

Aide Memoire

To Climate Change Chief Executives Board

Date 21 March 2024

Subject Nationally Determined Contribution – summary of key discussion points and further background ahead of CPMG on 25 March 2024

Purpose

1. This paper summarises key messages from the Board's meeting (13 March) where New Zealand's Nationally Determined Contribution (NDC) and offshore mitigation options were discussed.
2. It includes additional context around New Zealand's NDC commitment, what other countries have committed to, and the proposed approach to meet the NDC - s 9(2)(f)(iv) [REDACTED]. The CPMG will be discussing the s 9(2)(f)(iv) [REDACTED] at its meeting on 25 March 2024.

Nationally Determined Contribution (NDC) Board discussion points

3. The Board noted several key points in determining how New Zealand can intend to meet its NDC1:
 - That NDC1 was set on the understanding that offshore mitigation would be required, and Cabinet was provided with information on the fiscal implications of NDC options at the time it made its decision. Future advice on options for a plan to meet NDC1 also need to have clear fiscals and trade-offs presented.
 - There is a need to ensure 'no stone is left unturned' in exploring the potential domestic mitigation opportunities to meet NDC1 - and prioritising this above international mitigation where cost-effective to do so.
 - s 9(2)(f)(iv) [REDACTED]
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4. New Zealand needs to report to the UN this year on progress made against NDC1 and s 9(2)(g)(i) [REDACTED]. This plan needs to be consistent with the obligation on Parties to the Paris Agreement to intend to achieve the NDC.

Context on the setting of New Zealand's NDC commitment, and offshore mitigation

5. In 2015, New Zealand set an 'intended' Nationally Determined Contribution (INDC) to reduce emissions to 30 per cent below 2005 levels by 2030.
6. In 2016, New Zealand ratified the Paris Agreement - and the use of international markets was provided for, to meet NDCs. For New Zealand, this meant our INDC was converted into NDC1 and access to international markets would play a significant role in meeting NDC1.

7. The Paris Agreement recognises that countries may utilise internationally transferred mitigation outcomes (commonly referred to as ‘offshore mitigation’) when meeting their NDC¹. In other words, NDCs can be met through a combination of domestic action and international purchasing. **Appendix 1** describes ‘what counts’ (and what does not) towards meeting our NDC.
8. COP21 requested Parties to communicate or update their NDCs by 2020 (with many responses delayed by the COVID pandemic). In 2021, the New Zealand Climate Change Commission, following a request by the Minister for Climate Change, advised the Government that New Zealand’s NDC1 was not compatible with the 1.5% C global goal. The Commission recommended that the NDC should “reflect a reduction to net emissions of much more than 36% below 2005 gross levels by 2030”.
9. Cabinet was informed of the Commission’s advice that the current or an updated NDC1 could not be met through domestic climate change action alone, and that international cooperation would be required to meet any target. Cabinet was presented with five potential options to consider which included estimates of the potential costs of offshore abatement required to meet an updated NDC1 (see Table 1 below).
10. Cabinet agreed to option two – an updated to a point year target of a **50 per cent below gross 2005 levels by 2030** (which equates to a 41 per cent net reduction on 2005 gross emissions by 2030).

Table 1: Updated NDC1 options presented to Cabinet, option two (green) was agreed by Cabinet²

Option for NDC1	One	Two (Cabinet agreed)	Three	Four	Five (status quo)
Target	54 per cent below gross 2005 levels by 2030 (45 per cent on a budget approach) (MCC preferred option)	50 per cent below gross 2005 levels by 2030 (41 per cent on a budget approach)	49 per cent below gross 2005 levels by 2030 (40 per cent on a budget approach)	45 per cent below gross 2005 levels by 2030 (36 per cent on a budget approach)	39 per cent below gross 2005 levels by 2030 (30 per cent on a budget approach) (NZ’s current NDC at the time of review)
Cost (overall to meet NDC1)	\$9.3-\$16.3 billion	\$7.9- \$13.8 billion	\$7.5 to \$13.2 billion	\$6 – \$10.6 billion	\$3.9-\$6.8 billion

Our major trading partners: their NDC goal and offshore mitigation work

11. As an advanced country, New Zealand set its target to be consistent with other developed countries:
 - New Zealand and the USA are both targeting **50 per cent below 2005 levels by 2030**
 - The European Union is targeting higher emissions reduction at **55 per cent below 1990 levels by 2030**
 - Australia’s NDC target is **43 per cent below 2005 levels by 2030**.
12. New Zealand’s NDC1 target is not harder to achieve when compared to international counterparts, but our reliance on offshore mitigation is higher due to our unique emissions profile. (Over half of our emissions are from the agriculture sector and there are currently limitations of cost-effective mitigation options for that sector.)
13. New Zealand is not the only country sourcing offshore mitigation. A considerable proportion of countries (77%) in the Paris Agreement, intend to use international cooperation to meet their NDCs,

¹ Paris Agreement, Article 6(1).


² CAB-21-MIN-0434 refers.

as buyers and sellers.³ **Appendix 2** provides further information on how New Zealand's NDC1 compares to other countries, and what other countries are doing through international cooperation.

We are currently not on track to meet NDC1 and cannot deliver all of the gap domestically


14. Current projections indicate that the gap between domestic emissions and NDC1 is between 61-97 Mt CO₂-e, which presents a significant challenge.
15. Domestic action would not cover the full gap, without significant economic disruption including the potential loss of some sectors, such as steel and cement. However, the more we can do domestically the less we need to purchase offshore.

s 9(2)(f)(iv)



³ While buyer countries can cooperate to secure receipt of transferred mitigation, for sellers the opportunity is to attain a share of the return from mitigation activity that would not otherwise occur.

s 9(2)(f)(iv)



Appendix 1: What counts towards meeting our NDC?

1. The Paris Agreement recognises that countries may utilise internationally transferred mitigation outcomes (commonly referred to as 'offshore mitigation') when meeting their NDCs.⁵ NDCs can be met through a combination of domestic action and international purchasing.
2. New Zealand's first NDC takes an economy-wide emissions reduction target, covering all sectors and all greenhouse gases. This allows consideration of a wide range of mitigation and removal activities from all sectors that can contribute towards our NDC.
3. However, Article 6 of the Paris Agreement puts clear responsibilities on participating countries to ensure that any trade of emissions reductions that may be used towards their NDC targets has environmental integrity, is authorised, and accounted for by Parties. These provisions of the Paris Agreement help ensure emissions reductions and removals are real, additional, and permanent.⁶
4. **Performing other obligations under the Paris Agreement, such as increasing our ability to adapt, and the provision of climate finance, capacity building, and technology transfer, does not 'count' towards achievement of New Zealand's NDC1 mitigation target which is focused on emissions reductions.** This means that if New Zealand assists with reducing emissions in another country such action could only count towards our NDC *if* we also purchase the resulting reductions (with appropriate accounting undertaken to ensure there is no double counting of those emissions by two countries (per Article 6 of the Paris Agreement)).

⁵ Paris Agreement, Article 6(1).

⁶ Paris Agreement, Article 6(2).

Appendix 2: Comparison to other countries' NDC target and progress

New Zealand is not the only country sourcing offshore mitigation. A significant portion of countries (77%) in the Paris Agreement intend to use international cooperation to meet their NDCs, as both sellers and buyers. Table 1 provides an overview of some of the countries that have already begun securing partnerships and investing in offshore mitigation projects.

Table 1: Early mover buyer countries

Country	NDC target	Volume offshore	International cooperation approach ⁷	Status
Switzerland	50% below 1990 levels by 2030	Seeking 50Mt	The Klik foundation is a devolved obligation approach where the Swiss Petroleum Association is responsible to source 10% of Swiss emissions.	13 partner countries 18 confirmed projects 1 transfer executed
Singapore	36% below 2005 levels by 2030	No volume specified	Singapore has implemented a fixed carbon tax covering 80% of emissions, 5% of which companies can surrender with offshore mitigation credits.	17 partner countries, no confirmed projects
Japan	46% below 2013 levels by 2030	Seeking 50-100Mt	Japan has established the Joint Crediting Mechanism (JCM), a bespoke carbon markets arrangement which partners with countries and establishes projects that promote Japanese private sector technologies.	The JCM has 24 partner countries.
Republic of Korea	40% below 2018 levels by 2030	Seeking 33.5Mt	Korea has established a pan-ministerial platform to facilitate international emissions reductions projects made up of 6 government agencies. The Korean Energy Agency is the implementing agency and procurer of offshore mitigation.	6 partner countries, no confirmed projects
Australia	43% below 2005 levels by 2030	No current plan for purchasing	The Indo-Pacific Carbon Offsets Scheme (IPCOS) was launched by Australia in November 2021, and while it currently provides finance support to the Pacific to reduce emissions, officials are aware that this is also an opportunity for accessing carbon markets in the region, should Australia need to use them.	IPCOS partners Fiji, Papua New Guinea

⁷ Partnerships and projects as of February 2024