in a timely and cost-efficient manner.** This is key to meeting our international commitments, preserving competitiveness of our trade-exposed industries while maintaining the living standards and

wellbeing of New Zealanders now and in the future. Costly and risky outcomes, including overreliance on future technologies, should be avoided.

- (c) **The system should be flexible and resilient to change.** The structure of the domestic and global economy will change in the decades ahead and the NZ ETS should have sufficient flexibility to adjust, and facilitate/encourage sectors to adjust, in a timely fashion. Technological change is likely to be immense in the coming decades as the globe grapples with this existential crisis. The NZ ETS should be able to adapt to that (for example as cost-effective carbon saving technologies become available). Consideration should also be given to the potential of other sequestration opportunities.
- (d) **Social impacts and disruption should be managed by targeted complementary policies.** In our view, we recognise that there are likely to be social impacts resulting from the transition. As noted above, there should be wider support to assist with these disruptions, in the form of targeted, complementary policies.

**Question 6.1: Which option do you believe aligns the best with the primary objectives to prioritise gross emissions reductions while maintaining support for removals outlined in chapter 5?**

- 4.44 We note that there is currently insufficient detail, modelling, data or analysis in the Consultation Paper to allow for an assessment of which of the proposed options best aligns with the primary objective of prioritising gross emissions reductions while maintaining support for removals. Such modelling and analysis should include an assessment of the costs, benefits and expected price impacts associated with each of the proposed options.
- 4.45 However, we note that on the face of it, options 3 and 4 are likely to introduce further complexity. Further complexity may have an adverse impact on market participation efficiency and liquidity. The NZ ETS is comparatively small in terms of the number of participants and turn over and can be very illiquid. Whilst a separation in pricing may be needed to drive the right outcomes in removals (depending on removal type), this could further fragment the market and negatively impact its efficiency and liquidity.
- 4.46 Additionally, consideration would need to be given as to whether the introduction of a separate removals and compliance market under option 4 would, in practice, constitute an abandonment of the NZ ETS. Clarity is also needed with respect to how the price setting mechanism would work for removals under this option.

**Question 6.2: Do you agree with how the options have been assessed with respect to the key considerations outlined in chapter 5? Why/why not? Please provide any evidence you have.**

- 4.47 Please see our response to question 6.1 above.

**Question 6.3: Of the four options proposed, which one do you prefer? Why?**

- 4.48 Please see our response to question 6.1 above.

**Question 6.4: Are there any additional options that you believe the review should consider? Why?**

- 4.49 Please see our response to question 6.1 above.

**Question 6.5: Based on your preferred option(s), what other policies do you believe are required to manage any impacts of the proposal?**

- 4.50 As explained above, we do not have a preferred option for the reasons outlined in our response to question 6.1. However, we believe that concerns related to externalities associated with afforestation and inappropriate land use outcomes can be dealt with outside the NZ ETS through targeted complementary policies (for example implementing changes to the consenting rules). This would then ensure that the NZ ETS is focused on its role of delivering a carbon price consistent with New Zealand meeting its emissions targets.

**Question 7.1: Should the incentives in the NZ ETS be changed to prioritise removals with environmental co-benefits such as indigenous afforestation? Why/Why not?**

- 4.51 Broadly, we are in favour of supporting native afforestation with environmental co-benefits. However, we believe that further analysis is needed to better understand how this can be promoted whilst maintaining the operation of the NZ ETS in its most efficient and simplest form. Westpac considers that Māori and Iwi perspectives should be considered in relation to indigenous forests and environmental, and cultural, co-benefits.

**Question 7.3: Should a wider range of removals be included in the NZ ETS? Why/Why not?**

- 4.52 We acknowledge the importance of removal activities with environmental co-benefits such as indigenous afforestation. We also agree with some of the challenges noted in chapter 7 of the Consultation Paper in respect of the commercial viability of many of these investments at current carbon price levels, or other challenges around low sequestration quantities of areas such as riparian margins. The implications of adding removal activities on current and future NDCs will also need to be carefully considered.
- 4.53 With respect to the work programme noted on page 74 of the Consultation Paper around complementary measures that support a wider range of removal activities through the Carbon Removals Strategy, we believe this piece of work should be completed first with a decision then to be made on whether to introduce this policy through a pricing tool (such as the NZ ETS) or via external policy mechanisms, or a mix of both.
- 4.54 Furthermore, and as noted earlier, consideration also needs to be given to the fragmentary impact of adding different types of removals to an already small and illiquid ETS market.

**Question 7.4: What other mechanisms do you consider could be effective in rewarding co-benefits or recognising other sources of removals? Why?**

- 4.55 We would suggest that land use rules and biodiversity regulations could be better employed to reward such co-benefits.
- 4.56 We also note that voluntary markets may provide financial incentives for co-benefits that cannot be effectively accounted for in the NZ ETS.
- 4.57 Westpac considers that Māori and Iwi perspectives should be considered in relation to environmental, and cultural, co-benefits of other sources of removals and any biodiversity credits or market.

