

Office of the Minister of Climate Change

Chair, Cabinet Economic Development Committee

Progressing international cooperation to reduce emissions and complement domestic action

Proposal


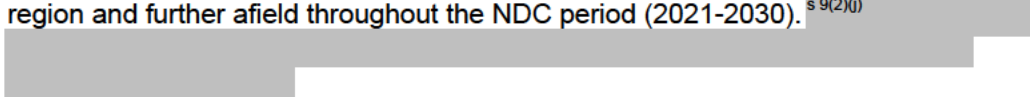
1. This paper seeks Cabinet agreement for New Zealand to identify and develop options to access international emissions reductions (offshore mitigation). This, together with New Zealand's domestic climate action, will contribute towards New Zealand's Nationally Determined Contribution under the Paris Agreement.
2. I propose that in accessing offshore mitigation, New Zealand takes a portfolio-based approach that prioritises sustainable development outcomes in the Asia-Pacific region.
3. This paper complements the paper *Agreement to update New Zealand's first Nationally Determined Contribution (NDC1) under the Paris Agreement*.

Relation to government priorities

4. New Zealand has a strong interest in managing an effective and ambitious global response to climate change. New Zealand is a small actor and cannot unilaterally prevent the adverse effects of climate change. It is in our interest, as well as those of our Pacific neighbours, for all countries to commit to and deliver ambitious action.
5. The Government declared a climate change emergency on 2 December 2020, with the Cabinet Business Committee (CBC) agreeing that climate change "demands a sufficiently ambitious, urgent, and coordinated response across government to meet the scale and complexity of the challenge" [CBC-20-MIN-0097 refers]. International cooperation to reduce emissions would complement the other actions our Government has taken and is planning to take to address climate change, including the Zero Carbon Act, New Zealand Emissions Trading Scheme reform, and sector-specific approaches for transport, energy, agriculture, and waste.
6. Enabling a just transition to a low-emissions, climate resilient future is also a Government priority. This was emphasised by CBC when they noted the intention to "put the climate at the centre of government decision-making" and agreed that "climate change requires decisive action by all levels of government, the private sector, and communities" [CBC-20-MIN-0097 refers].

Executive Summary

7. I am seeking Cabinet's agreement to update New Zealand's first Nationally Determined Contribution under the Paris Agreement (NDC1). Cabinet is considering options for updating NDC1 from its current level as outlined in *Agreement to update New Zealand's first Nationally Determined Contribution (NDC1) under the Paris Agreement*.
8. Whether New Zealand's NDC1 remains at 30 per cent below 2005 levels, or is updated to a higher level, it will require strong domestic action as well as New Zealand working with other countries to achieve it.
9. Under the in-principle agreed emissions budgets to 2030, New Zealand is anticipated to reduce emissions by 47 Mt through domestic action [CAB-21-MIN-0320.01 refers].

10. Achieving the current NDC1 of 30 per cent below 2005 levels will require reducing emissions by 97 MT between now and 2030. To meet the current NDC1 New Zealand would need to supplement domestic action with 50 MT of offshore mitigation.
11. The Paris Agreement recognises that countries will cooperate in achieving their NDCs, and that this enables increased global ambition. We will need to significantly increase our domestic efforts to reduce emissions, but also cooperate internationally to access offshore mitigation to meet NDC1.
12. This Government has been clear that our first priority for meeting NDC1 will be domestic climate action, and we have taken a number of decisions and actions to that effect.
13. It is clear that offshore mitigation will also be needed to meet NDC1. This presents an opportunity for New Zealand to support global emission reductions and the Government has choices about where to prioritise this investment.
14. I propose we do this through developing a portfolio of options that support sustainable development and resilience in the Asia-Pacific region.
15. Cooperating with countries in our region will support the achievement of the sustainable development goals and have co-benefits. This includes sharing New Zealand's expertise on reducing emissions in areas like forestry, agriculture, strengthening New Zealand's relationship with our partners, and potentially gaining access to new emission reduction technologies that could be applied in New Zealand.
16. We can leverage New Zealand's experience and networks to identify and develop options for international cooperation in the Asia-Pacific region. This could include working with developing countries on options for high integrity forestry projects, drawing from experience in carbon accounting and REDD+.¹
17. ^{s 9(2)(j)} 
18. We can tailor our approach to how we partner with other countries in the Asia-Pacific region and further afield throughout the NDC period (2021-2030). ^{s 9(2)(j)} 
19. I plan to report back to Cabinet with an update on progress made in identifying and developing international cooperation options in our region and ETS linking arrangements in October 2022, with an interim update proposed in May 2022.

¹ REDD+ refers to reducing emissions from deforestation and forest degradation in developing countries, also known as avoided deforestation.

Background

We have committed to updating New Zealand's First Nationally Determined Contribution under the Paris Agreement (NDC1)

20. The Paris Agreement requires New Zealand to set NDCs with a view to hold the increase in the global average temperature to well below 2°C and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.
21. New Zealand's current NDC1, lodged by the previous Minister of Climate Change in 2016, is an economy-wide, all gases target to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030.
22. The previous Government's approach was to meet NDC1 through a combination of domestic reductions, removals, and international carbon markets. Modelling undertaken in 2015 showed that meeting New Zealand's NDC cost-effectively would require reliance on international carbon markets.
23. Our Government has now investigated more thoroughly options for domestic action and is prioritising investing in our domestic economy first. However, the previous Government's lack of action on the domestic front means that we will be reliant on accessing mitigation from offshore to fulfil our global commitments for some time.
24. NDC1 was set on the basis that it would be achieved through a mix of domestic emission reductions, forestry removals and international cooperation.
25. In parallel to this paper, I am also seeking Cabinet's agreement to update New Zealand's NDC1. The options explored for an updated NDC1 are:
 - a. 54 per cent below gross 2005 levels by 2030 (45 per cent on a budget approach) (Minister of Climate Change's preferred option)
 - b. 50 per cent below gross 2005 levels by 2030 (41 per cent on a budget approach)
 - c. 49 per cent below gross 2005 levels by 2030 (40 per cent on a budget approach)
 - d. 45 per cent below gross 2005 levels by 2030 (36 per cent on a budget approach)
 - e. 39 per cent below gross 2005 levels by 2030 (30 per cent on a budget approach) (New Zealand's current NDC1).
26. My proposal to update NDC1 is outlined in the accompanying paper *Agreement to update New Zealand's first Nationally Determined Contribution (NDC1) under the Paris Agreement*.

We need a plan to meet NDC1

27. There is a clear ambition from the Government, as well as the public, domestic and international stakeholders, that our NDC will be met to the maximum extent possible by investing in our domestic economy.
28. Cabinet will make final decisions on the first three emissions budgets (2022-2025, 2026-2030, 2031-2035) and the first emissions reduction plan (ERP) by 31 May 2022. The ERP will be informed by expert advice from the Climate Change Commission, iwi/Māori, and upcoming public consultation.
29. The emissions budgets and the ERP will set the trajectory for emissions reductions and removals within New Zealand, which will contribute towards meeting our NDCs.

30. Due to the challenges of reducing emissions domestically, the Climate Change Commission has advised that New Zealand will need to access offshore mitigation to complement domestic efforts to reduce emissions to meet NDC1.
31. The NDC represents a long-term fiscal risk. Previous estimates of the potential costs of offshore mitigation required to meet the current NDC1 of 30 per cent have been in the range of \$ \$3.9-\$6.8 billion between now and 2030.² The cost of meeting NDC1 without offshore mitigation would be substantially higher, with significant economic and social implications.
32. Alongside our domestic action, New Zealand will need international cooperation to meet NDC1. To meet the current NDC1 of 30 per cent emission reduction compared to 2005 levels, the proportion of international mitigation would be approximately 50 per cent of New Zealand's NDC or around 50 Mt between now and 2030.
33. In December 2019, Cabinet agreed to a *Framework for International Carbon Market Cooperation* that set out the objectives and principles for any future participation in carbon markets [CAB-19-MIN-068 attached as Appendix 1]. This sets out objectives for any international cooperation to access offshore mitigation and requirements for environmental integrity.
34. This Government has been clear that we will have strong standards of environmental integrity. Environmental integrity means that the offshore mitigation represents additional, measurable, and verifiable reductions or removals of greenhouse gas emissions (see Appendix 2). Any purchase of offshore mitigation by New Zealand, whether that be through linking with other ETSs or cooperation in the Asia-Pacific region, will need to demonstrate environmental integrity.
35. An important part of environmental integrity is ensuring that there is no double counting – that any mitigation used towards New Zealand's NDC is not also counted by another country. This requires that a "corresponding adjustment" be made to each country's NDC. Ensuring this occurs will require up-front arrangements with partner countries.

Analysis

I propose prioritising international cooperation that promotes sustainable development outcomes and resilience in the Asia-Pacific region

36. Meeting NDC1 presents a significant opportunity for New Zealand to reduce its own emissions and to support global emission reductions, and there are choices about where to prioritise this investment.
37. In supporting global emission reductions, I propose that we develop an investment portfolio that prioritises working with countries in the Asia-Pacific region in ways that promote sustainable development outcomes and resilience for those countries.
38. This cooperation could also have wider co-benefits such as sharing New Zealand's expertise on reducing emissions in areas like forestry or agriculture, strengthening New Zealand's relationship with our partners, and potentially gaining access to new emission reduction technologies that could be applied in New Zealand.
39. For example, we could explore mitigation projects in the Pacific which also deliver biodiversity co-benefits and strengthen environmental resilience, climate adaptation, ecosystem services and sustainable livelihoods for those which depend on them.

² These estimates are of the potential costs of offshore mitigation required to meet NDC1 have been based on linking emissions trading schemes ^{s 9(2)(j)}. These estimates have used current and forecast emissions unit prices as a proxy for the possible overall cost of meeting NDC1.

40. There are two broad ways that we could cooperate in the Asia-Pacific region. New Zealand could establish bilateral or regional projects to reduce emissions. This could include options in the Pacific or other countries in the Asia-Pacific region.
41. Alternatively New Zealand could partner with regional or international organisations that are establishing projects or programmes to reduce emissions. Examples include the World Bank, the Asian Development Bank or United Nations bodies. Appendix 3 contains an overview of these options.
42. Officials have undertaken early engagement with several Pacific Governments ^{s 9(2)(j)} [REDACTED]. While these were preliminary conversations, officials report a positive reaction to cooperation with New Zealand.
43. Many international cooperation options in the Asia-Pacific region are still in the initial stages of development and their reliability for delivering mitigation with environmental integrity at the scale required to meet NDC1 is still uncertain.
44. Work is required to identify and develop options and partners for cooperation in the Asia-Pacific region. When doing so, New Zealand can leverage experience in existing mechanisms, including REDD+³, as the basis for identifying and developing these options.
45. For example, New Zealand currently helps developing countries to ensure environmental integrity in forestry mitigation projects, by assisting them to improve their forestry carbon accounting methods. New Zealand's expertise in forestry, and experience in REDD+ accounting can be used to identify and develop forestry projects in the Asia-Pacific region as a source of offshore mitigation towards NDC1, in a manner which meets New Zealand's standard for environmental integrity.
46. Any offshore mitigation purchased will need to meet New Zealand's environmental integrity standards to ensure it is accurately quantified, additional, and properly accounted for in New Zealand's and the seller country's NDCs to ensure no double counting.
47. I note that while the focus of the proposed portfolio is on the Asia-Pacific and co-benefits in our region, there may be broader options beyond our region that demonstrate co-benefits for sustainable development. I will direct officials to include broader options in the scoping of the portfolio approach.

^{s 9(2)(j)} [REDACTED]

48. My intention is to maximise emissions reductions from domestic sources and offshore mitigation options that support sustainable development, before considering the ETS ^{s 9(2)(j)} [REDACTED]. Officials advise it is likely that New Zealand will need additional sources of offshore mitigation alongside domestic emission reductions and removals, and efforts in the Asia-Pacific region, to have confidence in meeting NDC1.
49. New Zealand has been in preliminary technical exchanges ^{s 9(2)(j)} [REDACTED]

³ REDD+ refers to reducing emissions from deforestation and forest degradation in developing countries. It was designed as a financing mechanism for developing countries. Approaches to avoiding deforestation such as REDD+ are recognised in Article 5 of the Paris Agreement. New Zealand is participating in international dialogues on how forestry could also form part of international cooperation towards NDCs under Article 6 of the Paris Agreement.

- 50. Linking compatible ETSs enables participants in one system to trade emissions units with participants in another system. These links could be one-way (New Zealand emitters buy units) or two-way (New Zealand emitters buy and sell units).
- 51. Over the past few years we have significantly reformed and improved the NZ ETS. These reforms put in place strict controls on international units in the NZ ETS compared to when the NZ ETS was last open to international markets.⁴
- 52. Officials' advice is that ETS linking is expected to be available earlier than other options in the Asia-Pacific region. ^{s 9(2)(j)}

[Redacted]

- 53. ^{s 9(2)(j)}

[Redacted]

[Redacted]

- 54. ^{s 9(2)(j)}

- 55. Through this work we will ensure that there is no double counting – that any mitigation used towards New Zealand's NDC1 is not also counted by another country. This requires that a "corresponding adjustment" be made to each country's NDC. Ensuring this occurs will require up-front arrangements with partner countries.

- 56. ^{s 9(2)(j)}

- 57. ^{s 9(2)(g)(i)}

- 58. ^{s 9(2)(j)}

- 59. ^{s 9(2)(j)}

⁴ The NZ ETS settings include a maximum volume limit for international units as part of the overall cap to ensure the NZ ETS continues to drive emissions reductions in New Zealand (currently the limit is zero). In addition, only international units that have been approved by the Government could be eligible for use in the NZ ETS.

60. ^{s 9(2)(f)}

61.

62.

We can be flexible in the mix of international cooperation options we invest in over the NDC period

63. We can tailor our approach to working with other countries throughout the NDC period (2021-2030). ^{s 9(2)(f)}

64. I propose that our portfolio approach to securing offshore mitigation as part of the plan to meet NDC1 be driven by the following principles:

- a. Flexibility: in terms of the range of options we explore and pursue, and the mix of options used.
- b. Certainty: securing immediate access to offshore mitigation by including ETS linking.
- c. Maximising co-benefits and complementing wider Government priorities: supporting sustainable development in the Asia-Pacific region, and foreign policy interests.
- d. Alignment with wider government objectives or work programmes, such as the Carbon Neutral Government Programme or voluntary carbon markets.

65. I will direct officials to develop a strategic portfolio approach for the international cooperation component of the plan to meet NDC1. This is in line with the Commission's recommendation⁵ that the Government should:

- a. Continue to enable the NDC to be met through a combination of domestic emission reductions, domestic removals, and the use of international cooperation to access offshore mitigation
- b. Report annually on how it plans to meet the NDC, including the balance of planned domestic emission reductions, removals, and offshore mitigation
- c. Clearly communicate its strategy for purchasing offshore mitigation to meet the NDC and how it will identify and manage fiscal and other risks and their consequences.

Next steps

66. I am not asking for Cabinet to make decisions to begin purchasing any international units at this point, or about the timing of any future purchases. I will return to Cabinet to seek those decisions if and when those decisions need to be made. It will be important to consider the timing of potential transactions, in light of the readiness of

⁵ Recommendation 31 of the Climate Change Commission's final advice.

bilateral sustainable development programmes and a range of financial, international and climate outcomes.

- a. Firstly, in relation to ETS linking arrangements; a consistent level of international purchases over several years would likely have the least distortionary effect on the domestic ETS in both the seller and buyer countries.
- b. Secondly, carbon prices are expected to rise over time, so waiting until the end of the decade to make large purchases could be a more expensive option.
- c. Thirdly, the Paris Agreement requires steady progression towards meeting our NDC, not waiting until close to 2030; this is important to smooth the effects of the transition on economies and communities.
- d. Cabinet will also need to consider fiscal trade-offs between investing in domestic abatement and international units in any given year.

67. ^{s 9(2)(j)}

68. Countries of interest for possible regional cooperation include for example: ^{s 9(2)(j)}

as well as wider countries in the Asia-Pacific region. The upcoming 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) will provide me an opportunity to further test these governments' interest in cooperating with New Zealand.

69. ^{s 9(2)(j)}

70. I will seek Cabinet's agreement to sign and to activate any negotiated ETS linking arrangement.

71. I will report back to Cabinet in October 2022, with an interim report back in May 2022, on progress made in developing the portfolio and international cooperation options that will form part of the plan to meet NDC1, alongside our domestic efforts. This will include progress made to identify viable cooperation opportunities in the Asia-Pacific region, progress to develop the ETS linking ^{s 9(2)(j)} engagement with iwi/Māori, public/stakeholder engagement, and additional analysis on financial implications.

72. In response to the concerns raised in paragraphs 57 to 59, I intend to specifically consider in my report back:

- a. The environmental integrity of any ETS linking arrangement, including:
 - i. how the proposed arrangement would trigger an equivalent reduction in greenhouse gas emissions,

- ii. that the mitigation will not be double counted towards another country's NDC
 - iii. ^{s 9(2)(j)} [REDACTED]
 - iv. the impact of the proposed arrangement on the partner's economy and ability to meet their NDC1;
- b. ^{s 9(2)(g)(i)} [REDACTED]

Financial Implications

73. I note that the paper *Agreement to update New Zealand's first Nationally Determined Contribution (NDC1) under the Paris Agreement* has relevant information about the financial implications of NDC1, including fiscal risks.
74. I anticipate additional resources will be required to identify, develop, and implement a portfolio of options for working with countries in our region to reduce emissions.
75. There will also be costs associated with purchasing the resulting mitigation although these costs are likely to vary significantly depending on project location and type.
76. The development of a portfolio for international cooperation as outlined in this paper will require an expansion of officials' business-as-usual work programme. ^{s 9(2)(f)(iv)} [REDACTED]
77. Officials have estimated the cost of international cooperation to meet the current NDC1 target of 30 per cent to be in the range of \$3.9 to \$6.8 billion between now and 2030.
78. This estimate is based on international purchasing via ETS linking, with purchasing beginning in 2024 and the lower price range rising from \$50 to \$100 by 2030, and higher price range from \$110 to \$170, ^{s 9(2)(j)} [REDACTED]
79. The financial implications of the international cooperation options outlined in this paper are difficult to estimate at this early stage. Countries in the Asia-Pacific region may have mitigation opportunities that are lower cost than ETS linking. Appendix 3 outlines additional information on cost that is available at this stage.
80. The upcoming COP26 negotiations as outlined in the Cabinet paper *Update to the Climate Change Negotiations Mandate*, will also impact the financial implications of international cooperation. COP26 negotiations include potential requirements for any countries purchasing offshore mitigation to also provide finance for developing country adaptation.
81. It is important to note that the Commission's advice was clear that access to offshore mitigation is needed to deliver NDC1 cost-effectively. Delivering NDC1 solely through domestic action would have significant negative economic consequences, including for vulnerable communities.

Legislative Implications

82. There are no legislative implications from developing options for international cooperation, ^{s 9(2)(j)} [REDACTED]. It is likely that if Cabinet decides to sign and activate an ETS linking arrangement, this would require updating the NZ ETS unit supply regulations and potentially wider legislative changes.

Te Tiriti o Waitangi Implications

83. Iwi/Māori have strong interest in New Zealand and the globe taking ambitious and effective climate change action, and setting and meeting ambitious NDCs due to their vulnerability to the impacts of climate change. Iwi/Māori also have an interest in the costs of New Zealand's NDC being managed.
84. The Commission's final advice was clear that New Zealand should use offshore mitigation to bridge the gap between domestic emissions budgets and the NDC level, as meeting the NDC domestically would have severe social and economic impacts which would disproportionately impact iwi/Māori.
85. Using offshore mitigation enables New Zealand to set and meet ambitious NDCs without undue harm to iwi/Māori. Meeting NDC1 domestically would negatively and disproportionately impact the Māori economy given its large agricultural base. This would also impact the Māori workforce disproportionately due to the impacts on the agricultural and manufacturing industries.
86. The Commission's final advice describes the importance of te ao Māori in decision-making and the need to consider and prioritise Māori values, including concepts of whakapapa, whenua, whanaungatanga and tikanga such as kaitiakitanga, manaakitanga, kotahitanga. The Commission noted that using international cooperation towards the NDC is consistent with a mātauranga Māori view of the interconnectedness between the climate and global system, and tikanga – doing the right thing in the right way.
87. As NZ ETS participants, iwi/Māori will have interests in the potential use of offshore mitigation in the NZ ETS (with diverse economic interests including in forestry, agriculture, energy, and other emitting sectors). Iwi/Māori will also have interest in the effective functioning of the NZ ETS as one of the main tools for reducing emissions in New Zealand.
88. Iwi/Māori have communicated strong views on the need for environmental integrity of any offshore mitigation used in New Zealand, and some interest in potential economic opportunities that could arise for Māori forestry from the ability to sell New Zealand Units offshore through a linking arrangement. Further analysis is needed to understand the potential impact of opening the NZ ETS to international markets on Māori forestry.
89. Engagement with iwi/Māori has not been undertaken during the technical exchanges ^{s 9(2)(j)} [REDACTED]. This is largely due to their informal and confidential nature. ^{s 9(2)(j)} [REDACTED] it will be important to ensure the rights and interests of our Tiriti o Waitangi partners are appropriately considered, and their views reflected in the development of ETS linking arrangements.
90. Officials are considering how to engage iwi/Māori on the use of offshore mitigation and development of international cooperation options, including potential ETS linking arrangements, in a way which is meaningful and coordinated to reduce and manage the impacts on iwi and Māori.

91. This proposed engagement will seek iwi/Māori views on the proposed approach to working with other countries, including in our region, and ensuring that all cooperation options demonstrate environmental integrity. It will also consider the best way to seek iwi/Māori views on necessary protections for the NZ ETS, should it reopen to international markets.

Impact Analysis

Regulatory Impact Statement

92. There are no regulatory proposals in this paper, and therefore Cabinet's impact analysis requirements do not apply. ^{s 9(2)(j)}

Climate Implications of Policy Assessment

93. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to these proposals as there is no direct emissions impact.

Consultation

94. There are strong views on the use of offshore mitigation in New Zealand, particularly on the need to ensure environmental integrity. I will report back to Cabinet in October 2022 on public engagement on the use of offshore mitigation towards NDC1.
95. The following agencies provided feedback on this paper: the Ministry for Primary Industries, MFAT, the Department of Conservation and the Treasury. Feedback received from these agencies is reflected in this paper. The Department of Prime Minister and Cabinet was informed.

Communications

96. The Government has previously communicated to the public our position to keep New Zealand "at the table" on international market negotiations [CAB-18-MIN-0248 refers].
97. I propose that we update this, and confirm in the communications on New Zealand's updated NDC1 that:
- a. New Zealand's first priority will be domestic climate action to help us meet our climate change targets
 - b. In addition to transitioning our economy and taking domestic action, New Zealand plans to use offshore mitigation with environmental integrity towards NDC1
 - c. We will be seeking a range of potential options for accessing offshore mitigation with environmental integrity, and prioritising partnering with countries in the Asia-Pacific region in ways that promote sustainable development outcomes and resilience;
 - d. We will also explore reopening the NZ ETS to international carbon markets with environmental integrity through ETS linking.

98. ^{s 9(2)(j)}

99. s 9(2)(j)

100. s 9(2)(j)

101. Any announcements on ETS linking will need to follow set protocols to avoid undue disruption to the NZ ETS market and to our partners' markets.

Proactive Release

102. This paper is not recommended for proactive release as its contents may impact negotiations.

Recommendations

The Minister of Climate Change recommends that the Committee:

1. **Note** that New Zealand's first nationally determined contribution (NDC1) under the Paris Agreement is a target of 30 per cent below 2005 emission levels by 2030;
2. **Note** that the Paris Agreement recognises that countries will cooperate to reduce emissions and deliver greater ambition;
3. **Note** that NDC1 was set on the basis that it would be achieved through a mix of domestic emission reductions, forestry removals and international cooperation;
4. **Note** that this Government's priority is to meet NDC1 through domestic action as much as possible to support New Zealand's transition to a low-emissions climate-resilient future;
5. **Note** that in parallel to this paper, I am seeking Cabinet agreement to update NDC1 ahead of the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change in Glasgow;
6. **Note** that in May 2018, Cabinet agreed to retain options of securing access to international carbon markets if this makes sense in the future [CAB-18-MIN-0248];
7. **Note** that Cabinet noted that the Minister of Climate Change would report back if any potential international cooperation arrangements came to the point at which formal negotiations may be ready to begin [CAB-18-MIN-0248];
8. **Note** that in December 2019, Cabinet agreed to a Framework for International Carbon Markets Cooperation to provide guidance to officials in discussions with potential international carbon market partners [CAB-19-MIN-0688];
9. **Note** that the Climate Change Commission advised that access to offshore mitigation will be needed to deliver NDC1 cost-effectively, in addition to domestic action;
10. **Agree** to complement domestic action with international cooperation to access offshore mitigation, taking a portfolio approach that prioritises sustainable development outcomes and resilience in the Asia-Pacific region;
11. **Note** that there is a wide range of international cooperation options that are possible, with varying levels of readiness, risks and co-benefits;

12. **Note** that by developing a diverse portfolio of international cooperation options the Government can manage and spread delivery, ensure environmental integrity, and risks;
13. **Agree** that the Minister of Climate Change will oversee the development of a proposed strategic portfolio approach for the international cooperation component of the plan to meet NDC1 in line with the Climate Change Commission's advice for Cabinet to consider;
14. **Note** that officials from the Ministry for the Environment and the Ministry of Foreign Affairs and Trade have begun initial engagement with Pacific Island countries to test their interest in cooperating with New Zealand on options for offshore mitigation;
15. **Agree** to develop a portfolio of international cooperation options to complement domestic action, to contribute to the achievement of NDC1;
16. **Agree** that these international cooperation options should prioritise sustainable development outcomes and resilience in the Asia-Pacific region and include a mix of options New Zealand develops directly with partner countries, and options in partnership with third-parties;

17. ^{s 9(2)(j)} [Redacted]

18. ^{s 9(2)(j)} [Redacted]

19. [Redacted]

20. [Redacted]

21. [Redacted]

22. [Redacted]

23. [Redacted]

24. [Redacted]

25. [Redacted]

26. [Redacted]

27. **Invite** the Minister of Climate Change to report back to Cabinet in October 2022 on progress made in developing the portfolio and international cooperation options for Cabinet to consider which are to form part of the plan to meet NDC1; including progress made to identify viable cooperation opportunities in the Asia-Pacific region, develop ETS links, engagement with iwi/Māori and public//stakeholder engagement and additional analysis on financial implications;
28. **Note** that the Minister of Climate Change will provide an interim update on progress made by the end of May, ahead of the more substantive report back in October 2022;
29. **Agree** to update New Zealand's position on international market negotiations [CAB-18-MIN-0248 refers] to confirm:
 - a. New Zealand's first priority will be domestic climate action to help us meet our climate change targets
 - b. In addition to transitioning our economy and taking domestic action New Zealand plans to use offshore mitigation with environmental integrity towards NDC1;
 - c. We will be seeking a range of potential options for sourcing offshore mitigation with environmental integrity and prioritising partnering with countries in the Asia-Pacific region in ways that promote sustainable development outcomes and resilience;
 - d. We will also explore reopening the NZ ETS to international markets with environmental integrity through ETS linking.
30. **Note** that I propose to communicate this approach as part of any decisions to update NDC1.

Authorised for lodgement

Hon James Shaw
Minister of Climate Change

Appendix 1: Framework for International Carbon Markets

Appendix 2: Environmental integrity considerations

1. All options for accessing to offshore mitigation must have environmental integrity to meet the requirements of the Paris Agreement.
2. This is clearly outlined as a fundamental criteria and priority for the Government in the *Framework for international carbon market cooperation* agreed by Ministers in 2019 [CAB-19-MIN-0688]. We note that iwi/Māori and stakeholders (NGOs, NZ ETS participants) have consistently raised environmental integrity concerns from any potential use of offshore mitigation by New Zealand.
4. If an option does not demonstrate environmental integrity, it cannot be included in our NDC accounting. We note that in their current state, some projects in Appendix 3, such as projects reducing emissions from deforestation and forest degradation in developing countries (REDD+ projects), do not meet expectations of environmental integrity. Any mitigation generated from these projects will be highly scrutinized by other Parties to the Paris Agreement, and using these projects as is would entail significant reputational risks for the Government both domestically and internationally.
5. In order for any projects/programmes to be considered to have environmental integrity, we need to ensure the emissions reductions are real and additional, and we must engage with the host country to authorise and accounted for in accordance with the requirements set out in Article 6 of the Paris Agreement.
6. Ensuring environmental integrity requires:
 - a. Confidence in a reasonable level of ambition and coverage for the partner's NDC, with regard to national circumstances, and that the partner has plans to meet its NDC commitments.
 - b. Confidence in an agreed accounting method. The partner will need to make corresponding adjustments to their own NDC so we can make use of transferred mitigation towards our own NDC. We may not have the method fully agreed up front, but New Zealand and the partner need mutual confidence that we will account accurately for transfers. The accounting will need to comply with Article 6 rules which have not yet been agreed.
 - c. Confidence that the programme will be robust in its approach to ensuring real, additional, and permanent outcomes.
7. The specific programme or project that will generate mitigation transferred to New Zealand needs to have features that will ensure environmental integrity. These need to be quite specific to different types of programmes in different sectors. For example, for a forestry project the four aspects to be managed are:
 - a. Real and quantified mitigation: Based on accurate, on-the-ground monitoring of forest characteristics over time.
 - b. Additionality: Confidence that we are either:
 - i. Establishing new forest or improving existing forest so that we can quantify new carbon removals against a realistic, conservative baseline, or
 - ii. Protecting forest that is at real, immediate risk of uncontrollable deforestation or degradation. This can be very hard to prove, particularly in developing countries which face socio-economic instabilities.

- c. And, that this action is additional to mitigation which had already been committed to regardless of the host party's NDC strategy, or which would have occurred anyway in the absence of the cooperation.
 - d. Permanence: Forest removals are always at some risk of reversal. We need assurance about how long protection will last, and accountability if there is a reversal event, which may be deliberate deforestation/harvesting, or accidental like fires.
 - e. Emission leakage: Some level of assurance that reductions in one place are not enabling increased emissions somewhere else. If we protect one forest area, do the chainsaws and bulldozers just move on to the next one?
8. The issues of additionality and leakage may become more manageable if we are working on a large enough scale (so leakage has nowhere to go, and additionality can be judged in the light of national policies), and if we are working closely with the partner government (so we understand the governance and context).
 9. New Zealand continues to support global efforts to discourage deforestation and encourage sustainable forest management, including by assisting developing countries to overcome capacity barriers to accessing forestry mitigation related incentives and investments. This support is separate from our work on cooperation towards the NDC, forming part of our climate finance and overseas development assistance commitments.
 10. However, we judge that ensuring environmental integrity for REDD+ projects for use towards NDCs under Article 6 is likely to mean they would not be cost efficient or reliable sources for offshore mitigation towards New Zealand's NDC1.
 11. New afforestation and reforestation were also supported under the Kyoto Protocol by the Clean Development Mechanism, so methodologies were developed in that context. While these will need to be updated to align with the Paris Agreement context, robust outcomes may be easier to achieve for this type of project than for avoided deforestation (REDD+).

Appendix 3: Further information on potential international cooperation options

Table 1: Overview of potential international cooperation options in the Asia-Pacific region

International cooperation options	Impact on emissions	Likely costs	Feasibility, readiness and timing
1. Bilateral links with focus on the Pacific. s 9(2)(j)	Low <1 Mt	Medium Similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Low – Medium Mitigation could be ready around 2023 but as projects largely in idea stage, this date is uncertain.
2. Regional cooperation with s 9(2)(j) for capacity building in ASEAN countries	Medium ~15 Mt	Low to Medium Less than or similar to expected costs in NZ to meet domestic budgets	Low Mitigation likely to become available in phases as countries build capability. Some may become available mid-NDC period, with more/regional market developing towards the end/for the next NDC period.
3. Regional cooperation with partners in Asia s 9(2)(j)	Medium ~15 Mt.	Low to medium Less than or similar to expected costs in NZ to meet domestic budgets	Medium Mitigation could be ready around 2025-27 - mid-late in the NDC period but further engagement needed to confirm.
4. s 9(2)(j)	Medium ~15 Mt.	Medium Similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Medium Mitigation could be ready around 2025-27 - mid-late in the NDC period.
5. Projects to reduce emissions from deforestation and forest degradation in developing countries (REDD+).	Medium– volumes actually available would be medium/low <15 Mt	Low to medium Less than or similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Low Mitigation could be ready around 2025/7 - midway through the NDC period
6. ETS linking- s 9(2)(j)	Very high >30 Mt	s 9(2)(j)	High s 9(2)(j)
7. s 9(2)(j)	Medium ~15 Mt	Low to Medium Less than or similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Medium Mitigation could be ready around 2025-midway through the NDC period

8.	s 9(2)(j)	Medium ~15 Mt	Medium Similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Medium Mitigation issued periodically from early 2020s to-2028.
9.	Article 6.4 mechanism (similar to the Kyoto Protocol's CDM)	High >30 Mt - Could generate significant volume	Low to medium Less than or similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	High Mitigation likely to be available later in NDC period, as is not yet operational
10.	s 9(2)(j)	Medium ~15 Mt	Low to medium Less than or similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Low to medium Mitigation could be ready around 2024, depending on the outcomes of any negotiations s 9(2)(j)
11.	s 9(2)(j)	Low to Medium <15 Mt	Medium Similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Low Mitigation could be ready around 2027 – late into the NDC period
12.	s 9(2)(j)	Medium to High >15 Mt	Low to Medium Less than or similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Medium Programmes are getting private sector investment and building up capacity. Mitigation could be available earlier in NDC period.
13.	MethaneSat Space Mission – NZ works with EDF and partners with countries to identify emission sources and develop mitigation projects. Projects could be used to generate units and potentially a source of revenue	Medium ~15 Mt -unclear. Could generate reasonable volume of units over long term, but the model is unproven and undeveloped.	Medium Similar to expected costs in NZ to meet domestic budgets (but likely lower than to meet NDC domestically)	Low Mitigation may be ready around 2027 – late into the NDC period – but unclear due to novel approach

s 9(2)(j)



s 9(2)(j)



s 9(2)(i)



Appendix 5: Further information about ETS linking and prospective partners

Environmental integrity considerations

- 1 The way that an emissions trading scheme (ETS) or cap-and-trade scheme drives real and additional mitigation is by requiring participants to reduce emissions to meet their obligations and keep overall emissions within the cap. If a cap-and-trade scheme is working as it should, taking units from it through an international link also drives mitigation: somebody exports a unit, and somebody else needs to reduce an additional tonne at the margin so that overall emissions meet the cap.
- 2 This means that there are three broad requirements for integrity:
 - 2.1 The scheme has caps set at a level that will force reductions against business as usual. The caps should be significantly below robust projections of emissions for covered sectors, with allowance for other policy interventions.
 - 2.2 The scheme does not routinely feed new units into the market to replace units that have been exported. For example operation of a price ceiling, like the previous NZ ETS fixed price option, could negate any benefit from linking.
 - 2.3 Technical requirements need to be in place for accurate emission monitoring, reporting, and compliance.
- 3 We cannot expect an ETS to eliminate risks to integrity at all times, because all ETS systems have flexibility measures and operate in a context of complex market dynamics. However, it is important that we are confident that caps drive reductions over time.

4

s 9(2)(i)

s 9(2)(i)

s 9(2)(f)



s 9(2)(i)

