

CLIMATE RESPONSE MINISTERIAL GROUP MEETING

AGENDA			
Date	Tuesday 11 April 2023		
Time	5.00pm – 6.00pm		
Location	Zoom only		
Agenda items	Agenda item 1: Emissions Reduction Plan update and next steps Agenda item 2: Climate-related land-use proposals		
Attendees	Chair: Rt Hon Chris Hipkins – Prime Minister Deputy Chair: Hon James Shaw – Minister of Climate Change Hon. Carmel Sepuloni – Deputy Prime Minister Hon. Kelvin Davis – Minister for Māori Crown Relations: Te Arawhiti Hon. Grant Robertson – Minister of Finance Hon. Megan Woods – Minister of Energy and Resources; Acting Minister of Forestry Hon. Michael Wood – Minister of Transport Hon. Damien O'Connor – Minister of Agriculture Hon. David Parker – Minister for the Environment Hon. Peeni Henare – Associate Minister for the Environment Hon. Kieran McNulty – Minister of Local Government Hon. Willow-Jean Prime – Minister of Conservation Apologies: [TBC]		
#	Time	Agenda Item	Recommendations
1	5.00-5.15pm	Risks to Emissions Budget 1 Lead Speakers: Rt Hon Hipkins, Hon Shaw, James Palmer, Chair of the Climate Change Chief Executives Board.	
	This item sets out: <ol style="list-style-type: none"> the Board's updated view on achieving the first Emissions Budget; a proposed set of priorities for the remainder of the current budget period; and advice on next steps for the additional abatement options that the Prime Minister and Minister of Climate Change indicated interest in. <p>Supporting Documents: <i>Slide deck: CRMG Discussion on Emissions Budgets (from Climate Change Chief Executives Board)</i></p> <p><i>Briefing Note: Advice on how we are tracking to meet the emissions budgets (Ministry for the Environment)</i></p>	<p>1.1 Note the key challenges for the delivery of ERP1 and that the Climate Change Chief Executives Board considers we are currently not on track to achieve Emissions Budget 1.</p> <p>1.2 Endorse the Board's recommended priorities for focus in coming months (pre- and post-election) on slide 6-7.</p> <p>1.1 Note the further information requested by Ministers on further abatement options from the Board's Six Monthly Report in slides 8-9.</p>	

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o f - s c o p e	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <ul style="list-style-type: none">[Redacted][Redacted][Redacted][Redacted][Redacted][Redacted][Redacted][Redacted][Redacted][Redacted] <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>	<p>[Redacted]</p> <ul style="list-style-type: none">[Redacted][Redacted][Redacted][Redacted][Redacted] <p>[Redacted]</p> <ul style="list-style-type: none">[Redacted][Redacted][Redacted][Redacted][Redacted][Redacted]

CRMG Discussion: Risks to Emission Budget One



Climate Change Interdepartmental Executive Board

April 2023

CLIMATE CHANGE CHIEF EXECUTIVES BOARD

Purpose

This item sets out:

- a) the Climate Change Chief Executives Board's updated view on achieving the first Emissions Budget (EB1);
- b) a proposed set of priorities for the remainder of the current budget period; and
- c) advice on next steps for the additional abatement options where the Prime Minister and Minister of Climate Change indicated interest.

Recommendations

1. **Note** that the Board considers that based on current information we are not on track to achieve EB1.
2. **Note** that officials have not identified additional policy options that are sufficient to offset the shortfall from the Sustainable Biofuels Obligation.
3. **Note** that implementation of the actions in ERP1 is pivotal to set ourselves up for EB2 and EB3, and minimise any further shortfall to EB1.
4. **Endorse** the Board's recommended priorities for focus pre- and post-election on slides 6-7.
5. **Note** the further information requested by Ministers on further abatement options from the Board's Six Monthly Report in slides 8-9.

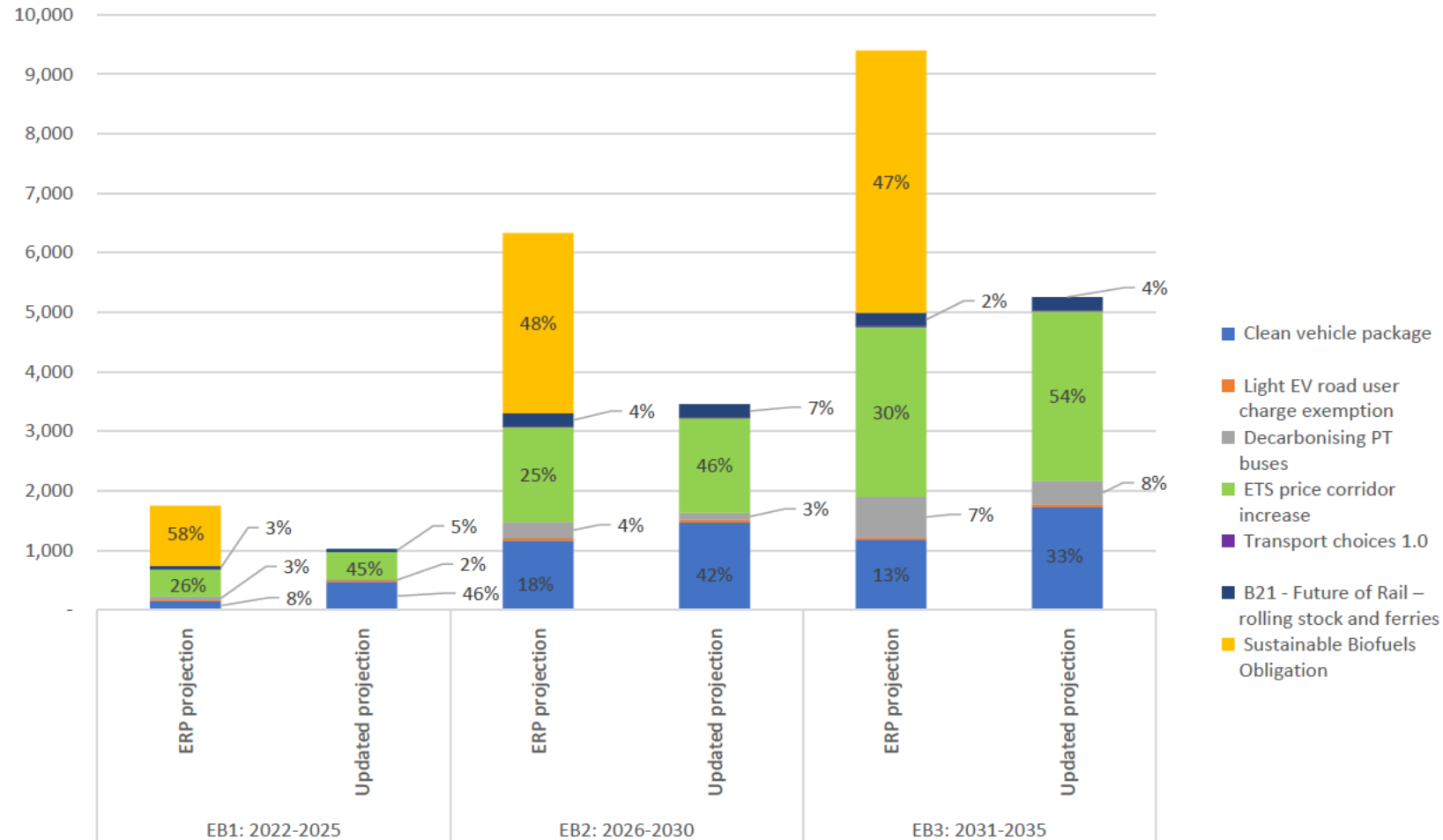
Key messages – the challenge for Emissions Budget 1

- ❑ The Climate Change Chief Executives Board has reviewed its assessment of whether we are on track to achieve the first emissions budget (EB1) (2023 to 2025). The Board’s assessment based on current information is that we are not on track to meet EB1, reflecting:
 - *The three strategic challenges identified in the Board’s Six-Monthly Report...*
 - ambitious emissions budgets;
 - agencies working at capacity with early indications of some risks to delivery; and
 - the loss of abatement from the removal of the Sustainable Biofuels Obligation (SBO)
 - *...combined with confirmation that there are no new abatement options that provide significant emissions reductions in EB1 to address the gap left by the SBO.*
- ❑ Three of four scenarios modelled in New Zealand’s December 2022 emissions projections indicate that we are not on track for EB1, with the size of the gap between 1.1 and 4.3 percent of the first budget.
- ❑ Whether EB1 is achieved will depend on the actual effectiveness of initiatives, and headwinds or tailwinds outside of the direct control of government and will not be clear until after EB1 ends. The attached briefing note provides more detail on this modelling and key assumptions and note the high degree of uncertainty inherent in projections.

The impact of the Sustainable Biofuels Obligation

Removing the SBO leaves a significant gap in planned emissions reductions. When the ERP was published it represented 58% of transport sector abatement in EB1 and around 10% of total abatement in EB1 and will have an ongoing effect across the three budgets.

Quantified central emissions impact estimates of transport policies (AR5 Kt CO₂-e)



This chart compares the quantified emissions reduction for transport sector policies across emissions budgets:

- At the time of the ERP1 publication.
- With an updated forecast that removes Biofuels and includes an increased emissions reduction for the clean vehicle package and PT bus decarbonisation.




The Board's recommended response

- ❑ The Board considers it is critical to ensure the effective delivery of a small number of actions that provide the key 'building blocks' to deliver or support substantial abatement over EB2 and EB3. The Board has not identified any options that would address the current gap in EB1 and adding further actions may put at risk capacity to deliver the building blocks for future budgets.
- ❑ The Board has used its system perspective to consider the priority areas to focus on over the remainder of EB1, why these are critical, and the key opportunities to make progress in each area (slides six and seven). These priority areas also link to key transitions in the Climate Commission's demonstration pathway. We seek your endorsement of these priority areas and opportunities.
- ❑ As more general measures, the Board also recommends:
 - Investigating options to support households already under financial pressure, particularly where policies that reduce emissions will increase costs. This includes for example the role a climate dividend could play in the response, given their successful use in other jurisdictions.
 - Ministers prepare to activate the borrowing provisions in the Zero Carbon Act, in the event we may miss EB1.
- ❑ s 9(2)(h)

The Board's view of priority areas and opportunities (1)

Priority	Why this matters	Key actions and opportunities
The ETS Review	<p>The ETS is the key price lever across the economy and stable, consistent policy is critical to ensure there is ongoing market confidence in the tool. The Government has committed to adjust the NZ ETS to drive a balance of gross and net emissions reductions. The ETS review has identified four options to prioritise reductions while retaining support for removals.</p> <p>The review also considers how the ETS can support indigenous biodiversity. It links to biodiversity credits and removals strategy and is important for longer term approach to sequestration including how long-term indigenous forestry can be encouraged, new sequestration opportunities (i.e. wetlands).</p>	<p>s 9(2)(f)(iv)</p> <p>[Redacted]</p> <p>[Redacted]</p>
Annual update to NZ ETS unit limit and price control settings.	<p>The review of settings is a further opportunity to support build confidence in the ETS, but there is no guarantee of extra abatement given the stockpile of emission units in accounts.</p> <p>Price control settings provide the government with a mechanism to help manage unacceptably low or high prices in the NZ ETS. Decisions on price control settings are linked to other ETS-related decisions – for example Ministers may be comfortable taking different decisions were a climate dividend in place.</p>	<p>The Climate Commission provided advice on ETS settings on 31 March 2023. This advice provides an opportunity to consider a range of scheme settings and whether changes to provide further abatement are desired.</p> <p>Ministers will be asked for, approval to consult on the response (15 May), policy decisions (7 August) with a response due by 30 September.</p> <p>Public consultation on ETS settings for 2024-2028 will commence in May 2023 responding to the Commission's advice.</p>
s 9(2)(f)(iv)	s 9(2)(f)(iv)	s 9(2)(f)(iv)
Transport mode shift implementation	<p>The ERP includes a target to reduce total kilometres travelled (VKT) by the light fleet by 20 percent [relative to projected growth] by 2035 through improved urban form and providing better travel options, particularly in our largest cities. Achieving this target is vital for reducing transport emissions, as it is not feasible to only rely on transitioning to cleaner vehicles and fuels to meet our climate commitments. Meeting the VKT target would represent an estimated cumulative reduction in emissions of 13.4 MT CO₂-e from 2022 to 2035.</p> <p>To reach the 2035 target, we need to build the foundations for mode shift now. This will require substantial improvements to public transport infrastructure and services, and walking and cycling networks as well as the policies and systems to enable pricing (e.g. congestion charging). Sequencing of these changes is also vital e.g. people need access to good public transport options before pricing schemes are introduced.</p>	<p>The first stage of the Transport Choices programme is funding activities such as additional bus stops, bus prioritisation lanes, cycleways, improvements to transport infrastructure around schools, and footpath/intersection improvements.</p> <p>The Minister of Transport will report to Cabinet in May 2023 on the proposed Reshaping Streets regulatory changes to make it simpler to make street changes that support public transport and active travel. Most of these changes could be progressed quickly (before the election) through a new land transport rule.</p> <p>The Minister of Transport will seek the CRMG's endorsement of a new national mode shift plan in June 2023. This plan will also set a framework for VKT reduction programmes to be developed in urban, rural, and provincial places over time.</p>

The Board's view of priority areas and opportunities (2)

Priority	Why this matters	Key actions and opportunities
<p>The Energy Strategy, and the transition to a highly renewable electricity system</p>	<p>The Energy Strategy, and the broader work programme to transition the energy system, provides the groundwork for decarbonising and electrifying a range of sectors including transport and industrial emitters.</p> <p>For example, we need to ensure we build renewable generation and infrastructure at a sufficient rate to support electrification across the economy, and we need to ensure electricity supply reliability as our fossil fuel generation exits.</p>	<p>In mid-2023 in advance of the Energy Strategy, Ministers will be asked to consider a suite of papers and options for consultation to ensure an orderly transition:</p> <ul style="list-style-type: none"> - Draft Gas Transition Plan consultation regarding the role of gas in the energy system - Measures to support reliable and affordable electricity supply through the transition - Draft Hydrogen Roadmap outlining the pathway for a Hydrogen Industry in NZ. - Regulatory framework for offshore renewable energy developments. <p>In mid-2023, Cabinet will consider a progress report on the NZ Battery Project.</p> <p>Throughout 2023, undertaking Energy Strategy targeted engagement on the most important longer term challenges and opportunities for the energy system, and undertaking whole of energy system modelling to inform the big choices for our energy system.</p>
	<p>s 9(2)(f)(iv)</p> 	
<p>Partnerships to support abatement of New Zealand's largest emitters</p>	<p>Direct and coordinated engagement with large emitters has the potential to bring forward or open up opportunities to reduce their emissions. This approach is expected to deliver a significant share of the emissions reductions GIDI is forecast deliver.</p> <p>The size and complexity of investment needed to abate the emissions of these firms requires more bespoke approaches that connect across emissions pricing, financial incentives and regulation. Many of our largest emitters are also in hard-to-abate sectors (e.g. steel, aluminium, methanol, fertilisers).</p>	<p>Cabinet has already considered one active partnership negotiations between EECA and a large emitter and is expected to be announced in May 2023. Cabinet will consider a further partnership opportunity in June.</p> <p>Both of these partnerships will only have emissions impacts in the second Emissions budget and beyond. MBIE and EECA are working to improve our understanding of the potential future opportunities.</p>

ANNEX 1: UPDATE ON ADDITIONAL ABATEMENT OPTIONS THAT MINISTERS EXPRESSED INTEREST IN, FROM THE BOARD'S SIX-MONTHLY REPORT (1)

Near-term opportunities [Budget Sensitive]

Initiative and Description	Summary and abatement potential	Potential next steps
Investing in EV Charging Infrastructure	Additional funding for EV charging infrastructure is currently under consideration s 9(2)(f)(iv) No direct abatement but supports EV uptake.	For Cabinet consideration in Budget 2023
Minimum energy performance standards for residential lighting	Funding is being sought to increase the uptake of residential LED lighting s 9(2)(f)(iv). Estimated to deliver 100MW of efficiency savings but no current estimate of CO ₂ -e savings. An initial estimate for the emissions savings is an approximately 29Kt annual reduction from 2026/27 onwards.	For Cabinet consideration in Budget 2023 s 9(2)(f)(iv)
<p>Transport policies:</p> <p>(1) Clean Car Discount</p> <p>(2) Transport Choices</p> <p>(3) Clean Truck Discount and RUC and Heavy RUC exemption</p>	<p>(1) Changes from a review of the clean car discount scheme could deliver an additional 298 Kt of CO₂-e abatement.</p> <p>(2) Extending the transport choices work programme to support people to walk, cycle and use public transport could deliver up to 253Kt in EB2 and up to 629 Kt in EB3</p> <p>(3) Progressing the Clean Truck Discount Scheme could deliver abatement of 6Kt in EB1, 265Kt in EB2 and 1,117Kt in EB3</p>	<p>(1) To be considered at DEV on 5 April</p> <p>(2) Extension of the transport choices work programme is currently unfunded</p> <p>(3) An alternative zero emission heavy vehicle subsidy scheme is with Cabinet for consideration in Budget 2023</p>
s 9(2)(f)(iv)	[Redacted]	[Redacted]

ANNEX 1: UPDATE ON ADDITIONAL ABATEMENT OPTIONS THAT MINISTERS EXPRESSED INTEREST IN, FROM THE BOARD'S SIX-MONTHLY REPORT (2)

Medium-term opportunities

Initiative and Description	Summary and abatement potential	Potential next steps
Wetland restoration/Nature based Solutions	This work will involve investing in restoring native ecosystems that will deliver significant carbon sequestration and climate resilience (e.g., flood protection) and positive biodiversity outcomes. One immediate opportunity in this space is restoring/rewetting peatlands (a type of wetland).	Consider advice from officials in late April, on extending our target accounting to include non-forest categories.
s 9(2)(f)(iv)	[Redacted]	[Redacted]
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Addressing barriers to emissions reduction and climate adaptation for buildings	This initiative would provide business and community grants, pilots and targeted resources and guidance to lift consumer demand and business capability. Could deliver a total reduction of 278,000t CO ₂ -e between 2024-2027. Kāinga Ora budget bids to decarbonize housing and for a neighbourhood demonstration project are expected to reduce emissions by 158,000t and 520,000t CO ₂ -e respectively over 70 years.	Requires new funding to proceed



Advice on how we are tracking to meet the emissions budgets

Date Submitted:	4 April 2023	Tracking #: BRF-2993	
Security Level	Legally Privileged	MfE Priority:	Urgent

	Action sought:	Response by:
Hon James SHAW, Minister of Climate Change	Agree to share this advice with the Climate Response Ministerial Group to support ahead of the discussion on the actions required to address the shortfall with EB1 on 11 April.	5 April


Actions for Minister's Office Staff	Forward this briefing and appendices to CRMG Ministers Return the signed report to MfE.
Number of appendices and attachments #1	Titles of appendices and attachments: <ol style="list-style-type: none"> 1. Appendix 1 - Emissions Projections 2. Appendix 2 – Legal Issues

Key contacts

Position	Name	Cell phone	1st contact
Principal Author	Freya Farrar		
Responsible Manager	Kara Lok	s 9(2)(a)	✓
Director	Hemi Smiler		

Advice on how we are tracking to meet the emissions budgets

Key Messages

1. You have requested advice on how we are tracking against our first three emissions budgets. Meeting these emissions budgets is critical to achieving New Zealand's 2050 target and delivering our nationally determined contribution for 2021-2030.
 2. The Climate Change Chief Executives Board (the Board) is monitoring progress against the actions within the emissions reduction plan (the plan) and our progress towards the emissions budgets. Its first six-month report in February stated that meeting the first emissions budget is “finely balanced”. This report was based on data and insights from December 2022.
 3. Officials and the Board are of the view we are no longer on track to meet the first emissions budget. Since February, the risks listed in the report have progressed and the Board examined whether new policies could be implemented, or existing policies could be ramped up. No actions have been identified that will have a material impact on the first emissions budget (EB1).
 4. The Climate Change Response Act 2002 (the Act) includes two flexibility mechanisms that can be used if New Zealand does not achieve an emissions budget. These mechanisms involve either borrowing from the next emissions budget and/or using offshore mitigation and are available after the Commission provides advice at the end of the budget period.
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6. The Climate Response Ministerial Group (CRMG) is meeting on 11 April to discuss what actions could be undertaken to address the shortfall. We propose that this briefing is shared with CRMG ahead of this meeting.

Recommendations

We recommend that you:


- a. **Agree** to share this advice with the Climate Response Ministerial Group to support ahead of the discussion on the actions required to address the shortfall with EB1.

Yes/No

b. s 9(2)(h) [Redacted]

c. Note this briefing has been shared with the Climate Change Executives Board.

Signature

Hemi Smiler Director Climate Strategy	
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Hon James SHAW, Minister of Climate Change	
[Date Field]	

Purpose

1. This briefing responds to your request for information about:
 - Whether New Zealand is on track to meet the first three emissions budgets (supported by Appendix 1 – Emissions Projections).
 - s 9(2)(h) [REDACTED]
2. This briefing also provides advice on further action that could be taken to meet the emissions budgets, as well as information to support the Climate Response Ministerial Group (CRMG) discussion on 11 April.

Context

3. In May 2022, you set the first three emissions budgets and published New Zealand’s first emissions reduction plan. This plan contains the policies and strategies needed to meet the first emissions budget and put New Zealand on a path to achieving the 2050 target.
4. Under the Climate Change Response Act 2002, you have a legal duty as the Minister of Climate Change to set emissions budgets and ensure that they are met. This specifically means ensuring that ‘net accounting emissions’ do not exceed the limit imposed by the emissions budget. Noting that for the first emissions budget (2022-2025), this limit is set at 290 Mt CO₂-e.
5. Responsibility for implementing the policies and strategies included in the first emissions reduction plan is shared across many different Ministerial portfolios.
6. The Climate Change Chief Executives Board (the Board) was established as an interdepartmental executive’s board in 2022 in recognition of this joint responsibility. The Board’s role in relation to these matters is to monitor and report on the progress of actions within the plan, advise on the overall effectiveness and future direction of the plan, and ensure domestic emissions budgets are met.

It is likely we are off track for the first three emissions budgets

The Climate Change Chief Executive Board has produced its first six-month report

7. In February 2022, the Board produced its first six-month monitoring report on the progress of the emissions reduction plan towards the first emissions budget (EB1). It also assessed progress towards emissions budgets two (EB2) and three (EB3).
8. The Board stated that meeting EB1 and EB2 was finely balanced and “*any reductions in scope or delays in delivery of the emissions reduction plan will make achieving emissions budgets even more challenging. We are currently not on track to meet EB3.*” This assessment was based on data insights from December 2022.

The context has changed since December 2022

9. The decision-making context has changed since December and there is now a higher likelihood that we may not meet EB1, EB2 and EB3. The changes include:
- *Cyclone Gabrielle response and recovery efforts.* This may hinder regional efforts by firms, local authorities, and individuals to consider and reduce emissions. Infrastructure repair and recovery may also have an associated increase in emissions.
 - *Significant climate policy changes.* This includes the removal of the Sustainable Biofuels Obligation in early February and the decision not to progress further transport policies in March. The Sustainable Biofuels Obligation was part of the first emissions reduction plan and estimated to contribute around 1 Mt CO₂-e to EB1. This is approximately half of the transport sectors modelled abatement. Further information on the impacts of the transport policies not progressing is outlined in Appendix 1.
 - *The Board has further assessed the options to make up this gap.* The Board examined whether existing policies could be ramped up and or new policies could be implemented and have not identified any that would deliver significant abatement in the EB1 period.
 - *Ongoing significant external factors such as global inflationary pressures and supply constraints.* There are many interrelated implications that could negatively impact our emissions reduction efforts such as increased costs of mitigation technology options, firm spending on mitigation technology and actions, and further labour and skills shortages. These factors were highlighted in the Board's report.

Our emissions projections

10. Three of the four scenarios modelled in our December 2022 emissions projections¹ indicate we are off track to meet EB1:
1. *With existing policy measures (WEM)* – the core scenario based on existing policies only. This scenario exceeds EB1 by 3.6 Mt CO₂-e or 1.2 per cent.
 2. *With additional policy measures (WAM)* – this scenario includes existing policies and additional policies not yet implemented. This scenario exceeds EB1 by 3.3 Mt CO₂-e or 1.1 per cent.

¹ Our projections include a high degree of uncertainty and are based on assumptions about New Zealand's economic growth and other economic variables, future policy implementation and technological advancement. If future circumstances differ from underlying assumptions, **emissions could vary widely from projections scenarios.**

3. *With existing policy measures (WEM) low emissions scenario* – represents a scenario where low population growth, low GDP growth, and high carbon prices result in less emissions. This scenario overachieves EB1 by 4.5 Mt CO₂-e or 1.6 per cent.
 4. *With existing policy measures (WEM) high emissions scenario* – represents a scenario where high population growth, high GDP growth, and low carbon prices result in higher emissions. This scenario exceeds EB1 by 12.3 Mt CO₂-e or 4.3 per cent.
11. These projections do not account for the removal of the Sustainable Biofuels Obligation or the Clean Car Scheme.

We are no-longer on track to meet EB1

12. In December 2022 officials and the Board determined we were likely to be somewhere between scenarios one and two. The Board used scenario two in its advice to Ministers with the judgement that achieving the EB1 was finely balanced at 1.1 per cent.
13. However due to the changes in the decision-making context, and the removal of the Sustainable Biofuel Obligation without any clear options to replace the resulting abatement, officials have determined **we are no longer on track to meet EB1**. We are likely closer to scenario one but heading towards scenario four. This puts us slightly above achieving the first emissions budget (between 1.2 and 4.3 percent).
14. We have formed this view based on what we know about the limitations of our projections and changes in the decision-making context that are set out above (paragraph 9).
15. Further information on the projections is outlined in Appendix 1.

How can we mitigate these risks?

16. There are steps you could take to mitigate the risk of not meeting EB1, EB2 and EB3.

Actions for consideration for EB1

17. The Board considered whether existing policies could be ramped up or if new policies could be implemented to increase emission reductions over EB1. This includes the additional options you and the Prime Minister directed officials to investigate. No additional actions were identified which would have a significant impact within the EB1 period.
18. The actions are therefore limited for EB1:
 - a. *Advice about meeting the first emissions budget could be sought from the Commission* – The Climate Change Commission (the Commission) is due to provide several pieces of advice over the next 18 months. This includes advice on the policy direction of the second emissions reduction plans, its first monitoring report on the implementation of ERP1, advice on progress towards the emissions budgets, and

advice on emissions budget four and the 2050 target review. You could ask the Commission as part one of the upcoming pieces of advice to review the Board and officials' assessment that we are not on track to deliver EB1 and consider whether there are any further actions which could be adopted.

- b. *It may be possible to use offshore mitigation to meet the shortfall* – Emissions budgets must be met through domestic abatement as far as possible. However, the Act does provide some flexibility; allowing offshore mitigation to be used if significant changes of circumstance have affected the considerations on which the emissions budget was originally based and those changes affect the ability to meet the budgets domestically. In its advice on the first three emissions budgets, the Climate Change Commission recommended that offshore mitigation should only be used “as a last resort in exceptional circumstances beyond the Government’s control, such as force majeure events where domestic measures cannot compensate for emissions impacts”.² While offshore mitigation may be an available option, any decision will therefore be subject to meeting the legal threshold and informed by additional advice provided in the Commission’s final report on EB1 in 2027.³
- c. *You could borrow from the next emissions budget* – Borrowing is another flexibility mechanism and allows up to one per cent of the next emissions budget (in this case, EB2) to be borrowed to make up a shortfall in the previous budget period (EB1). This amount (approximately 3 Mt CO₂-e) could be deducted from EB2, making it harder to meet. The borrowing provisions can only be triggered once the Commission’s 2027 report is delivered. This report will advise on the quantity of emissions that may be borrowed or banked for the first emissions period.

Actions to mitigate the risks of not achieving EB2 and EB3

19. More material actions can be adopted to reduce emissions further as part of EB2 and EB3. These are outlined below:
 - a. *Ensuring the delivery of actions that are critical for EB2 and beyond.* The Board is providing CRMG with its advice on the key actions that should be prioritised for delivery to avoid further risks to achieving emissions budgets.
 - b. *Utilise the Board’s adaptive management approach.* The Board is developing an adaptive management approach to meeting emissions budgets. This involves identifying opportunities to increase the reductions from existing policies or implement new policies to reduce emissions.

² *Ināia tonu nei* – Recommendation 4. The Commission recommended that (a) the limit on offshore mitigation should be zero for the first three emissions budgets and (b) the only circumstances that at this stage would justify the use of offshore mitigation is as a last resort in exceptional circumstances beyond the Government’s control, such as force majeure events, where domestic measures cannot compensate for emissions impacts. The Minister of Climate Change accepted this recommendation, noting that the Commission’s recommendation to limit the use of offshore was a narrow interpretation based on the information that was available to the Commission at the time of its advice.

³ This will assess the amount of offshore mitigation required to meet the emissions budget, taking into account the limit it proposed as part of its advice on emissions budgets (section 5ZA).

c. Develop an ongoing systematic 'pipeline' process as part of the ERP2 framework -
As part of the development of the second emissions reduction plan CRMG could direct a process to identify a range of options needed to be identified, developed, assessed, decided, and implemented over time. This would provide Ministers some assurance and increase public confidence that the current and future budgets can still be met with manageable economic consequences.

When will we know if we have met the first emissions budget?

20. We will know if we have met the emissions budget with the publication of the Greenhouse Gas Inventory in 2027, which would cover the period 1990 to 2025.
21. There are a number of points ahead of 2027 when we will have more information on our emissions (or likely emissions) over the first emissions budget period:
 - In December 2023 our emissions projections will be updated. These updates will be based on more up to date data and information and will likely include some methodological improvements.
 - In April 2024 we will also publish New Zealand's Greenhouse Gas Inventory (NIR) for the period 1990 to 2022. This will provide us with the first historical estimates of emissions within the first emissions budget period (2022).
 - The Commission will deliver its first annual monitoring report by mid-2024. This will monitor and report on progress towards meeting emissions budgets, emissions reduction plans and the 2050 target. The timing of this advice is linked to the delivery of the 2023 NIR, and progress will be reported using this data.

What is the statutory process if a budget is not met?

22. The Commission will produce its report at the end of each emissions budget period (first report due 2027). This report will assess whether Aotearoa has met the emissions budget and must be presented to the House of Representatives and made publicly available. It will also include the advice on banking and borrowing from EB2, and the use of offshore mitigation.
23. The Minister of Climate Change's response must also be presented to the House and – if the emissions budget has not been met – the Minister is required to include the reasons for the failure. This response must also be made publicly available.

s 9(2)(h)

[REDACTED]

[REDACTED]

Financial, regulatory and legislative implications

28. There are no financial, regulatory, or legislative implications associated with the proposals in this briefing note.

Next steps

29. Officials discussed the content of this briefing with you on 3 April.
30. CRMG will be discussing what steps could be taken to address the EB1 shortfall on April 11. We propose this paper is shared with them and the Prime Minister to support this discussion.
31. s 9(2)(h)

Appendix 1 - Projections data

1. The following information is based on the domestic emissions projections developed and compiled by the Ministry and published in New Zealand's Eighth National Communication under the UNFCCC in December 2022.
2. Table 1 provides a description of each key projections scenario published. It demonstrates that emissions are projected to exceed EB1 under all scenarios except for the 'with existing measures low emission scenario'. It also shows that the margins are relatively fine when comparing our core scenarios (WEM and WAM) to the emissions budget level – these scenarios are within one to two per cent of meeting the first emissions budget.

Table 1: Projected emissions over and under the first emissions budget based on different projections scenarios

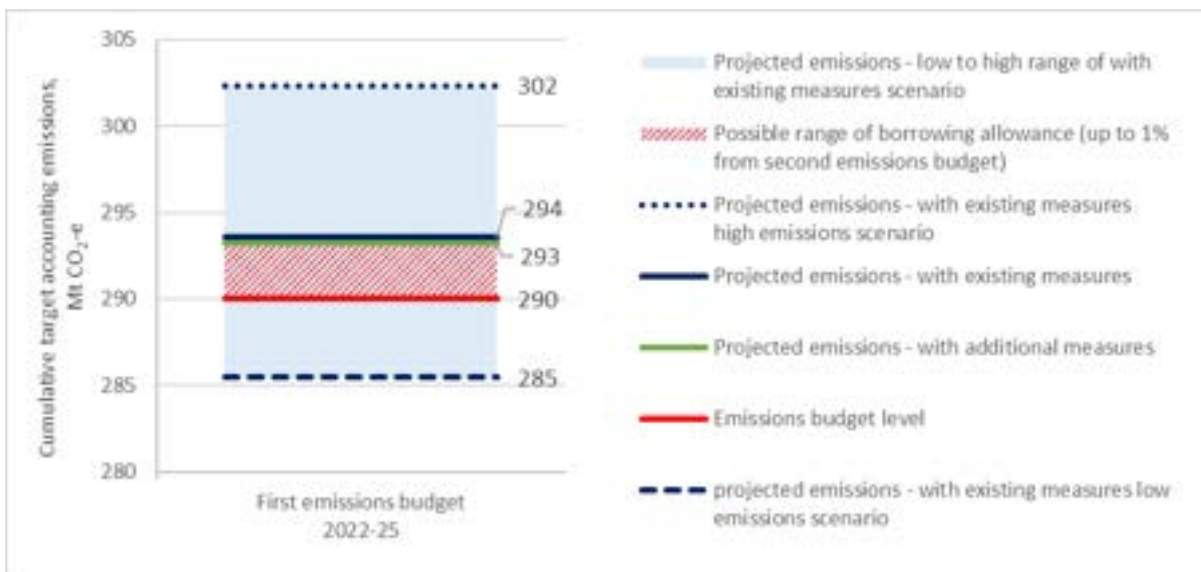
Projections scenario ⁴	Scenario description	Projected level over or under the first emissions budget	Projected percentage over or under the first emissions budget
WEM - with existing measures	Our central scenario based on assumptions of economic (and other drivers) that includes the impact of <i>existing</i> policy measures.	3.6 Mt CO ₂ -e	1.2%
WEM low - with existing measures low emissions scenario	A variation on WEM representing potential emissions where low population growth, low GDP growth, and high carbon prices are assumed and result in less emissions.	4.5 Mt CO ₂ -e	1.6%
WEM high - with existing measures high emissions scenario	A variation on WEM representing potential emissions where key high population growth, high GDP growth, and low carbon prices are assumed and result in higher emissions.	12.3 Mt CO ₂ -e	4.3%
WAM - with additional measures	An extension of 'with existing measures' that includes additional measures not yet implemented (including some additional ERP policies). ⁵	3.3 Mt CO ₂ -e	1.1%

⁵ There is more uncertainty associated with the expected impact of policies not yet implemented.

- Figure 1 provides a visual representation of projected total emissions over the first emissions budget period under the different scenarios and includes the possible range of borrowing allowance. The borrowing allowance is only a relatively small amount. Emissions could end up being within the borrowing allowance if they exceed the budget.

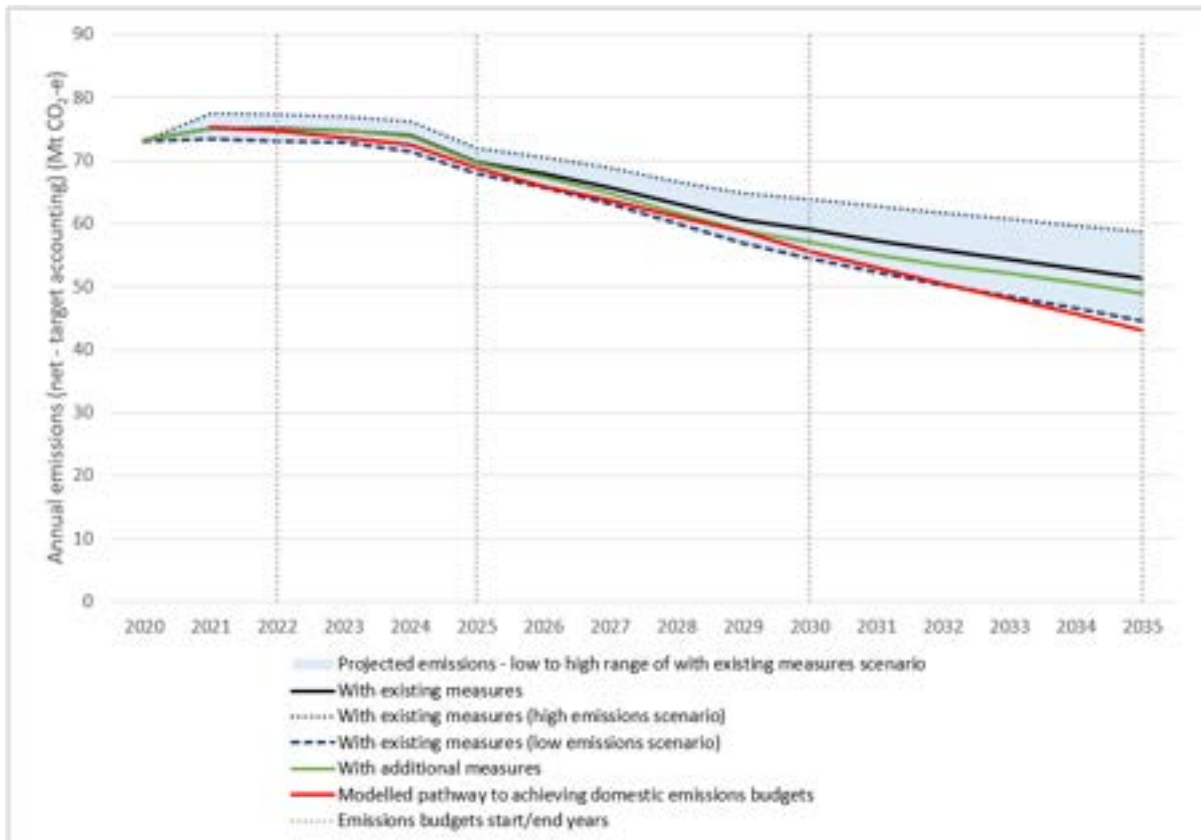
Figure 1: projected emissions under different projections scenarios compared to permissible the first emissions budget level (including borrowing)

Note: the y-axis starts at 280 Mt for better resolution – the entire range of projections scenarios shown represents less than 6% of the total emissions budget



- Figure 2 shows the projections scenarios as an annual timeseries across the first three emissions budgets. It also shows a pathway to meeting emissions budgets (based on the Climate Change Commission's demonstration adjusted in accordance with adjustments made to the final emission budgets).
- The pathway for meeting emissions budgets is within the low-high range of emissions projections for the first and second period but drops outside of the projections range in the third period. We can have a higher level of confidence in predicting that we are currently off-track for meeting emissions budget three. However, the range of uncertainty increases the further forward we look.
- Our core scenarios (WEM and WAM) are consistently slightly above the pathway to meeting budgets in the first and second period. This indicates that meeting the first two budgets is within the range of possibility but relies on successful implementation of the ERP and external factors that drive emissions trends to go in our favour. We are also very susceptible to risk – if key risks that could lead to driving increases in emissions or delays to abatement end up eventuating, then it is unlikely we will meet the first and second emissions budget.

Figure 2: projected emissions under different projections scenarios compared to a pathway for meeting the first three emissions budgets



Limitations to the 2022 projections

7. There are several limitations to applying these projections (compiled for international reporting purposes) for measuring progress towards our emissions reduction targets, including:
 - I. They do not account for planned policies that have not yet reached sufficient certainty of adoption or implementation.
 - II. Not all implemented policies and measures that are likely to have a significant emissions impact were able to be quantified (due to reasons such as time, capacity and data constraints, lack of certainty and model design constraints⁶).
 - III. Assumptions are not entirely consistent between sectors and not all sub-sector projections were fully updated.
8. We are working on developing process improvements and supporting better cross-agency collaboration to improve the quality and cohesiveness of our projections and other emissions impact estimates. However, this process involves iterative improvement and takes time.

⁶ The recently removed Sustainable Biofuels Obligation, as well as the currently implemented Clean Car Scheme (Discount and Standard) were not accounted for in the 2022 projections.

Impacts of recently removed transport policies

9. On February 8, the Prime Minister announced that the **Sustainable Biofuels Obligation** programme will not be going ahead. The exclusion of this programme is expected to have significant implications for the ability of the transport sector to deliver emissions reductions and contribute to meeting our first three emissions budgets.
10. Under the analysis completed for the emissions reduction plan, actions in the transport sector were modelled to result in 1.7 to 1.9 Mt CO₂-e of abatement within the first emissions budget, with the Sustainable Biofuels Obligation contributing around 1 Mt CO₂-e. Across the first three emission budgets, the Biofuels Obligation was expected to deliver around half of the modelled abatement from emissions reduction plan measures in transport.
11. On March 13, the Prime Minister announced that the **Clean Car Upgrade** and **social leasing car schemes** would not be progressing. Both of these programmes were expected to result in an insignificant level of emissions reductions. Their main purpose was aligned with ensuring an equitable transition. They intended to support low and moderate-income households with access to affordable low-emissions transport.

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