Wai 3325, #3.3.15(c)

Ministerial governance of Climate work programme and the second emissions reduction plan

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Actions sought from Ministers		
Name and position	***Action sought***	***Response by***
To Hon Simon Watts **Minister of Climate Change**	Review the content of the brief and appendices, and with officials at your meeting with them on 19 December	18 December 2023
CC Hon Nicola Willis **Associate Minister of Climate Change**	Note the contents of this briefing	N/A

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
1. Appendix 1: Proposed meeting agenda 2. Appendix 2: Ministerial governance arrangements for climate policy 3. Appendix 3: Delivering the second emissions reduction plan 4. Appendix 4: Setting the strategic direction for ERP2

Key contacts at Ministry for the Environment			
Position	***Name***	***Cell phone***	***First contact***
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Deputy Secretary	Sam Buckle		

Minister's comments

RECEIVED
Waitangi Tribunal
28 Mar 25
Ministry of Justice
WELLINGTON

Ministerial governance of Climate work programme and the second emissions reduction plan

1. On Tuesday 19 December 2023, you are meeting with officials to discuss (a) the governance arrangements for the Government's climate change work programme and (b) progressing work on the second emissions reduction plan (ERP2).

2. This cover brief provides you the briefing materials for this meeting. Appendix 1 outlines our proposed agenda for the meeting. Appendices 2, 3 and 4 provide the supporting papers.

Ministerial governance arrangements for climate policy

3. We have previously advised you that some form of cross-portfolio governance of climate policy, at the ministerial level, would help better deliver your priorities. This is because many actions and levers to meet mitigation and adaptation goals are led by Ministers across various portfolios. The Climate Change Chief Executives Board also supports this approach to ensure our climate response is coordinated across portfolios, with clear direction and prioritisation of the government's work programme.

4. We have prepared some further advice on what that governance group could look like (Appendix 2). In the slides, we recommend a single Ministerial governance group, of 9-10 core Ministers plus a chair, covering mitigation and adaptation. The group would meet quarterly, with the ability to form sub-groups for key deliverables, to drive coherence and strategic priorities across climate policy.

5. We would like to discuss with you whether this plan meets your expectations for how a Ministerial group could operate.

6. If you agree with the recommendations, we would like to discuss with you how to progress the work. One option is for the Climate Change Chief Executives Board to prepare a paper for you to take to Cabinet in early 2024 to confirm this grouping.

Progressing work on the second emissions reduction plan

7. We are providing you two papers on the second emissions reduction plan.

   Delivering the second emissions reduction plan

8. The first paper, attached as Appendix 3, is intended for you, the Minister with legal responsibility for developing the Plan. It explores some key considerations about the process for the plan.

9. As a starting point, we draw your attention to 5 specific topics:

i. **Timeline –** As Minister of Climate Change, you are responsible for publishing ERP2 by December next year and for ensuring that 'adequate' consultation is undertaken prior to doing so. Our advice is that consultation must happen in approximately mid-May next year in order for consultation to be undertaken, results analysed and final decisions made by the end of the year. This creates a peak of work in early 2024 during which Ministers and agencies will have to work through significant decisions about what to include in the consultation material.

ii. **Engaging with Ministerial colleagues –** As noted above, we recommend creating a Ministerial governance group to oversee the Climate work programme. We recommend that this group meet at least twice between January and May 2024 to discuss ERP2 in particular. The first meeting would set the strategic direction for ERP2 and confirm the scope of the plan; the second meeting would provide feedback on emerging policy content to include in consultation. *Are you comfortable with this approach?*

iii. **Consultation –** We have assumed that the Government will not want to consult on a full and complete 'package' of policies but on its strategic approach and policy levers. This is in line with the approach taken during ERP1. *Are you comfortable with this as a planning assumption?* To note: we will work closely with agencies to ensure that their material provides sufficient detail for you to meet your statutory requirement that consultation is 'adequate'. (We can provide further advice on this, if required.)

iv. **Sector sub-targets –** During the development of ERP1, Cabinet set 'sector sub-targets', specifying the intended level of net emissions from each sector. We have an option to refresh these targets now and to use them as a 'planning tool' as agencies prepare options. This would be a significant analytical and conceptual task, including forming a preliminary view on the 'right' level of overall abatement, and would need to commence now to be in time for ERP2. It could also risk discouraging development of abatement options beyond the determined subsector targets. *We would like to explore with you whether this is something you wish us to pursue now.*

v. **Engagement -** We would like to engage with selected stakeholder groups, including business, young people and iwi/Māori representatives, from early 2024 to begin a process of formally hearing their perspectives and concerns. *We would like to explore your expectations for pre-consultation engagement.* After this, we will provide you with further advice very early in 2024 to confirm our direction and begin work.

10. We welcome your feedback on these questions.

11. Early in 2024, we plan to provide you with further advice on the proposed final scope and structure of ERP2. This will include our plan to prepare advice on the requirements to prepare a multi-sector adaptation strategy and a strategy to

mitigate the impacts of reducing emissions and increasing removes on employees, regions, iwi and Māori and wider communities. This will also include advice on how to ensure that the Government meets its statutory obligation to consider the Climate Commision's' final advice on the policy direction for ERP2.

Setting the strategic direction for ERP2

12. Following from the two papers above, the second ERP paper (Appendix 4) assumes that some form of Climate Ministerial governance structure will form in early 2024 and that this group will have an early strategic conversation on ERP2. **This paper offers a potential approach for that first meeting. We welcome your feedback.**

13. We propose that this first meeting with Ministers focuses on key strategic issues that need to be resolved to help support the development of a coherent and adequate ERP2, within an overall grounding of New Zealand's various budgets and targets, progress towards meeting them, and what the ERP2 needs to achieve. We think it should also give Ministers a clear understanding of the timeline for 2024.

14. We suggest two strategic issues that would benefit from an early conversation between ministers and are reflected in the attached narrative document:

    i. Under current design, the Emissions Trading Scheme (ETS) is unlikely to deliver a rising emissions price path over the long term. This is due to the increasing availability of low-cost removals from exotic afforestation and from forests already planted. In its current form, the ETS is expected to continue to drive rural land use conversion to exotic forestry but will not play a significant role in reducing gross emissions from energy and transport. We will provide you with more detailed advice on your priorities for emissions pricing for your holiday reading pack.

    ii. 9(2)(f)(iv) [redacted]

15. We think it is helpful for Climate Ministers to consider the anticipated outcomes and implications of this pathway and consider whether some adjustment is needed. To help guide this discussion, we consider there are two key questions

that will help agencies to develop an ERP2 which aligns with, and delivers, Government priorities:

i. *Do Ministers have a preference on the level of gross reductions achieved compared to forestry, particularly with view to impacts beyond 2030?*

ii. 9(2)(f)(iv)

16. To support this conversation, officials are preparing quantitative modelling, designed to offer Ministers an indicative sense of the long-term costs, benefits and wider implications of the current pathway. We are prioritizing this work and expect a preliminary version to be ready by the end of January 2024.

17. We seek your feedback on this approach for the conversation and whether there are other messages you would want to include in this first conversation or whether you wish to take a different approach to that meeting.

    i. For example, we could include advice on the final scope of ERP2 and how the Government wishes to prepare advice on cross-sectoral issues, such as on the distributional impacts of its policies. Alternatively, you may wish for this to be a decision that you take directly as the responsible Minister.

Approach to projecting future emissions

18. The sufficiency estimates included in this paper are our best estimates of this point in time and come with significant caveats. Emission projections make assumptions about the future and are based on current knowledge, so are inherently uncertain. They are, however, the best source of information we have about progress towards emissions budgets and climate targets. Officials are currently revising the emissions projections out to 2050 to reflect the Blueprint for a Better Environment, coalition agreements, methodological updates, and other assumption updates.

19. Some policies are more challenging to model. For example, it is challenging to project the implications of creating an enabling regulatory environment and doubling renewable energy, and when these implications might be realised. Further work will be needed as part of ERP2 to consider the magnitude and timing of these impacts.

The Parliamentary Commissioner's advice on developing ERP2

20. The Parliamentary Commissioner for the Environment recently reviewed the development of the first emissions reduction plan. He made a series of recommendations that included taking a more strategic 'top-down' approach to developing the second plan.

21. Our proposed approach to the initial discussions with Climate Ministers would support a more strategic approach to developing ERP2. The Commissioner also

recommended the Prime Minister provide leadership over ERP2, and that the Climate Change Chief Executives Board focus on driving cross-agency decision making through the development of the plan.

Recommendations

We recommend that you:

a. **discuss** the contents of this note with officials at your meeting with them on 19 December

Signatures

Becky Prebble
Chief Advisor
Climate Change Mitigation and Resource Efficiency
14 December 2023

Hon Simon Watts
Minister of Climate Change

Date

Appendix 1: Proposed meeting agenda

Meeting details	
Date:	19 December 2023
Time:	8.45 am to 9.45 am
Venue:	Office of the Minister of Climate Change
Purpose of meeting:	To discuss (a) the governance arrangements for the Government's climate change work programme and (b) progressing work on the second emissions reduction plan (ERP2).

#	Item	Lead	Time
1.	Ministerial governance arrangements for climate policy		8.45 am 10 min
2.	Delivering the second emissions reduction plan		8.55 am 10 min
3.	Setting the strategic direction for ERP2		9.05 am 40 min

Appendix 2: Ministerial governance arrangements for climate change policy

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Ministerial governance arrangements for climate policy

15 December 2023

Climate policy cuts across multiple policy areas and many key actions sit outside the climate portfolio

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Many actions and levers to meet mitigation and adaptation goals are led by Ministers across various portfolios, such as Energy, Transport, and Agriculture, not just the Climate portfolio.
These actions and levers need to be aligned towards achieving climate outcomes.

There is benefit in having a formal avenue for Ministers to collectively set the climate agenda, decide strategic priorities, manage complexities and navigate trade-offs.

This slide pack presents the key choices to be made in establishing cross-portfolio ministerial governance arrangements to drive coherence and strategic priorities across climate policy.

Ministerial governance could be supported by the Climate Change Chief Executives Board which was established to provide collective leadership, oversight and action of the government's climate mitigation and adaptation response.

Potential functions of a cross-portfolio ministerial governance group

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Setting strategic policy direction	• Setting early strategic and policy direction on key climate policy outcomes sought
Joint ownership of key policy recommendations	• Landing cross-portfolio recommendations, ahead of Cabinet decision-making, on how to progress adaptation and mitigation projects with significant political, policy and economic judgements
Monitoring and performance of delivery	• Collective cross-portfolio monitoring and tracking of outcomes and deliverables to meet adaptation and mitigation goals
Responding to emerging risks and opportunities	• Responding to and agreeing on a collective approach to managing risks and opportunities that may impact climate action

Considerations for ministerial governance arrangements for climate policy

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Consideration		Recommendation
Scope	Should adaptation and mitigation be dealt with together under one group or separately as two groups?	One Ministerial governance group for all climate policy with the ability to form sub-groups for key deliverables or technical work. A single group connects adaptation and mitigation policy and action and makes manageable the overlaps between and within portfolios.
Membership	What size group/s or membership can effectively support overall governance and decision making?	A group of 9 core Ministers. Core Ministers include portfolios with significant climate actions: Climate Change, Housing, Infrastructure, Energy, Transport, Environment, Agriculture, Finance, Forestry, Māori Crown Relations, Building & Construction, Emergency Management and Recovery, Local Government. Other Ministerial portfolios could provide specific perspectives 'as required', such as Minister Rural Communities.
Chair	Who should chair the group/s to facilitate choices where there is a trade-off between outcomes?	Either the Prime Minister or Minister of Finance as chair or both as co-chairs. A senior Minister as chair can signal priority of the work and facilitate choices.
Meeting cadence	What meeting frequency is needed to support the climate work programme?	Quarterly meetings with out-of-cycle meetings for specific deliverables using a sub-group of Ministers as appropriate. There may be other Ministerial groups that some deliverables could go through.
Officials support	What agency should support the group/s?	The Climate Change Chief Executives Board is currently set up to service the Ministerial Governance Group.

Potential membership of Ministerial portfolios

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Core Ministers and portfolios	Climate related levers & actions	
	Adaptation	Mitigation
Minister of Climate Change (Hon Simon Watts)	●	●
Minister of Finance (Hon Nicola Willis)	●	●
Minister of Housing/ Infrastructure/Minister Responsible for RMA Reform (Hon Chris Bishop)	●	●
Minister for Energy/Minister of Transport/Minister of Local Government (Hon Simeon Brown)	●	●
Minister for Emergency Management and Recovery (Hon Mark Mitchell)	●	
Minister for Agriculture/ Minister of Forestry (Hon Todd McClay)	●	●
Minister for Māori Crown Relations: Te Arawhiti (Hon Tama Potaka)	●	●
Minister for the Environment (Hon Penny Simmonds)	●	●
Minister for Building and Construction (Hon Chris Penk)	●	●

Optional Ministers and portfolios	Climate related levers & actions	
	Adaptation	Mitigation
Minister for Regional Development/Minister for Resources (Hon Shane Jones)	●	●
Minister for Social Development and Employment (Hon Louise Upston)	●	●
Minister for Science, Innovation and Technology (Hon Judith Collins)	●	●
Minister of Conservation (Hon Tama Potaka)	●	●
Minister for Economic Development (Hon Melissa Lee)	●	●

Next steps to establish a Ministerial governance group

- You commission the Climate Change Chief Executives Board to prepare a Cabinet paper to authorise the establishment of Ministerial governance group arrangements
- You take a Cabinet paper in early 2024
- The Climate Change Chief Executives Board prepare a formal terms of reference for the Ministerial governance group/s and propose a standing agenda (including key performance indicators) and forward agenda for early 2024

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Supporting material

Supporting slides on key choices in establishing effective ministerial governance arrangements for climate policy

Scope and membership

What size group/s can effectively support overall governance and decision making?

The choices for scope are	Pros	Cons
One Ministerial group for all climate policy	• Connects adaptation and mitigation policy, action and narrative i.e. co-benefits • Overlaps between and within portfolios are more manageable • Key risks (external and internal) are likely to impact on both adaptation and mitigation	• Mitigation and adaptation impact different sectors • Large group may impact ability to make decisions efficiently, although can be managed through use of sub-groups • Other Ministerial groups may deal with aspects of climate policy such as RM
Separate Ministerial groups for different policy areas. i.e. mitigation and adaptation	• Smaller groups able to make decisions more efficiently • Clear focus on either mitigation or adaptation	• Connections and co-benefits between mitigation and adaptation may not be clear • Multiple meetings for Ministers with adaptation and mitigation responsibilities

Recommendation:

- One group for all climate policy with the ability to form smaller sub-groups when required
- It is noted that there may be other Ministerial groups that climate products could go through
- Certain Ministerial portfolios are core members and other Ministerial portfolios can add different perspectives

Meeting cadence

What meeting frequency is needed to support the climate work programme?

The choices are	Considerations
Quarterly	• Quarterly reporting is the standard programme management cadence • Balanced frequency for meaningful implementation updates • Out of cycle meetings with a smaller group of Ministers could be held to facilitate timely decisions on specific deliverables
Monthly	• Timely decisions for specific deliverables i.e. ERP2 and adaptation framework • Reduced need for out of cycle meetings • Increased workload for Ministers and agency supporting group
Every eight weeks (approx. 6 per year)	• May not align with standard programme management reporting or decisions on specific deliverables • Out of cycle meetings with a smaller group of Ministers could be held to facilitate timely decisions on specific deliverables
Six monthly	• Less workload on agency supporting group and Ministers • Large agendas to get through • May not align with timely decisions on deliverables • Out of cycle meetings with a smaller group of Ministers could be held to facilitate timely decisions on specific deliverables

Recommendation:
Quarterly meetings with out-of-cycle meetings for specific deliverables using a sub-group of Ministers

An early 2024 establishment meeting could focus on:

- collective focus or 'big calls'
- broad strategic direction for priority deliverables

Note: Meetings will only be when Parliament is sitting

2024 work programme for a Ministerial governance group

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	Q1	Q2	Q3	Q4
Standing agenda	Review key climate KPIs Confirm major cross-system focus actions for the next quarter			
Strategic direction for climate policy	Ministers to set strategic direction on climate outcomes sought across climate mitigation and adaptation			
ERP2	Determine key policy priorities to deliver results, prior to Cabinet approval of draft policies for consultation			
Funding and financing	Review and consider climate priorities in Budget '24			
Monitoring climate outcomes		Review advice from Climate Change Chief Executives Board on progress towards climate outcomes and risks to address		
Adaptation				
NDC		Review & consider NDC1 implementation plan (tbc)		

Appendix 3: Delivering the second emissions reduction plan

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Delivering the second Emissions Reduction Plan

Timing is tight - early 2024 is crucial in setting an effective plan

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The Government must publish ERP2 by December 2024. As a planning assumption, we are preparing for announcements to be ready by November, to announce at COP29.

The Government is legally required to conduct 'adequate' consultation on the plan. We plan for this to happen in c.May-July 2024.

As a result, the early part of 2024 is crucial in forming a clear agreement across Government on the shape and scope of ERP2.

Engaging with Ministerial colleagues

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As the Minister of Climate Change, you are responsible for the development and publication of ERP2 in 2024, but you do not have full control over the content. Other Ministers are responsible for the systems that will deliver emissions reductions, and for areas that underpin overall decarbonisation policies and manage their impacts. **We recommend that Ministers take a deliberate, collective, cross-portfolio approach to policy development and decision-making.** This will see officials give joint advice to Ministers and weigh up system implications to provide a cross-economy picture of draft sector-specific policies to inform their individual portfolio decisions.

The proposed cross-portfolio ministerial governance group will encourage high levels of engagement from key Ministers, enable you and your colleagues to work through the trade-offs across portfolios and ultimately help you confirm the final plan.

Prior to May consultation, we propose that the Ministerial governance group should meet twice.

- Firstly, in c.February, to give overall strategic direction to ERP2, including its scope – the narrative document at Appendix 4 suggests an overall frame for this conversation.
- Secondly, in c.April, to review emerging policy content to be included in the consultation.

A collective Ministerial approach will be supported by Climate Change Chief Executives Board, which provides direction and governance across officials' work programmes, and advice to Ministers on the overall direction, coherence and sufficiency of the plan as it develops. MFE also coordinates an ERP2 cross-agency work programme.

MCC Direction

- Are you broadly comfortable with this approach?

Scope of consultation for ERP2

ERP2 will present different levels of policy detail for consultation and final versions

Legislation requires that ERP2 has 'adequate' consultation, including with sector representatives, affected communities, and iwi and Māori. There is no set definition of adequate. You are responsible for ensuring that consultation is adequate.

Consultation content must provide enough detail for people to provide informed feedback. However, agencies need time to develop ideas in line with your priorities, which will not be fully detailed in time for May consultation.

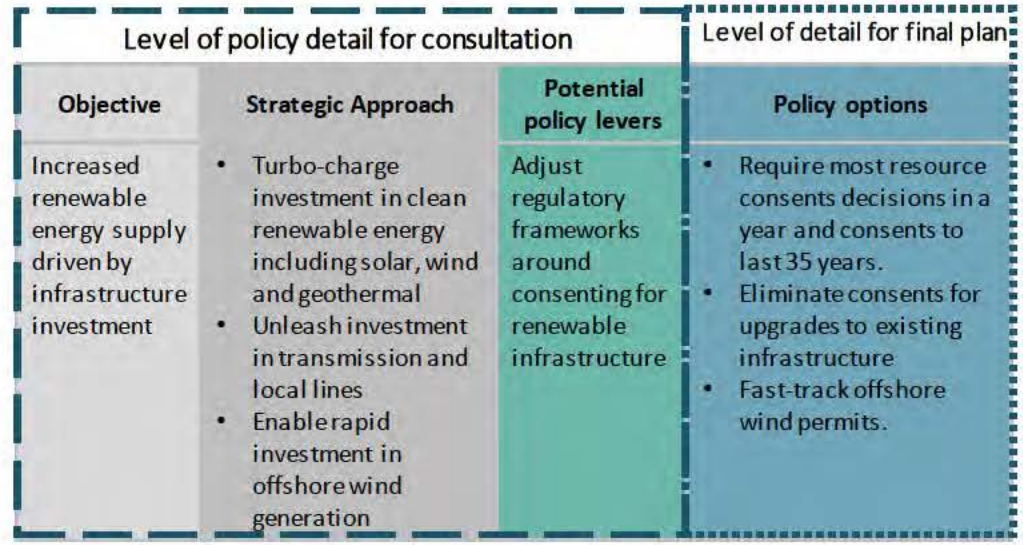
Therefore, we recommend agencies develop policy detail at a relatively high-level, with overall policy approaches by sector, indicating potential policy levers the government may wish to use, but not specific policy initiatives. During and after consultation, as we receive feedback from submissions, agencies will continue to develop polices.

An early steer from you would be beneficial for agencies developing their policy approaches, prior to confirming this approach with Ministerial colleagues early next year.

MCC Direction

- Are you comfortable with this approach to consultation?

Example policy detail consultation vs final



Setting sector sub-targets

Indicative sector sub-targets can be used to inform policy development for ERP2

In developing ERP2, you may like to consider setting indicative sector sub-targets to support emissions reduction planning across Ministries and Ministers. These targets would give Ministries and Ministers something concrete to aim for when developing policy options, though would not be binding.

The trade-off is that it may discourage development of options to go *beyond* a sector sub-target – this may reduce the ability for the ERP2 process to provide options to over-achieve emissions budgets and support achievement of NDC1. An alternative approach would be to ask Ministries and Ministers to deliver options to deliver as much abatement as possible.

Determining the 'right' levels for targets would be a significant analytical and conceptual task that would need to commence now to be in time to impact ERP2.

In the longer-term, sector sub-targets could be built into outcomes-based accountability mechanisms for the delivery of ERP2, once the Government's final policy mix had been selected.

Officials can provide additional detail on the advantages and disadvantages of sector sub-targets early next year, but would welcome a sense of your interest at this stage.

MCC Direction

- Would you like to consider the use of sector sub-targets to inform policy development?

External stakeholder engagement

We must plan now for engagement and consultation activities

Engaging with key stakeholders as we develop policies helps inform our thinking. Engagement will be most effective if it is planned early and in a coordinated way.

Officials have been working with relevant stakeholder groups in advance of formal engagement activities and invite your direction on how we approach this pre-engagement and on any other engagement opportunities you would like to pursue.

You have choices as to how you would like to be personally involved in various engagement activities with different stakeholders. Options include hosting an upcoming Climate Business Advisory Group or CE Round Table meeting, opening or leading a Youth Advisory Group session or collaborating on events with the private sector.

We will engage with you very early next year on specific possible engagement activities that need your direction and approval to launch.

MCC Direction

- What engagement activities would you like us to prioritize?
- How would you like to be involved in engagement activities? E.g. participating in Climate Business Advisory Group meetings

Appendix 4: Setting the strategic direction for ERP2

Setting the strategic direction for ERP2

Purpose

- Create a shared understanding on New Zealand's decarbonisation commitments.
- Confirm our overarching climate priorities for this term.
- Highlight challenges we face in delivering these priorities and discuss key strategic issues that need to be resolved to help support the development of a coherent and adequate second Emissions Reduction Plan.

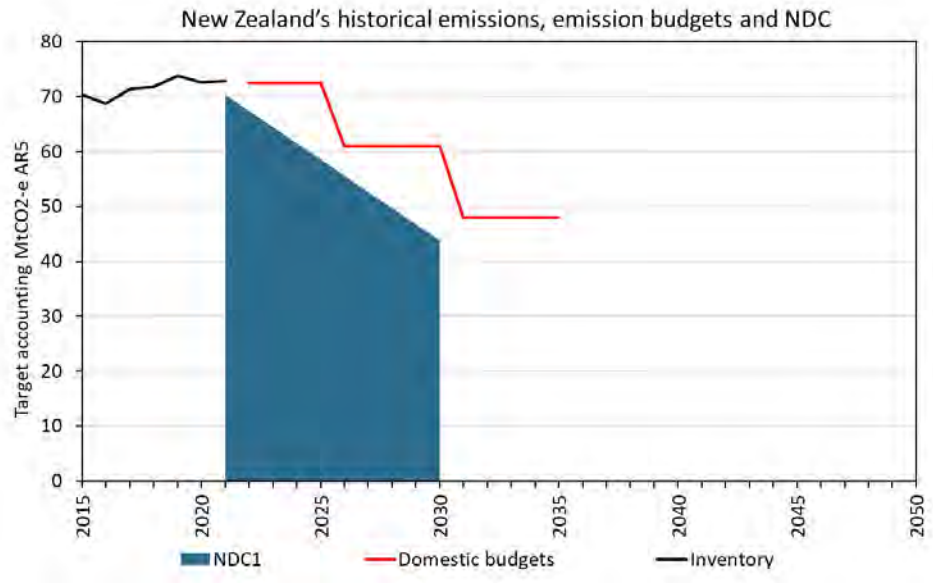
Key messages

- The Coalition agreement with New Zealand First commits the Government to deliver New Zealand's net-zero target by 2050. We also have several nearer term emissions targets and budgets that are legislated in the Climate Change Response Act.
- The Climate Change Response Act requires the publication of the second Emissions Reduction Plan (ERP2) by the end of 2024. ERP2 is our means to support achieving our second emissions budgets (2026-2030) and to put us on a path towards meeting subsequent emissions budgets and our 2050 targets.
- Getting a good ERP2 should be our priority in 2024. It is our opportunity to develop our policies around renewable energy, electrification, biotechnology, on-farm innovation, and providing a strong ETS framework that sustains an increasing ETS price over time.
- There are two initial strategic questions Ministers will collectively need to consider to help inform the development of ERP2:

- What role do we want forestry to play in meeting our targets relative to gross emissions reductions?
- To what extent do we want to over-achieve emissions reductions in the second emissions budget to reduce reliance on offshore purchasing to meet New Zealand's Nationally Determined Contribution (NDC) under the Paris Agreement?

New Zealand's climate change commitments

- The Coalition Agreement with New Zealand First commits the Government to deliver New Zealand's net-zero target by 2050.
- New Zealand has committed to several climate change targets. These include:
  - Net zero greenhouse gas emissions excluding biogenic methane by 2050.
  - Biogenic methane reduced by 10 per cent by 2030, and by 24–47 per cent by 2050 (both subject to review as per the coalition agreement with ACT New Zealand).
  - New Zealand's NDC to reduce net greenhouse gas emissions to 50 per cent below gross 2005 levels by 2030.
- New Zealand's Emission Budgets step down from 290 Mt CO2e from 2022-25, to 305 Mt CO2e from 2026-30, and to 240 Mt CO2e from 2031-35.

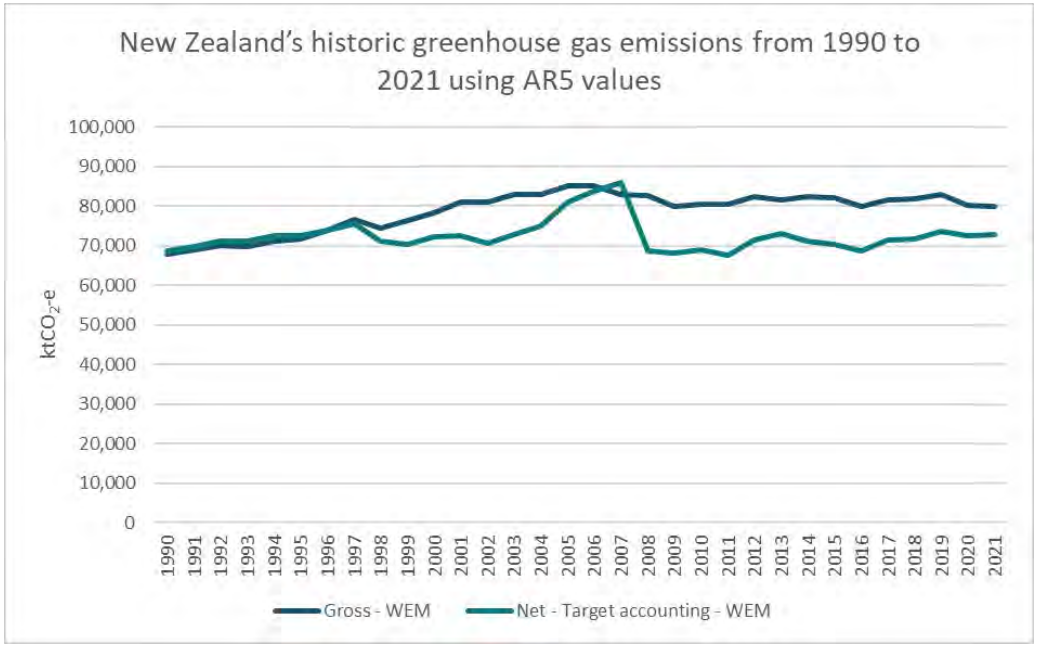


- New Zealand's NDC is significantly more ambitious than our emissions budgets and therefore requires that we use up to ~97MT offshore mitigation to complement domestic action. New Zealand's mitigation requirements for meeting NDC1 is largely consistent with other developed countries although we are unique in having a high reliance on offshore mitigation

Historical emissions

New Zealand's emissions have started to decline

- Following a period of persistent growth, emissions peaked around 2006/2007 and stabilised. Emissions have dropped year on year from 2020.
- This is despite New Zealand's population increasing by approximately 21 percent between 2006 and 2021.



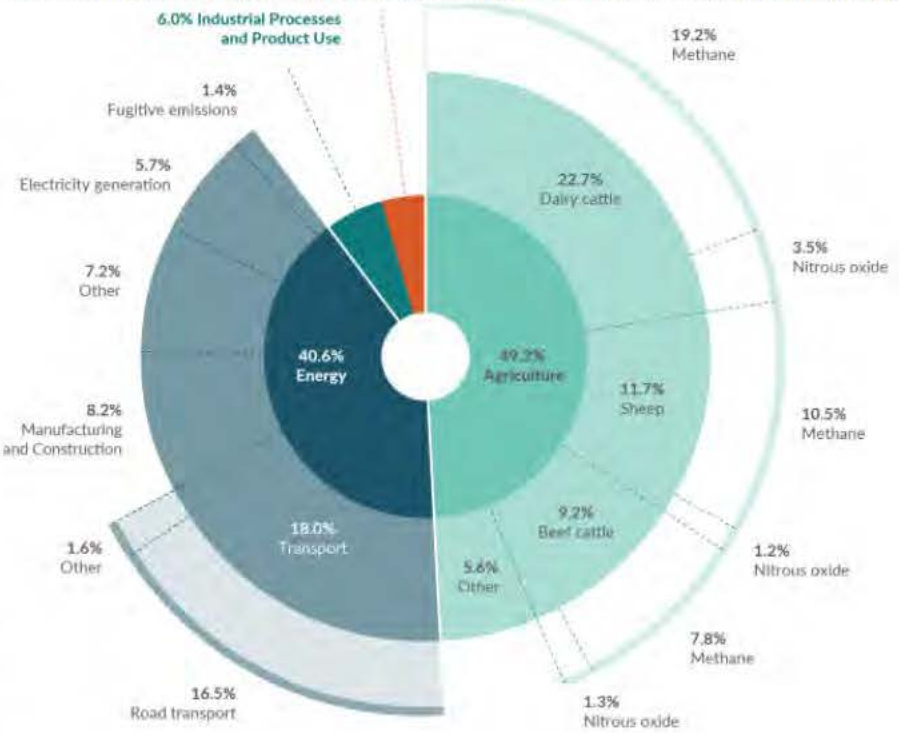
The drivers of emissions are complex

- Decisions that people, businesses, trading partners and international governments make shape our mitigation response.
- Ultimately, ETS settings, and the resulting price, drives the financial incentives to take abatement actions. However, some sectors are less responsive to price signals so other governments policies are relevant.
- There are a range of other factors that can influence the reduction and mix of emissions. For example:
  - economic downturns during the Global Financial Crisis (2008) and Covid (2020),
  - wet years (2016) and dry years (2023) impact the level of renewable energy used,
  - international commodity prices can drive more or less demand for agriculture products, and
  - the availability, and price of, lower emission technology, such as electric vehicles and heat pumps.

Current emissions profile

- New Zealand's emissions profile is different to that of most other developed countries. This is because approximately half of our emissions come from the agriculture sector, which is in part due to our energy sector having a relatively small contribution. While we have high per-capita transport emissions, the high proportion of renewable electricity generation has a significant impact on our emissions profile, driving up the relative contribution of the agriculture sector to our overall profile.
- In 2021, New Zealand's gross emissions were 76.8 million and net emissions were 55.7 million.
- The agriculture (49 per cent) and energy (41 per cent) sectors contributed the most to New Zealand's gross emissions in 2021. Emissions from road transport, a sub-category of the energy sector, made up 16.5 per cent of gross emissions.
- Together, methane (43 per cent) and nitrous oxide (10 per cent) largely from agricultural sources, made up over half of our gross emissions. The remaining emissions consisted mostly of carbon dioxide (45 per cent), largely from the energy sector, and industrial processes and product use sector.

Gross greenhouse gas emissions in 2021 by sector, sub-category and gas type



Trajectory of emissions towards our short, medium, and long-term commitments

- A core part of ERP2 will be to consider the magnitude and timing of Government's new policies and understand the impact these will have on emissions.

Based on current projections, we are on track to meet the First Emission Budget (2022-2025), although this is not certain

- Based on 2023 emission projections, we are projected to meet the first emission budget (2022-2025). However, this could be misleading as officials anticipate that the 2024 emission projections are likely to show that meeting emission budgets is more challenging than our current projections. There are several factors that will affect the 2024 update of projections including: economic condition and emissions patterns, policy changes, measurements changes, and ETS assumptions.

At present, we can land within the second emissions budget – but there is a significant gap to our 2030 NDC

- The 2023 projections based on policy settings, economic and sector data as at 1 July 2023 suggest that:
    - EB2 (2026-2030): New Zealand can land within the second emissions budget (EB2). Emissions are projected to be within a range of 267 to 296 Mt CO_2e, below EB2 limit of 305 Mt CO_2e, with a 'buffer' of 24 Mt CO_2e (or 7.8% of the budget) from the central estimate of the range.
    - NDC1 (2021-2030): there is a 97Mt gap between the emissions budgets and the NDC which will require offshore mitigation to complement domestic mitigation.
    - 2030 biogenic methane target: We are finely balanced in meeting the 10% reduction.
- Given our emissions profile, it is likely that, in addition to forestry removals, the energy and transport sectors will need to contribute more to the emissions reductions needed in EB2, which will also flow into EB3.

There is considerably more uncertainty about our ability to deliver EB3 and longer-term targets on current policy settings

- Updated projections based on policy settings, economic and sector data as at 1 July 2023 suggest that:

- EB3 (2031-2035): Contains considerably more uncertainty and likely requires additional attention. The projections show a range of outcomes are possible, both meeting and not meeting the budget.

- 2050 net-zero target: An approach that relies more heavily on the ETS, in its current form, may increase the risk of not achieving the 2050 net-zero target. This is primarily due to the quantity of long-lived gases currently outside the ETS. In addition to risking the achievement of this target, an approach that relies more heavily on the ETS, in its current form, is not expected to deliver sufficient emissions removals to sustain net zero emissions levels beyond 2050.

- 2050 biogenic methane target: There is a high risk of non-achievement, but this could change with an appropriate agricultural price mechanism and on-farm sequestration.

For longer-term targets and budgets, Climate Ministers need to use ERP2 to set New Zealand on a path to deliver EB3 and the 2050 targets.

- This is because the required reductions will need to be steeper in subsequent emissions budgets and many policies, such as regulatory reform, can have a long lead-in time before the impact on emissions is delivered.

- Some policies are more challenging to model. For example, it is challenging to project the implications of creating an enabling regulatory environment and doubling renewable energy, and when these implications might be realised. Emission projections make assumptions about the future and are based on current knowledge. While they are inherently uncertain, they are the best source of information we have about progress towards emissions budgets and climate targets. ERP2 policies will be reflected in emission projections in 2024 and 2025.

- In addition, officials are undertaking high-level modelling to quantify the implications of our expected pathway out to 2050. This modelling will provide an initial view on the adequacy to meet emissions budgets, level of gross reductions vs. removals, impacts on emissions pricing, macro-economic impacts, distributional and regional impacts, and type and scale of co-benefits. [*This modelling is expected to be completed in late January.]*

Our priorities this term and challenges in delivering these

- There are two broad priorities the Government will need to progress this term. However, there are challenges in delivering on these priorities.

- Ministers will need to consider these challengers to help agencies develop a coherent, adequate, whole-of-economy strategy for ERP2 which aligns with, and delivers, Government priorities.

Priority 1 - Delivering the second emission reduction plan

- ERP2 is an opportunity to set the Government's agenda for climate change over the next 5 years and beyond. This will represent an all-of-economy plan that recognises the role that others play in achieving New Zealand's climate goals (e.g. the private sector and consumers), as well as external drivers.

- It will need to strengthen the likelihood of achieving EB2 and EB3 while also setting a strong platform for delivering future emissions budgets and the 2050 targets.

- The plan is an opportunity to set out the Government's key policies to reduce emissions. It can build on the advice of Climate Change Commission, and reflect our intentions to lower transport, energy and agriculture emissions by:

    - Supporting the development of EV infrastructure

    - Doubling renewable energy

    - Supporting investment in electricity transmission

    - Introducing fair and sustainable pricing of on-farm emissions by 2030

    - Increasing access to access to gene technology

    - Supporting on farm innovation and sequestration

- Without progress across a number of these areas, the policies set out in ERP2 may not be sufficient to meet EB2 and EB3. We need to collectively consider where we see the biggest opportunities to develop policies over the course of 2024 to ensure their scope and approach are sufficiently developed to form the foundation of ERP2.

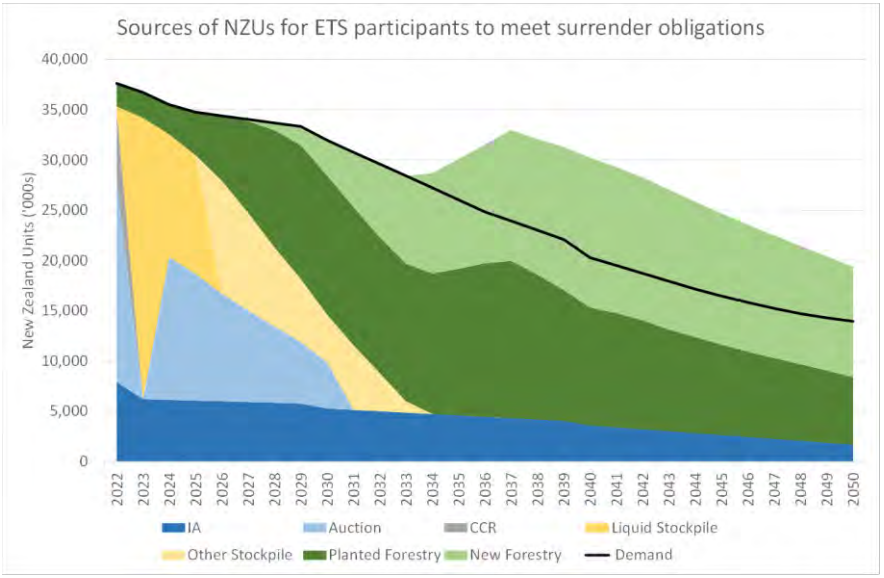
- ERP2 is also an opportunity to retain confidence in the ETS by laying foundations for a strong and stable emissions price and effective long-term ETS framework.

- However, this will require some important strategic decisions from Climate Minister in relation to the design and operation of the ETS.

- The ETS is largely incentivising forestry removals (mainly exotic afforestation) and minimal gross emissions reductions. Based on survey of afforestation and deforestation intentions this is expected to continue causing an oversupply of units as indicated by an excess of “New Forestry” units over and above demand.

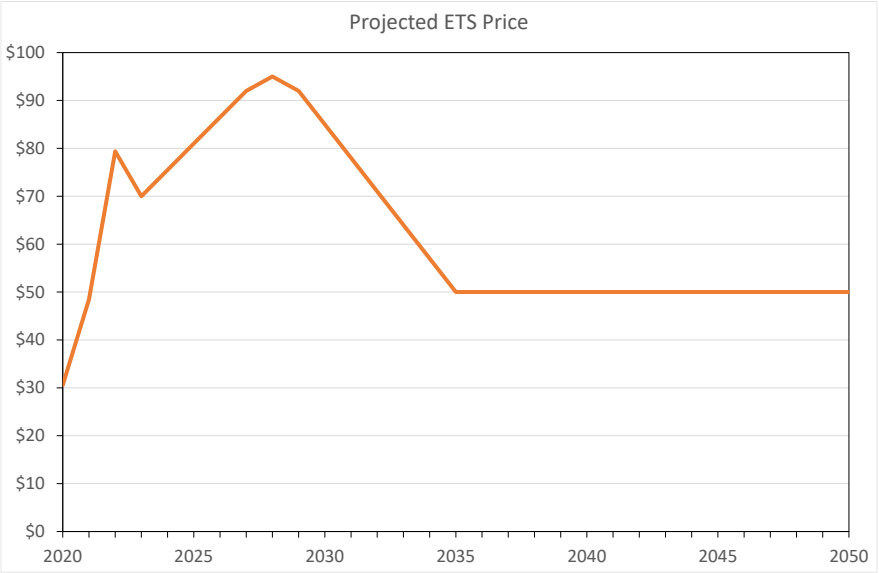
- Our best prediction is that this supply of forestry units will contribute to a declining long-term price path. Price is expected to increase to approximately $95 in 2028 before falling to converge to the marginal cost of exotic forestry removal units at around $50 in 2035. This compares to approximately $70 today.

- A declining price path will also soften the incentive for key sectors, such as energy and transport, to reduce their emissions. Transport, which is a significant contributor to our emissions profile, is relatively price inelastic due to slow fleet turnover, inflexible travel patterns, and lack of low emission choices. This indicates we would see very little reduction in transport emissions without other interventions.



- The current price path will also have land use implications, with an increasing amount of land converted to exotic forestry. Conversion will have broader consequences for rural communities near large plantation forests, and these forests may be susceptible to an increased risk of wildfire due to an increase in the frequency and severity of droughts.

- A declining emissions price path and continued rural land use conversion are inconsistent with The Blueprint for a Better Environment.



Key question 1: Do Ministers have a preference on the level of gross reductions achieved compared to forestry, particularly with a view to the implications beyond 2030?

- If Climate Ministers are concerned about these implications, and instead wish to prioritise delivering more gross emissions reductions and reducing the rate of land use conversion to forestry, current policy settings would need to be adjusted. There are some options available to address this, including:

    - More tightly constraining rural land use

    - Increasing the role of Government through direct intervention, such as regulation and investment to deliver gross emissions reductions or to promote a different mix of removals, such as native plantation, blue carbon, and other on-land sequestration.

    - Reforming the ETS, which would be inconsistent with the Blueprint for a Better Environment and coalition agreements, could include:

        i. Forestry restrictions

        ii. Quicker phase out of free allocations

- While there is no explicit timeframe to make any final decisions, the earlier these are taken, the greater the impact will be on the mix of gross emissions and removals, and therefore on the price path. Even if policy adjustment takes some time to implement, these can be signalled as early as possible to influence near-term decisions.

Priority 2 - Approach to delivering the first NDC

- NDC1 requires 97 megatonnes more abatement between 2021 and 2030 than the first two emissions budgets (2022-25, 2026-30). Delivering the first NDC will require a mix of both additional domestic abatement and offshore mitigation.

- ERP2 is our main opportunity to decide to increase our level of near-term domestic abatement and therefore reduce the amount of offshore mitigation needed in the future. This would require a strong commitment from all relevant Climate Ministers to prioritise further emissions reductions in their sectors. A decision, and instruction to agencies, would be needed urgently to ensure adequate policy development is undertaken, which includes an assessment of the cost of domestic policies against the cost of offshore purchasing. In practical terms, this will require additional abatement beyond agencies' current planning assumptions for ERP1.

Key question 2: Do Ministers want to direct officials to identify additional domestic emissions reductions to help deliver NDC1 with less offshore purchasing?

- In developing ERP2, Ministers will need to consider whether they wish to overachieve during EB2 to help reduce the reliance on offshore purchasing needed to meet NDC1.

- A more ambitious approach to EB2 will have some implications:

    - Financial – a more ambitious decarbonisation will likely lead to higher fiscal cost to consumers, businesses and the Government. This will need to be weighed against the fiscal costs of offshore purchasing.

    - Political – a rising ETS price is needed to deliver more ambitious decarbonisation, which may have political implications. This will need to be weighed against the possible perception of money being spent internationally.

    - Resourcing – delivering a more ambitious decarbonisation approach as part of ERP2 will likely need resourcing from government agencies.

- A steer from Ministers on the extent to which agencies should consider additional abatement options will help to deliver an ERP that aligns with your expectations and ambitions.

- Even if we increase our domestic abatement, some degree of international purchasing will be required. We want to start planning now so that it is done in a way that is cost-effective and delivers on our wider strategic ambitions.

- International carbon markets are likely to allow New Zealand to access mitigation more cost-effectively than investment at home, although the cost of purchasing offshore mitigation is highly uncertain because prices are highly variable. Treasury estimates range from $3.3 billion to $23.7 billion for the NDC1 period. Officials are aware of options available now at the lower end of this price range but anticipate those costs to increase over time, alongside the global trend of increasing carbon prices.

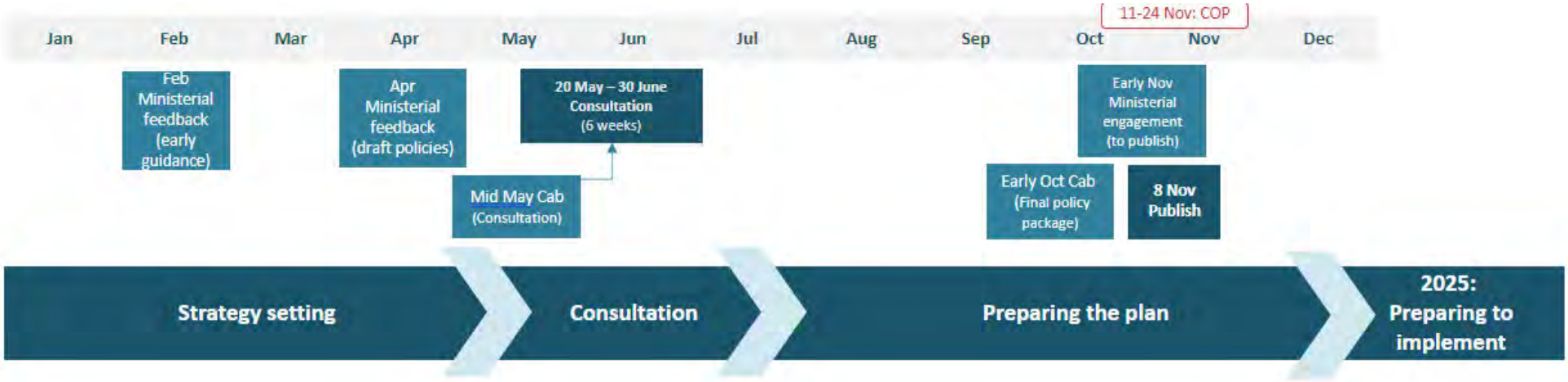
- However there are some challenges to fill the residual gap for NDC1. There is currently no central, readily available international market for NDC-eligible credits. Purchasing offshore mitigation means working directly with seller countries and can be supported by market intermediaries. Other mitigation activities that could be pursued include ETS linking and investing in specific mitigation projects overseas.

- Starting to act during this Parliamentary term is likely to deliver offshore mitigation at a lower cost than delaying purchasing until the end of the NDC1 period. It is also the most effective way New Zealand can mitigate the risk of not meeting NDC1, while also demonstrating progress for the 2024 Biennial Transparency Report.

- I propose we should direct officials to prepare an ‘implementation plan’ for how we start to procure international abatement. This work should unpack the ways that abatement could be procured in an efficient, effective way which supports our wider objectives. We will have choices around timing, scale, and ambition of international abatement, as well as opportunities to align international purchasing with other strategic goals. I propose this work should report back to the next meeting of this group in Q2 2024.

Key steps and timing in 2024

- ERP2 is due by 31 December 2024. To deliver an ERP ahead of COP29 at the end of 2024, the below graphic highlights the key phases of its development and relevant timeframes.



- [Placeholder to discuss with the Minster of Climate Change: Possible discussion on the scope and structure of ERP2. Possible discussion on the Commission's final advice on the policy direction for ERP2.]

  Other, related work will also continue during w2024

- By December 2024, we will also receive advice from the Climate Change Commission on their:
  - recommended quantity of emissions in the next budget period which the Minister will have to set by 31 December 2025
  - review of the 2050 emission targets including whether to include emissions from international shipping and aviation in the 2050 target
  - advice to inform the second Nationally Determined Contribution
- The review of the methane targets for consistency with no additional warming will also be completed in 2024.
- The Minister of Climate Change will then need to take decisions on these at different points in 2025.

Appendix

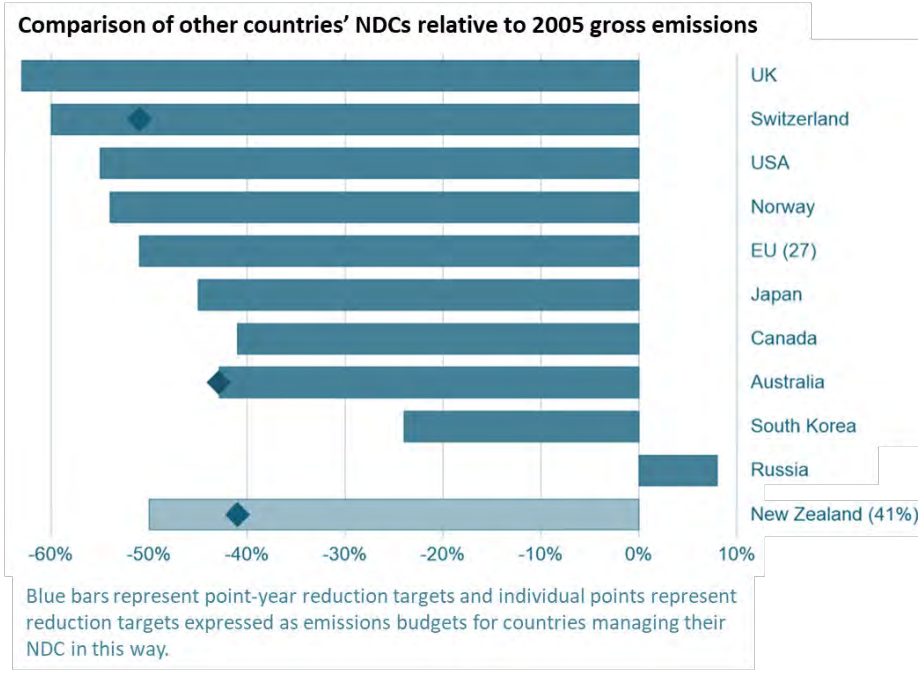
New Zealand is part of an international response

New Zealand is part of the global effort to limit warming to 1.5c

- As a Party to the Paris Agreement, New Zealand must set progressively more ambitious NDCs.

In percentage terms, New Zealand's NDC1 is largely consistent with other developed countries

- Comparing NDCs between countries is difficult because countries have different national circumstances, emissions profiles, historical emissions, and accounting methodologies.
- New Zealand has a relatively unique emissions profile internationally.



Customer expectations and regulatory requirements are rapidly changing

- Positioning the New Zealand economy for a low-emissions future is likely to help maintain competitiveness and market access.

Building New Zealand's resilience to unavoidable climate impacts

- Adaptation is a continuous process of assessing and managing risk, evaluating the effectiveness of actions and adjusting as needed.

Many external factors affect New Zealand's emissions

- Decisions that people, businesses, trading partners, and international governments make shape our mitigation response.
- Internationally, emissions are influenced by governments' choices around broad themes e.g. approach to economic development, consumer preferences, advancements in technology and science. The mix of policy, such as emissions pricing, regulation, incentives, investment, behaviour change, coupled with business choices and focus/level of investment, have a strong influence on how effective nations are at progressing their climate agendas.
- But there are other factors beyond Government policy and business choices. Examples include population growth, macroeconomic outlook, innovation, commodity prices, climate risks and impacts, and significant events such as conflicts and disasters.
- These factors will continue to have a significant impact on our emissions. Below is a range of examples within sectors.

Sector	Example	Govt control	Govt influence	Outside Govt control
Energy	• Dry years can limit hydropower availability which requires gas/coal powered Huntly to fill the electricity shortfall, increasing emissions.	• Fast-track consenting renewables can ensure a diverse portfolio of renewables is being approved • Importation of coal	• Enabling policies and investment to increase demand for electrification • Energy efficiency of new housing stock, reduces baseload demand for Huntly e.g. during winter	• Global price of coal, oil and gas • Droughts and hydro storage • Level of private investment in renewable energy
Agriculture	• Large international purchaser of dairy products commits to scope 3 emissions reduction target.	• Pricing methane emissions • Recognising on farm sequestration.	• Govt enabling and driving strong RSI&T system; e.g. emissions reductions tools and technologies • Support for uptake of mitigation technologies on farm	• Level of farm ownership debt • Export commodity pricing • Change in global demand e.g. for low emissions product or less/different product • Development of mitigation technologies • Natural disasters
Transport	• Fall of global EV prices can make them more accessible, replacing demand for ICE cars and bringing down transport emissions.	• Providing safe, affordable and convenient public and active transport • Disincentivising/restricting emissions-intensive imports	• Enabling policies and investment in RSI&T • Strategic planning of transport and land use	• Global EV uptake and price fluctuations • Technological advancements • Oil price

	• VKT avoided by active and public transport use. • Sustainable aviation fuel becomes commercially viable.	• Enabling regulatory environment for sustainable aviation and marine biofuels	• Public transport service delivery • EV uptake domestically • Development of sustainable aviation fuels sector	• Business investment in producing Sustainable aviation fuels

New Zealand faces several challenges and opportunities in our low carbon transition

- New Zealand is already on a journey and there are different pathways available to us, depending on which opportunities we choose to take advantage of, and how we address challenges and trade-offs.

Opportunities	Challenges
Agriculture is already highly efficient and responsive to market signals due to lack of subsidies, meaning we are well-placed to supply discerning customers.	**Geographic remoteness globally** contributes to supply chain and infrastructure issues. For example, New Zealand tends to be at the end of the queue for low-emissions vehicles making the transport challenge harder.
Electricity generation is already highly decarbonised, and there are plenty of renewable energy resources to underpin the transition.	**Geography poses a challenge to energy** transmission/distribution, undermining electrification (particularly in the South Island).
We have a growing exotic forestry sector, which could support both biomass energy and carbon removals. There is growing interest in native afforestation as well.	Our unique emissions profile: **agriculture accounts for nearly 50% of New Zealand's total emissions**. Some technologies to reduce agriculture emissions, such as feedstock additives, are difficult to implement. Taken together, there is a risk of our leading position being overtaken
Our **climate credentials are supporting international economic opportunities.** For example, EU free trade deal	**Transport emissions** are currently **price inelastic** due to slow fleet turnover, relatively inflexible travel patterns (where to work, where to live) and lack of low emission choices.
Large NZ businesses are willing to embark on the low emissions transition and have begun taking steps to reduce emissions. Financial institutions are also starting to provide sustainability focused financing. Some sectors are attracting international investment.	The **negative distributional impacts of some key climate policies are becoming challenging** for certain demographics and communities. For example, forestry impacts on rural communities and costs of fuel and energy from ETS price pass through for low-income groups.
A **significant number of New Zealanders are concerned about climate change and want to see further action** on the part of Government, business and individuals.	The **impacts of climate change will occur concurrently with efforts to reduce emissions** from the economy.