

Policy and Privacy

In-Confidence

Office of the Minister of Climate Change

DEV - Cabinet Economic Development Committee

International Cooperation for Mitigation

Proposal

- 1 This paper seeks decisions ^{to commence} that will ~~enable~~ the development of an International Emissions Reduction Plan. This plan will represent the international component of the Nationally Determined Contribution (NDC) Strategy, which Cabinet is considering on XX June/ July 2023.
- 2 Cabinet decisions are needed now to enable progress toward procuring international emissions reductions to fill the gap between New Zealand's domestic emissions reductions and our Nationally Determined Contribution (NDC1) under the Paris Agreement.

Relation to government priorities

- 3 On 2 December 2020, New Zealand declared a climate emergency, committing to urgent action to reduce greenhouse gas emissions.
- 4 In October 2021, Cabinet updated New Zealand's first Nationally Determined Contribution (NDC1) as part of global efforts to limit global warming to 1.5 degrees Celsius [CAB-21-MIN-0434 refers].
- 5 In May 2022, Cabinet agreed the first two emissions budgets and an emissions reduction plan to meet the domestic target of net zero carbon by 2050 under the Climate Change Response Act 2002 (CCRA).
- 6 In June 2023, Cabinet will consider a strategy to meet NDC1 (NDC Strategy) [CAB-215 refers]. The NDC Strategy uses an adaptive management approach to assess the balance between international and domestic emission reductions over time.
- 7 International cooperation to reduce emissions aligns with the objectives of New Zealand's trade agreements with the United Kingdom and the European Union. These agreements include commitments for both Parties to implement the Paris Agreement.

8 **s 6(b)(i)**

s 6(b)(i)

Executive Summary

- 9 To play our part in the global fight against climate change, New Zealand has set an updated Nationally Determined Contribution aligned with limiting global warming to 1.5 degrees Celsius above pre-industrial levels.
- 10 NDC1 is an estimated 99 MtCO₂-e higher than the domestic emissions reductions that can be realistically achieved through the Emissions Reduction Plan (ERP) and domestic emissions budgets by 2030.
- 11 Cabinet decided in 2021 that Aotearoa New Zealand will continue to prioritise domestic mitigation, but agreed that, under the circumstances, it will be necessary to supplement domestic action through cooperation with other countries. This approach will enable us to contribute our fair share to the global effort, and manage impacts on our people and the economy.
- 12 In xxx 2023, Cabinet will consider a strategy to meet NDC1 and subsequent NDCs (the NDC Strategy). This prioritises domestic emissions reductions and sets an adaptative approach to fill any gaps with international emissions reductions. The more domestic emissions reductions are delivered, the fewer international reductions will be required to meet the NDC. The converse also applies.
- 13 Officials need decisions in order to progress the development of an International Emissions Reduction Plan to give effect to the international element of the NDC strategy. The Plan will guide the procurement and management of a portfolio of international emissions reductions.
- 14 Officials are exploring options for a portfolio of international emissions reductions, including in the Asia-Pacific. s 9(2)(j)

s 9(2)(j)

15 s 9(2)(j)

- 16 I am seeking Cabinet's decisions on three matters. These are:
- 16.1 agreement to an objective to guide development of the International Emissions Reduction Plan and the subsequent procurement and management of a portfolio of international emissions reductions;
 - 16.2 a mandate for officials to progress discussions with developing country governments and other partners;

- 16.3 agreement that the Minister of Climate Change will report back to Cabinet by December 2023, seeking approval for an International Emissions Reduction Plan. Approving the Plan will require decisions on:
- 16.3.1 principles, preferences, and good practice guidance on how we develop and manage a portfolio of international emissions reductions;
 - 16.3.2 s 9(2)(f)(iv) and sourcing international emissions reductions; and
 - 16.3.3 institutional arrangements for the development and management of the international emissions reductions portfolio.
- 16.4 agreement that the report back by the Minister of Climate Change will also seek decisions on potential international emissions reduction opportunities that fit within the plan's objective.

Background

New Zealand's Nationally Determined Contribution 2021-2030 (NDC1)

- 17 In 2021, the Government updated New Zealand's NDC, following advice from the Climate Change Commission, to make it compatible with efforts to limit the increase in global average temperature to 1.5 degrees Celsius above pre-industrial levels under the Paris Agreement.
- 18 In October 2021, Cabinet noted that the NDC1 was set on the basis that it would be achieved through a mix of domestic emission reductions, forestry removals and international cooperation [CAB-21-MIN-0435 refers].
- 19 Cabinet also agreed that the Government's priority is to meet NDC1 through domestic action as much as possible and agreed that international cooperation should complement domestic action.
- 20 I have asked officials to provide advice on additional emissions reductions beyond the first ERP, such as the recent deal with NZ Steel that would achieve reductions estimated at 800,000 tonnes CO₂e. s 9(2)(g)(i)
s 9(2)(g)(i)
- 21 Cabinet agreed that the Minister of Climate Change will oversee the development of a proposed strategic portfolio for international cooperation to access international emissions reductions.
- 22 Cabinet invited me to report back in 2022 on progress made in developing the portfolio.
- 23 In December 2022, Cabinet deferred the report-back with a request that the progress update:

- 23.1 be presented in conjunction with a strategy to achieve NDC1;
 - 23.2 reflect Cabinet's priority for domestic action to reduce emissions;
 - 23.3 show that New Zealand is not alone in using international emissions reductions to meet the NDC;
 - 23.4 provide a comparison between the volume we are seeking with the volumes sought by other countries; and
 - 23.5 include information on avoided deforestation as an option for cooperation.
- 24 In light of Cabinet's consideration of the NDC strategy, I am seeking decisions from Cabinet to enable progress on international cooperation on mitigation.

Analysis

Progress update

- 25 Officials have worked to explore the development of a diverse portfolio of international emission reductions including:
- 25.1 projects directly with prospective partner governments;
 - 25.2 investments in funds administered by multilateral and international non-government institutions, s 6(b)(ii)
 - 25.3 collaboration with carbon market project developers; and
 - 25.4 ETS linking opportunities s 6(a)
s 6(a)

Bilateral Cooperation

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s 9(2)(j), s 6(a)

s 9(2)(j), s 6(a)

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30 Other purchasing countries' experience suggests the necessary government to government engagement will most easily progress when concrete emissions reductions opportunities have been identified. s 9(2)(g)(i)

s 9(2)(g)(i)

31 The process of identifying and developing cooperation activities to a point where New Zealand can commit to purchasing emissions reductions is likely to take several years and require host country governments and project partners to invest substantial time and resources including funding.

32 s 9(2)(j)

33 s 9(2)(j)

34 Host country governments and market intermediaries prioritise cooperation with partners that are ready to enter government to government agreements and to provide technical and financial assistance for development of cooperation activities.

35 s 9(2)(j)

Other forms of cooperation

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s 6(b)(ii)

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As directed by Cabinet in October 2021, officials have also progressed negotiations on ETS linking.

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s 6(a)

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Other countries are also looking at international cooperation on mitigation to meet their NDCs

41 Several countries already have procurement programmes in place for accessing international emission reductions.

42 Approximately 75% of countries globally have indicated they are considering or intending to use international market mechanisms to achieve their NDC or increase their climate ambition. 25% of these countries are already pursuing some form of international cooperation.¹

Environmental integrity and sustainable development

43 Article 6 of the Paris Agreement recognises that Parties' cooperation to achieve their NDCs allows for higher ambition, promotion of sustainable development, and environmental integrity. In alignment with international guidance, Cabinet has indicated a preference for cooperation with sustainable development benefits and that can demonstrate environmental integrity [CAB-21-MIN-0435 refers].

¹ International Emissions Trading Association. [Visualising Article 6 Implementation](#). Retrieved 31 May 2023.

- 44 New Zealand will apply the environmental integrity guidance set out in the Article 6 rulebook under the Paris Agreement and the decisions made at COP-27 in 2022. This means we will ensure international emission reductions are real and additional and are used only when the host country has authorised and accounted for them. The International Emissions Reduction Plan will establish how we do this. Further details are provided in Appendix 2.
- 45 New Zealand's approach to sustainable development will be aligned with the policy statement *International Cooperation for Effective Sustainable Development*, approved by Cabinet (2019), and related quality standards and safeguards for the delivery of international assistance and climate finance.

Avoided deforestation

- 46 s 9(2)(j)
- 47 International climate change efforts include avoided deforestation, which is funded and supported by the UN REDD+² programme and through climate finance.
- 48 Efforts to protect the world's reserves of old-growth forests, rainforests and wilderness is a critical component of the global effort to keep temperature increases below 1.5°C. There are also other social, economic and environmental benefits to avoided deforestation.
- 49 New Zealand could support avoided deforestation using our international climate finance contributions. s 9(2)(j)
- 50 Other forestry actions including afforestation, reforestation and improved forest management have low-cost benefits and can be counted towards NDCs. These will be part of our NDC strategy.

Next steps for international cooperation for mitigation

- 51 To progress work to develop and manage a portfolio of international emissions reductions, I propose to develop and implement an International Emissions Reduction Plan to sit under the NDC Strategy.
- 52 The International Emissions Reduction Plan will include a portfolio objective, principles and preferences that will guide the way the international emissions reductions portfolio is assembled and managed over the first NDC period (2021-2030).

² REDD+ refers to reducing emissions from deforestation and forest degradation in developing countries, also known as avoided deforestation.

53 The plan will include, among other things, criteria for selecting project opportunities (including to ensure environmental integrity), and how risks can be identified and managed (including timing and delivery risks). The Plan will also set out the way sustainable development objectives for partner countries can be supported.

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s 9(2)(f)(iv)

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s 9(2)(b)(ii), s 9(2)(f)(iv)

s 9(2)(b)(ii), s 9(2)(f)(iv)

Cabinet’s direction is needed now on the following matters

63 To progress the development of an International Emissions Reduction Plan, I am seeking the following decisions from Cabinet:

63.1 Agree to a new overarching objective to guide the development of the portfolio, as outlined in paragraph 65.

63.2

s 6(a)

Objective for development and management of the portfolio

64 In December 2019, Cabinet agreed to high-level objectives and principles in New Zealand’s Framework for International Carbon Market Cooperation.³

³ Framework for International Carbon Market Cooperation including principles approved in 2019: <https://environment.govt.nz/assets/publications/International-action/framework-for-international-carbon-markets-cooperation.docx.pdf>. The 2019 principles are: International supply is of high quality – the credits/units are genuine and have environmental integrity; our approach reflects Te Tiriti o Waitangi; our cooperation supports both partners’ transition to low emissions, climate resilient economies; our cooperation aligns with New Zealand’s wider political and economic relationships with

65 I propose the Framework be updated to introduce a new overarching objective:

New Zealand is able to supplement domestic action to meet our current and future NDCs through securing and managing the required volumes of international emissions reductions, that meet New Zealand's requirements for environmental integrity.

66 The International Emissions Reduction Plan will include principles and preferences to guide decision making about the selection of cooperation activities, such as environmental integrity, transparency, and value for money. The principles would also need to be revised to align closely to the Climate Finance Strategy.

Cabinet decisions that will be needed to inform the International Emissions Reduction Plan

67 To continue with the development of the International Emissions Reduction Plan, further analysis is needed on how the portfolio will be developed and managed. This includes revision of the portfolio principles, development of preferences, consideration of how procurement of emissions reductions will be funded, the institutional arrangements, and the resources needed to develop and manage the portfolio.

68 I propose to return to Cabinet by December 2023 with an International Emissions Reduction Plan for approval and options to progress opportunities.

Costs and sources of Funding

69 The costs relating to international cooperation for mitigation are in four areas:

69.1 costs of purchasing international emissions reductions;

69.2 costs for contributing to overall mitigation for global emissions (OMGE) and adaptation finance under Article 6 of the Paris Agreement;⁴

69.3 costs for project development and capacity building with developing country partners (including in the Asia-Pacific region); and

partners; our cooperation is transparent and proportionate; engaging in international carbon markets will not increase the overall cost of the transition to New Zealand; and our international cooperation is consistent with the Climate Change Response (Zero Carbon) Bill, including the role of the Climate Change Commission.

⁴ Article 6 of the Paris Agreement includes provisions for contributions to overall mitigation for global emissions (OMGE) and for adaptation finance. OMGE involves a cancellation of international emissions reductions that would not contribute towards any NDC or other climate change target. They are intended to deliver increased mitigation and are often described as 'a gift to the atmosphere.' Adaptation finance is a contribution to the adaptation needs of developing countries. OMGE and adaptation finance are key expectations in cooperating with developing country partners on Article 6.

69.4 costs to establish and operate new institutional arrangements to administer the portfolio and ongoing operational costs related to portfolio development and management.

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s 9(2)(f)(iv)

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Functions and institutional arrangements

73 The development and management of an international emissions reduction portfolio will require a broad range of activities. The skills and experience to carry out these activities lie across both the public and private sectors.

74 I propose to report back to Cabinet on the options for a formal institutional arrangement that would enable a portfolio of international emission reductions to be developed and managed, and for this to be reflected in the International Emissions Reduction Plan.

Treaty of Waitangi implications

Engagement with Māori

75 Officials are exploring options to engage with Iwi/Māori and with stakeholders after the election, on the way New Zealand will implement international cooperation to meet the NDC1 target. This engagement will feed into the development of the International Emissions Reduction Plan.

Financial Implications

76 There are no financial implications in this paper.

Legislative Implications

77 There are no legislative implications from the decisions in this paper.

Impact Analysis

78 This paper contains no regulatory proposals, hence Cabinet's impact analysis requirements do not apply.

Climate Implications of Policy Assessment

79 This paper contains no regulatory proposals, hence a Climate Implications of Policy Assessment is not required.

Population Implications

80 This paper contains no proposals that will impact on population groups.

Human Rights

81 This paper contains no proposals that will impact on human rights or interactions with New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Departmental comments and consultation

82 [PLACEHOLDER]

Communications

83 Communications on international cooperation for mitigation will be ongoing and will also form part of the engagement on the development of an International Emissions Reduction Plan.

Recommendations

The Minister of Climate Change recommends that the Committee:

NDC Strategy

- 1 **Note** that in December 2022 Cabinet deferred decisions on international cooperation for mitigation until Cabinet had considered a NDC Strategy.
- 2 **Note** Cabinet is scheduled to consider the NDC Strategy on XX June/ July [CAB-215 refers].

International Emissions Reduction Plan

- 3 **Invite** the Minister of Climate Change to report back to Cabinet by December 2023 with an International Emissions Reduction Plan that will guide action to fill the gap between New Zealand's domestic emissions reductions and NDC1.
- 4 **Agree** to the proposed new portfolio objective for international cooperation that will guide the way the International Emissions Reduction Plan is implemented:

New Zealand is able to supplement domestic action to meet our current and future NDCs, through securing and managing the required volumes of international emissions reductions, that meet New Zealand's requirements for environmental integrity.

5 **Note** that the International Emissions Reduction Plan will include principles and preferences to guide decisions about the selection of projects such as ensuring environmental integrity, transparency and value for money.

6 **Invite** the Minister of Climate Change to report back on potential international emissions reduction opportunities that fit within the plan's objectives ^{s 9(2)(f)(iv)}
s 9(2)(f)(iv)

s 9(2)(j)

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s 6(a)

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Environmental integrity

10 **Note** that New Zealand will only consider international emission reductions that meet New Zealand's requirements for environmental integrity and sustainable development, in line with the international guidance set out in the Article 6 rulebook under the Paris Agreement.

s 9(2)(j)

Costs and sources of funding

12 **Note** that the costs for international cooperation include:

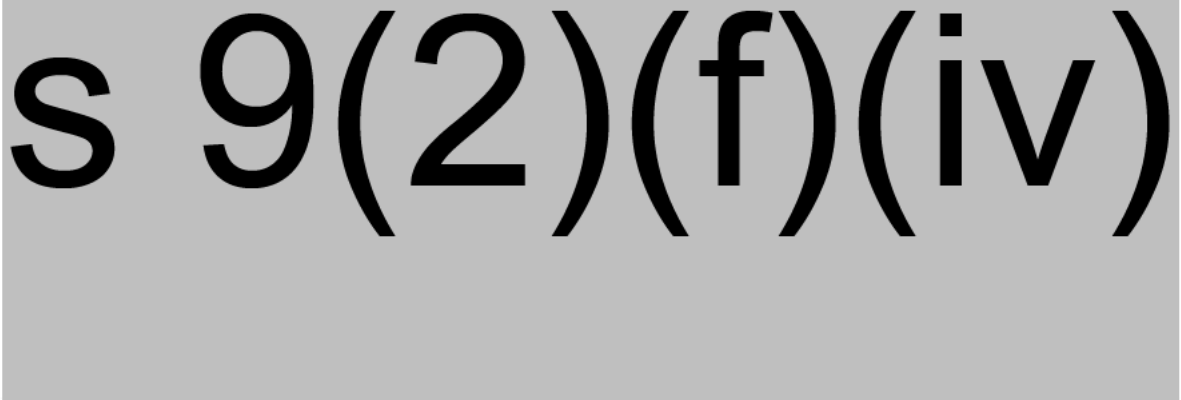
12.1 the costs of purchasing international emissions reductions;

12.2 the costs for contributing to overall mitigation for global emissions and adaptation finance to meet the commitments under Article 6 of the Paris Agreement;

12.3 costs for project development and capacity building with developing country partners (including in the Asia-Pacific region); and

12.4 costs to establish appropriate institutional arrangements to administer and manage the portfolio.

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15 **Direct** officials to undertake further work on the institutional arrangements needed to implement the International Emissions Reduction Plan and for the Minister of Climate Change to report back to Cabinet with options.

Authorised for lodgement

Hon James Shaw

Minister of Climate Change

s 6(a), s 9(2)(b)(ii)

s 6(a)

s 6(a)

s 6(a), s 6(b)(i)

s 6(a)

s 6(a)

s 6(a), s 9(2)(b)(ii)

s 9(2)(b)(ii)

s 6(b)(ii), s 6(a)

s 6(a), s 9(2)(b)(ii)

Appendix 2: *Environmental integrity*

All options for accessing and counting offshore mitigation must demonstrate environmental integrity to meet the requirements of the Paris Agreement. This is a compliance requirement determined by the Paris Agreement itself and mandatory guidance agreed by Parties. It is also a public commitment that New Zealand has made through the San José Principles.

Environmental integrity is a priority in *the Framework for international carbon market cooperation* agreed by Cabinet in 2019 [CAB-19-MIN-0688]. Iwi/Māori and stakeholders have consistently raised environmental integrity as their main concern in any use of offshore mitigation by New Zealand.

Parties to the Paris Agreement agreed on detailed guidance for Article 6 at COP-26 in 2021 – the ‘Article 6 Rulebook’. This guidance was extended by decisions at COP-27 and the requirements to ensure and report on environmental integrity are now clear. Further changes are expected in future to elaborate on the requirements now in place – we can be confident that compliance with the existing rulebook meets the requirements of the Paris Agreement.

To meet these requirements, we need to ensure that the emission reductions are real and additional, and we may only use them when the host country has authorised and accounted for them.

Assurance that an action is real and additional requires funding and implementing identifiable new actions and showing how the emission reductions are quantified and proved. This can be a technical issue and how it is assessed depends on the type of mitigation action and how it is funded. Examples are:

- For ETS linking, the robustness of the partner ETS and its settings determines whether linking contributes provable reductions.
- For projects in partner countries (either developed through a multilateral fund or bilaterally by New Zealand) we will use established methods and project processes. Also, we will ensure that we understand the partner country’s NDC commitments and policies and avoid marginal ‘low hanging fruit’ actions that can be funded in other ways and may not be additional.

The guidance also requires that we assess and report on any risks involving:

- Non-permanence. Actions need to achieve long-term benefits. Reversals, such as loss of forest biomass, need to be avoided or managed.
- Lock-in. We will not invest in ongoing fossil fuel use or other practices that deter more ambitious actions.

Both participating countries will need to account for transfers against their NDCs, and this will be done through a registry system being developed by the UN Climate Change Secretariat. Using this system will ensure that there is no double counting and a buying country like New Zealand has a clear right to any mitigation that it wants to use.

s 9(2)(f)(iv)