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Te Kāwanatanga o Aotearoa
New Zealand Government

CLIMATE CHANGE CHIEF EXECUTIVES BOARD

Briefing Note: Climate Response Ministerial Group: First six-monthly progress report on the Government's emissions reduction plan

Date Submitted:	28 February 2023	Tracking #: BRF-2754	
Security Level	Policy and Privacy In-Confidence	Priority:	Not Urgent

	Action sought:	Response by:
Rt Hon Chris HIPKINS, PRIME MINISTER, Chair of the Climate Response Ministerial Group	**Forward** this briefing note to the Climate Response Ministerial Group	10 March 2023
CC Hon James SHAW, Minister of Climate Change	For information and feedback	N/A

Actions for Minister's Office Staff	**If agreed, forward** this briefing note and Appendix 1 to: Climate Response Ministerial Group Ministers **Return** the signed report to the Climate Change Interdepartmental Executive Board
Number of appendices and attachments # 1	**Appendix 1**: Six-monthly progress report on the first emissions reduction plan

Key contacts

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Six-monthly progress report on the first emissions reduction plan

Key Messages

1. Attached to this briefing note (**Appendix 1**) is the first six-monthly progress report (the Report) on the Government's first emissions reduction plan (ERP1). The Report has been prepared by the Climate Change Chief Executives Board (the Board) for the Climate Response Ministerial Group (CRMG) and covers the period July 2022 to 31 December 2022.

2. Since the information in the Report was finalised, the context of the ERP1 work programme has changed significantly:
   a. The Government is focused on reducing cost of living pressures, increasing the challenge of delivering emissions abatement where those policies create costs for households and businesses.
   b. The Auckland floods and Cyclone Gabrielle have increased the priority of climate adaptation policies which means a need to focus attention on the delivery of the most critical actions for emissions reductions given capacity pressures across government.

3. One of the Board's core roles is to advise CRMG on how to adjust policy settings to manage emerging risks and variance in the emissions reductions plans. This briefing therefore provides advice on possible options to mitigate the impacts of removing the Sustainable Biofuels Obligation (SBO).

ERP1: progress at a glance

4. Six months into the implementation of ERP1, agencies are making progress across a large work programme. Out of 301 actions, 221 x actions were ranked green or 'on-track', 64 x actions were ranked amber or have 'some delays', and 1 x action was ranked red or 'at risk' (the SBO). 15 x actions are not progressing as they are unfunded (but are not predicted to have a high abatement impact in the short term).

5. There have been early successes across the work programme. For example, the clean car discount is having more impact than anticipated, the Government issued $3 billion of Sovereign Green Bonds through its inaugural issuance, and there has been a significant increase to the Waste Minimisation Fund.

Strategic challenges

6. We highlight three key challenges to achieving progress on emissions budgets that need reconciling:

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a. **Delivering ambitious emissions budgets**, with national level projections showing achieving EB1 and EB2 is finely balanced and any reductions in scope or delays in delivery of ERP1 will make achieving emissions budgets even more challenging. We are currently not on track to meeting EB3.

b. **Agencies working at capacity** with early indications of risks to delivery (e.g., slow CERF spending rate, 11 critical actions experiencing some delays).

c. **The loss of abatement opportunities given the focus on managing cost of living impacts.** For example, recent decisions on the Sustainable Biofuels Obligation (SBO) and ETS price paths show a need for a clearer strategy to manage the impacts of abatement policies on vulnerable sectors of society. The SBO would have contributed around 1 megatonne of CO_2 abatement in the first emissions budget (around 10% of all abatement expected) and more in subsequent budgets. There are no straightforward options to offset this loss.

7. [Legally privileged]s 9(2)(h) [redacted]

8. The Board's advice on these impacts is set out in paragraphs 12-18. Advice on additional abatement options is included as **Appendix 2** for your consideration but these come with their own set of trade-offs.

Priorities

9. As outlined in our BIM, the Board's initial view is that the following are the most critical areas for focus in terms of delivering the ERP and setting the direction for future policy:
   a. The review of the New Zealand Emissions Trading Scheme (including emissions leakage and forestry incentives), as the key pillar of our domestic response.
   b. Transport mode-shift.
   c. He Waka Eke Noa and making progress in reducing agricultural greenhouse gas emissions.
   d. The Energy Strategy, including early decisions to help provide investment certainty, enhancing the resilience of the energy sector, and supporting access to affordable energy.
   e. Developing ERP2 (2026 to 2030) as this will set the direction for our domestic response out to 2050.

10. The Board also considers that managing the distributional impacts of climate change policy is a further priority given the current economic context. Subject to the Board also reviewing other critical actions and views from CRMG, it proposes to highlight reporting on these priorities in its next six-monthly report (August 2023). The Board

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also proposes to end quarterly reporting on PM Ardern's priority areas given that the quarterly report would be otherwise due around a month after this report.

Programme-level risks to manage

11. We note several challenges within the ERP work programme to meeting the emissions budgets, and that the Board and Ministers can mitigate:

    a. Delays to the implementation of some actions may result in slower than expected abatement. Indicators of these implementation delays come from:

        i. A slow spending run-rate for CERF initiatives, with spending at the end of Q1 averaging 6.8% of the baseline and 16.5% at the end of Q2, due to skills shortages, supply chain constraints, and as agencies move from policy design to implementation.

        ii. Changes in scope, accountability, or timeline of deliverables to 122 out of 301 actions. Agencies report that most will not impact on delivery dates, but 11 will: five critical actions will be delayed by up to six months, and six actions will be delayed by more than six months.

    b. Capacity pressures, due to the size and scale of ERP1, challenge implementation:

        i. Significant bottlenecks are being experienced across the system. For example, s 9(2)(f)([redacted] Cabinet papers for ERP1 actions are due in the first six months of 2023, s 9(2)(f)([redacted] of which include planned public engagement.

        ii. s 9(2)(g)(i) [redacted]

    c. Limits to our data and modelling tools and this, together with insufficient information, is preventing accurate assessment of the impact of existing and future actions.

12. The Board is acting on the work programme risks that it can resolve, focussing on 'critical actions' with material abatement impacts. This work includes ensuring that 'at risk' actions have robust delivery plans, monitoring spending, and improving data.

13. The Board's next six-monthly report (August 2023) will provide a more detailed assessment about whether the recommended actions in this briefing note have been sufficient to address the emerging risks, or whether further corrective action is needed.

Recommendations

14. We recommend that you:

a) **Agree** to discuss with CRMG the need to reconcile the following strategic challenges for achieving emissions budgets:

   i. **Delivering ambitious emissions budgets**, which projections show are finely balanced to achieve.

   ii. **Agencies working at capacity** with some early indications of risks to delivery.

   iii. **The loss of emissions abatement opportunities** given the focus on managing cost-of-living impacts.

Agreed

Responding to the loss of abatement opportunities

b) **Note** that agencies and the Board have not identified abatement options that would easily offset the gap in emissions budgets created by the removal of the SBO, but discussion of additional abatement options is annexed to this briefing.

Noted

c) **Indicate** your interest in receiving advice on any of the options to achieve additional abatement in Appendix 2, by ticking the relevant column in the tables.

Yes/No

Responding to the challenge of agency capacity constraints

d) **Note** that the Board has identified a need to focus delivery on the most critical actions for emissions reductions out of the 301 in the ERP.

e) **Agree,** subject to CRMG discussion, to the following five priority actions to focus delivery and reporting on, in six monthly reports (next report is due in August 2023):

   i. The review of the New Zealand Emissions Trading Scheme
   ii. Transport mode-shift
   iii. He Waka Eke Noa
   iv. The Energy Strategy
   v. Developing ERP2

Yes/No

f) **Note** that the Board originally prioritised 62 ‘critical actions’ (out of the 301) for delivering abatement (see Appendix B of the attached Six-Monthly Report), and it will now assess which of these should be prioritised for delivery and reporting, for discussion at CRMG.

Noted

g) **Agree** that the six-monthly report and revised priorities in e) above will take the place of quarterly reporting on Prime Minister Ardern's priority areas.

Agreed

Managing risks across the ERP programme identified in the Six-Monthly Report

h) **Note** that to manage risks across the ERP work programme the Climate Change Chief Executives Board will:

i. Ensure that for the next six-monthly report agencies have robust delivery plans in place for 'critical actions' that are behind schedule.

Noted

ii. Undertake an 'interdependency mapping' exercise to better understand links between actions and strategies within the plan and opportunities for agency work programmes to better sequence and align.

Noted

iii. Advise on options for prioritising the number of Cabinet papers over the next six months, for discussion at CRMG.

Noted

iv. Develop a framework for assessing cost of living/distributional impacts of different climate abatement policies and explore options for addressing these impacts, such as through climate dividends or other policies.

Noted

v. Investigate options to improve data, modelling, and reporting, to improve the timeliness of emissions reporting and to understand abatement impacts of actions.

Noted

vi. Continue to monitor overall progress of CERF spending and recommend options to reprioritise funding where possible, including to support unfunded or partially funded initiatives.

Noted

vii. Develop a strategic process and investment plan for Budget '24 for the Climate Emergency Response Fund (CERF), where top-down funding priorities are recommended by the Board to Ministers, with initiatives then developed to follow.

Noted

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i) **Forward** this briefing note to members of the Climate Response Ministerial Group.

Agreed

Signature

Lisa Daniell **Executive Director, the Climate Change Chief Executives Board**	

Rt Hon Chris HIPKINS **Chair of the Climate Response Ministerial Group**	
[Date]	

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Purpose

1. To provide you with the first six-monthly progress report (the Report) on the first emissions reduction plan (ERP1). The Report is attached at **Appendix 1**.

2. This briefing provides a high-level summary for the six-month period, July 2022-December 2022, and recommends actions to respond to the emerging risks to the work programme identified by the Climate Change Chief Executives Board (the Board).

Context

3. The Government published Aotearoa New Zealand's first emissions reduction plan (ERP1), in May 2022. The plan details the actions that need to be implemented, across every part of the government and every sector of the economy, over the next three and a half years, to meet the first emissions budget and set New Zealand on a pathway to achieving future emissions budgets.

4. There are 301 actions in ERP1. Sixteen agencies are implementing these actions, which range from the development of strategies, drafting policy and legislation, introducing funding, pricing/financing tools, investment mechanisms, and new procurement models, through to stakeholder consultation and engagement.

High-level summary from the first six-monthly report

5. Six months into the implementation of ERP1, agencies report implementation of actions are mostly 'on-track' and there have been some early successes. However, emerging risks reflect the size and scale of the challenge to deliver what is an ambitious programme of work.

6. In addition, domestic and global trends and events are influencing progress. Cabinet decisions to address rising costs of living and inflationary pressures, currently being experienced across the globe, have reduced the scope of abatement that could be achieved.

*Overall progress towards our emissions budgets (page **9** of the Report)*

7. The most recent national level projections (Graph 1) show achieving EB1 and EB2 is finely balanced and any reductions in scope or delays in delivery of the ERP will make achieving emissions budgets even more challenging. We are currently not on track to meeting EB3.

8. ERP1 provides the foundations upon which future mitigation actions will build. Any under-delivery in ERP1 will almost certainly require more ambition in ERP2 and ERP3[1]. Successful delivery of further ERP1 actions should bring the orange line even closer to

[1] This "With Additional Measures" (WAM) projection does not include all ERP actions.

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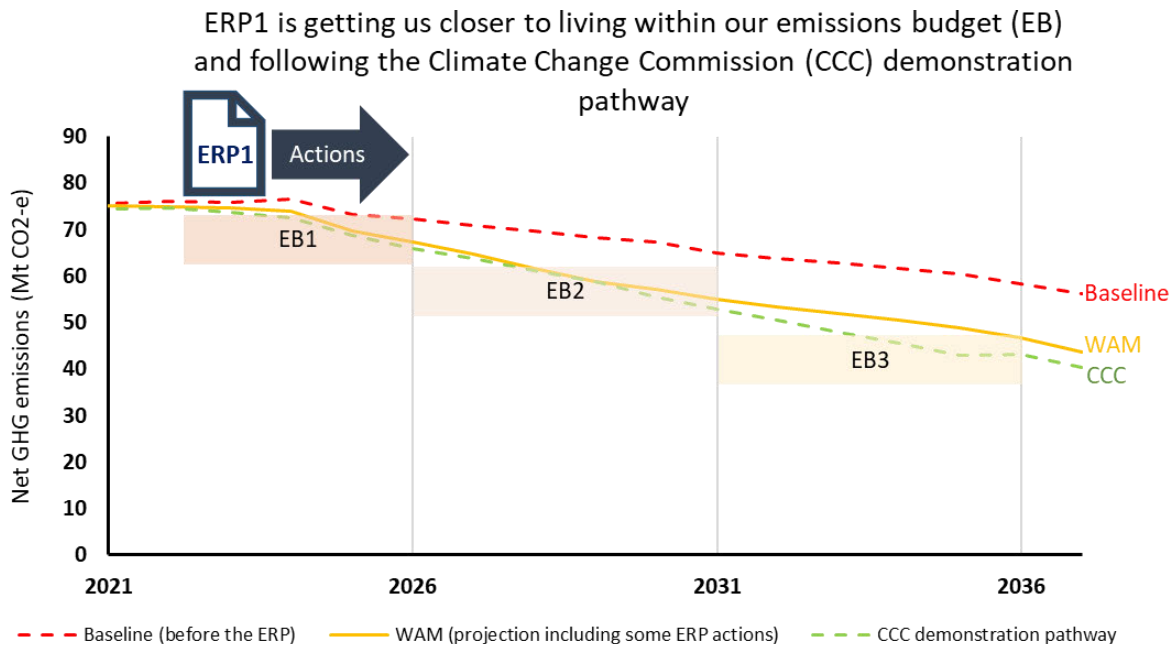
the green Climate Change Commission's demonstration pathway, but slow or ineffective delivery of ERP1 will create risks to delivering our emissions budgets – particularly EB3.

Graph 1: Net GHG emissions: Baseline, latest projection considering some ERP measures, and demonstration pathway



*Overall progress against implementing actions (page **11** of the Report)*

9. Using a simple traffic light dashboard (Red, Amber, Green), aggregated information from agencies shows that:

   a) 221 (73%) actions are green.

   b) 64 (21%) actions are amber.

   c) 1 action is red.

   d) 15 actions are grey and not progressing as they are unfunded, but not predicted to have high abatement impact in the short term.

10. Early successes include:

   a) **The clean car discount is having more impact than anticipated**: a 235 percent increase in Battery Electric Vehicle sales in 2022, compared to 2021.

   b) **The Government issued $3 billion of Sovereign Green Bonds** through its inaugural issuance.

   c) **A significant increase of the Waste Minimisation Fund** ($75m over two years in addition to approximately $45m in waste levy funds) when it reopened in

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October 2022, with investment signals focused on reducing emissions from waste, targeted towards organic waste diversion and resource recovery infrastructure.

d) **The Centre for Climate Action on Agricultural Emissions was stood-up,** with active engagement from seven companies in standing up the Joint Venture component of the Centre, and approximately $16m in early investments agreed.

e) **Climate outcomes are being embedded into the new resource management system**, e.g., the Natural and Built Environment Bill (NBE Bill) and Spatial Planning Bill (SP Bill) that were introduced to Parliament in November 2022.

*Risks across the programme (page **13** of the Report)*

11. Across the ERP1 work programme, the Board identifies the following risks that have potential for the programme to fall short of meeting the emissions budget:

a. **Implementation of some actions in ERP1 have been delayed, which may result in slower than expected abatement. Indicators of these delays are:**

i. <u>A slow spending run-rate for CERF initiatives,</u> with spending at the end of Q1 averaging 6.8% of the baseline and 16.5% at the end of Q2. While spending can take time to ramp up, this pace is an indicator of risks to delivery of actions. At the same time some actions are unfunded, with potential opportunities for reprioritisation.

ii. <u>Changes in scope, accountability, or timeline of deliverables to 122 out of 301 actions</u>. Not all these appear material but there are five critical actions that will be delayed up to six months, and six critical actions that will be delayed by more than six months. For example, the expected abatement in EB1 from waste infrastructure will be impacted due to delays between funding approvals and commissioning of plant.

b. **Capacity pressures due to the size and scale of ERP1 resulting in implementation issues**. These include:

i. <u>Significant bottlenecks</u> including around [redacted] Cabinet papers for ERP1 actions are due in the first six months (to June 2023), [redacted] policy proposals require significant public engagement, and challenges with sufficient cross-agency coordination and engagement on actions. Examples include engaging on the Equitable Transitions Strategy and aligning biodiversity and climate actions.

ii. s 9(2)(g)(i) [redacted] For

s 9(2)(g)(i) [redacted]

c. **Limits to data, information, and modelling tools**. As a result, it is difficult to accurately assess both the impact of existing work and model future impacts. The Climate Change Chief Executives Board Unit (the Unit), the Ministry for the Environment, and delivery agencies, are working together to improve this and anticipate ongoing refinements and improvements in data, modelling, and analysis with each report.

s 9(2)(h) [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

13. While outside the period of the Report, the removal of the Sustainable Biofuels Obligation will leave gaps in our emissions budgets. Without the SBO, less abatement will be delivered, meaning we have less confidence of meeting the first emissions budget. Of the total abatement from transport, the Sustainable Biofuels Obligation was modelled to account for to 7.1 to 9.9 Mt CO2-e across the three emissions budgets. This represents around half of the total transport abatement across each emissions budget.

14. The Obligation would have played an increasing role in displacing fossil fuel use and was highly significant as one of few options for harder-to-abate heavy transport sectors. Internal combustion engine vehicles are expected to remain a significant component of vehicle fleets for the next 20-30 years, meaning biofuels can play an important transitional role in reducing emissions from these vehicles.

15. s 9(2)(f)(iv) [redacted]

16. s 9(2)(g)(i) [redacted]

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s 9(2)(g)(i)

17. In particular, the Transport part of the ERP is already highly ambitious and most potential options to cut emissions have been explored in its development. Without the Obligation and with no new actions it is not likely transport will meet its sub-sector target for EB1 or achieve the target to 'Reduce the emissions intensity of transport fuel by 10 per cent by 2035'.

18. More widely, the focus on managing cost of living impacts has highlighted the urgency and importance of having a need for a clearer strategy to manage the impacts of abatement policies on vulnerable sectors of society. The Board has agreed to explore options to ensure the cost-of-living impacts from climate policies are given more focus through the use of a consistent framework and principles for analysing these impacts.

Focus for the next six months – out to June 2023

19. At this early stage of implementation, we suggest CRMG and the Board focus on continued delivery of actions, especially critical actions material to delivering sub-sector abatement targets and managing the programme-level risks outlined in the Report, that are firmly within the Board's remit.

20. In particular, we propose to focus future reporting to you on the five priority areas identified in our BIM as being critical for delivering abatement and supporting EB2:

- the review of the New Zealand Emissions Trading Scheme (including emissions leakage and forestry incentives), as the key pillar of our domestic response.
- Transport mode-shift.
- He Waka Eke Noa and making progress in reducing agricultural greenhouse gas emissions.
- The Energy Strategy, including early decisions to help provide investment certainty, enhancing the resilience of the energy sector, and supporting access to affordable energy.
- Developing ERP2 (2026 to 2030) as this will set the direction for our domestic response out to 2050.

21. Over the short-to-medium term, our attention will turn to developing adaptive management options, to be able to respond to programme risks (and external economy-wide challenges) and capitalise on emerging opportunities.

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Next steps

22. Subject to your agreement, your office will forward this briefing note and the Report to CRMG members for discussion at the next meeting of this group.

23. The Board proposes to end quarterly reporting on PM Ardern's priority areas and deliver its next six-monthly report in August 2023.

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Appendix 1: Six-monthly report on the first emissions reduction plan (ERP1)

- See attached –

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Appendix 2: Options to mitigate the impacts of withdrawing the Sustainable Biofuels Obligation

Context:

1. There are challenging factors to reconcile to offset the loss of the Sustainable Biofuels Obligation (SBO) from the emissions reduction plans - and the Board has had limited opportunity to consider all the regulatory, pricing or investment options currently available.

2. However, the Board has made a first attempt at updating the list of additional abatement options **(Table 1)** which was first presented to CRMG in February 2022. At the time these options were committed to the ERP, rejected, or undeveloped.

3. There are potentially new abatement options that we incorporate in the table.

4. s 9(2)(f)(iv) [redacted]

5. We provide a column for you to indicate your preference for an option to be developed further.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)