



## Draft NDC Strategy Cabinet paper outline

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Security Level	Policy and Privacy CLASSIFICATION	MfE Priority:	Urgent

	<b>Action sought:</b>	<b>Response by:</b>
Hon James SHAW, Minister of Climate Change	Provide feedback, including oral feedback at a meeting scheduled for 4:45-5:15 pm on Wednesday 22 February	22 February

Actions for Minister's Office Staff	<b>Return</b> the signed report to MfE.
Number of appendices and attachments # 0	No attachments

### Key contacts

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# Draft NDC Strategy Cabinet paper outline

## Key Messages

1. A meeting has been scheduled for 4:45 – 5:15 pm on Wednesday 22 February to discuss how we are progressing the Cabinet paper to set out the Government’s overarching strategy for managing New Zealand’s first NDC, and to seek your feedback and direction.
2. This note outlines our current thinking on the intent and proposed contents of the Cabinet paper and is structured to deal with each of the key points we want to test with you, as follows:
  - a. objective – intended result of taking this paper to Cabinet at this time
  - b. scope – the critical content of the paper and the key issues it needs to address
  - c. framing/structure – how the paper should organise and address the overall challenge of managing the NDC commitment
  - d. strategic approach – how to manage uncertainty and sequence key multi-year decisions over time out to 2030
  - e. type of decisions to be sought in this Cabinet paper now
  - f. process and timeline (including options for seeking Ministerial engagement and buy-in).
3. This meeting will be our first chance to discuss the NDC strategy with you since the Cabinet paper was requested late last year. It is a wide-reaching and complex topic, and there are a number of options for how best to deal with the key points above in finalising the Cabinet paper. We also anticipate you may have other ideas for the paper that we might not have anticipated, or don’t easily fit our outline.
4. Therefore we have not crafted specific recommendations for this briefing at this time. Instead we have raised key questions in the paper, and marked these as they arise.
5. We have taken this approach to enable a free-ranging discussion based on your oral feedback at the meeting. This also will allow for a more iterative process to respond to your oral feedback and any written comments you may provide. We then propose to provide a draft Cabinet paper, and use that to reflect and confirm your direction from the meeting.

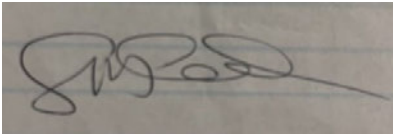
## Recommendations

We recommend that you:

- a. **Meet** officials on Wednesday 22 February at 4:45pm to provide feedback on this briefing and direction on the intent and contents of the NDC strategy Cabinet paper.

Yes/No

## Signature

Simon Mandal-Johnson Manager <b>Climate Strategy</b>	
Hon James SHAW, Minister of Climate Change	
Date	

## Purpose

6. This briefing provides an outline of a proposed Cabinet paper on a strategy for meeting New Zealand's Nationally Determined Contribution (NDC) and seeks your feedback on contents and potential Cabinet decisions.

## Context

7. On 26 October 2021, Cabinet agreed to update Aotearoa New Zealand's NDC to reduce emissions by 50 percent below gross 2005 levels by 2030, equating to a provisional emissions budget for 2021-2030 of 571 Mt CO<sub>2</sub>e (CAB-21-MIN-0434).
8. At the time Cabinet noted the Climate Change Commission's advice that to meet the former, and any updated NDC, would require international cooperation. Cabinet also agreed to complement domestic action with international cooperation to access offshore mitigation.
9. Since then, officials have made progress to identify offshore mitigation options, including bilateral cooperation opportunities in the Asia-Pacific region and linking with other carbon markets. 9(2)(j)
10. In November 2022, you took a paper to Cabinet to seek this mandate and provide a progress update on international cooperation. You sought Cabinet agreement to authorise officials to progress discussions on carbon market cooperation with developing countries and signal New Zealand's intentions to purchase emissions reductions to meet its NDC. Cabinet decided to defer consideration of the decisions set out in this paper (CAB-22-MIN-500).
11. In order to progress decisions on international cooperation, officials are now preparing a Cabinet paper that will set out a broader strategy for meeting New Zealand's first NDC.

## Analysis and advice

12. This note is structured to deal with a number of key points we wish to test with you, as follows:
  - a. objective – intended result of taking this paper to Cabinet at this time
  - b. scope, – the critical content of the paper and the key issues it needs to address
  - c. framing/structure, – how the paper should organise and address the overall challenge of managing the NDC commitment
  - d. strategic approach – how to manage uncertainty and sequence key multi-year decisions over time out to 2030
  - e. type of decisions to be sought in this Cabinet paper now

- f. process and timeline (including options for seeking Ministerial engagement and buy-in).

13. In doing so, we have highlighted (in boxed text like this) a number of specific issues, suggestions and key questions that invite your feedback.

### *Objective*

- 14. This Cabinet paper report-back originated in November 2022, when Ministers deferred consideration of a paper on *International Cooperation to Reduce Emissions and Complement Domestic Action*.
- 15. That paper sought agreement to start building a portfolio of international mitigation opportunities through direct international engagement. It therefore sought a mandate for officials to:
  - a. signal New Zealand's intention to start obtaining offshore emissions reductions commencing in 2024, and
  - b. explore all timing and volume options available for accessing international mitigation.
- 16. The focus of the paper deferred in November was squarely on progressing the next steps for accessing international mitigation. Therefore the paper did not emphasise the wider context of the Government's overall approach to managing the NDC commitment. It did not elaborate on the Government's stated preference for domestic action. Nor did it explain how options for expanded domestic action would be developed and assessed to ensure that these could be progressed ahead of overseas purchases wherever that would be in New Zealand's best interest.
- 17. We therefore understand the objective of preparing an NDC Strategy Cabinet paper at this time is to satisfy Ministers that this wider NDC context is clear and the preference for domestic action is being taken fully into account, so that the paper to mandate the international mitigation work can progress.

18. We are seeking your confirmation that unblocking the international mitigation work is the main intended result of taking the NDC strategy paper to Cabinet at this time, as this has implications for how the paper is developed and framed.

19. One immediate implication we see is that the paper will therefore need to ensure that previous consideration and past decisions related to the NDC are clearly and comprehensively laid out, including repeating and summarising previous advice that has already been noted and/or agreed to a greater extent than would be normal in a Cabinet decision paper.

## Scope

20. We propose that the NDC strategy paper needs to emphasise the fundamental challenge of meeting the NDC commitment in a way that:

- a. maximises New Zealand's overall interests, taking a broad economics and wellbeing perspective
- b. is distributionally fair and contributes to an equitable climate change transition.

21. Many high-level policy decisions around the NDC have already been made and clearly communicated, for example recognising the unavoidable need for both domestic and international action to meet the level of ambition and international responsibility New Zealand has committed to. However, the challenge and potential high cost of meeting the NDC commitment is an ongoing concern. 9(2)(g)(i)

22. Public release of the first CEFA before the end of February (tbc) will again bring the size and potential economic cost of the NDC ambition into sharp focus.

23. We suggest the NDC strategy Cabinet paper therefore needs to:

- a. Ensure a clear understanding and thorough appreciation of the size of the challenge of New Zealand's NDC and the major implications, such as the need to:
  - i. both greatly expand domestic action and also acquire large amounts of overseas mitigation
  - ii. recognise that we are already over 2 years in to the 10 year NDC period, and there is already a significant shortfall in meeting the commitment
  - iii. "show as we go", ie. the requirement to demonstrate progress and regularly report this for international scrutiny, beginning in 2024.
- b. Recognise and deal with significant uncertainty about key elements, eg:
  - i. wider macro-economic fundamentals
  - ii. the amount of emissions reductions that can be achieved through domestic mitigation (under current plans or with enhanced government action/investment)
  - iii. the price/cost of offshore mitigation options and New Zealand's ability to access them as needed
  - iv. the extent and timing of forest planting and deforestation
  - v. the realistic potential for other forms of carbon removal.

- c. Clarify how the range of options needed will be identified, developed, assessed, decided and implemented over time. This would provide Ministers some assurance and increase public confidence that the NDC can still be met with manageable economic consequences.
- d. Seek a clear understanding that a relatively high level of ongoing Ministerial engagement will be needed over time. This will be needed to adaptively manage the optimal balance of the options in light of ongoing assessments over relative costs and how these should be distributed.
- e. Establish that the immediate emphasis needs to be on making rapid early progress with a focus on 'no regrets'<sup>1</sup> initial actions across a range of fronts because:

- i. this is needed to start addressing the shortfall out to 2030 before it becomes insurmountable, and in particular to ensure that ICM opportunities currently on the table do not disappear
- ii. early progress can be made without finally committing any very large long term expenditure or finally determining the ultimate costs or who pays
- iii. we do not yet have all the information needed to optimise the final set of NDC actions out to 2030, and it will take 2-3 years of concerted effort to reach this point. For example we do not have an ongoing systematic 'pipeline' process in place to continue to identify possibilities for new and additional options and develop these to be decision-ready proposals (although the Climate Innovation Platforms and sector strategies under the ERP go some way to address this).

24. Further to the final point e.iii above, we note that in 2024 there will be significant new reports and advice from the Climate Change Commission on the net zero target and emissions budgets, and the next emissions reduction plan will be finalised.

25. This points to 2025 as being the earliest that government can take a full assessment of initial progress towards the NDC and make any mid-course correction needed. In 2025 New Zealand is also expected to submit its second NDC. The Paris Agreement provides that successive NDCs will represent a progression compared to the previous NDC and reflect each country's highest possible ambition.

26. We therefore suggest a strong focus of this Cabinet paper should be on:

- a. enabling critical actions to progress on a 'no delay, no regrets' basis and

<sup>1</sup> The term 'no regrets' is used here to mean a low and fully acceptable risk of regret, in the context of taking a risk limitation/opportunity maximising approach via a portfolio of actions, and taking actions with a strong rationale, low cost and/or high potential pay off as they become available.

- b. not attempting to pre-empt or anticipate trade-offs and decisions that are not necessary to make now and would be best sequenced over the next 2-3 years.

### *Framing and structure*

27. Even before it was updated in 2021, New Zealand's NDC was clearly stated as a commitment to a mix of ambitious domestic action and additional mitigation sourced internationally, as both would be necessary to meet it.

28. When the NDC was enhanced in 2021, Cabinet reconfirmed the Government's priority to meet the NDC as much as possible through domestic action, in support of the transition to a low-emissions climate-resilient future. Cabinet also agreed to complement domestic action with international cooperation to access offshore mitigation, taking a portfolio approach that focuses on sustainable development.

29. We therefore suggest framing the Cabinet paper in a way that builds the portfolio approach and gives more focus to domestic action. We propose breaking the challenge down by addressing the four key components in turn:

- a. **Established domestic action** to meet the emissions budgets through the emissions reduction plan(s). This is already ambitious and in many areas a ground-breaking programme. It needs continued focus and determined implementation to achieve its emissions reduction potential. This amounts to about a third of the NDC task.

We suggest reconfirming the importance and priority of delivering the emissions budgets through the ERP can be a relatively short but still very important section of the Cabinet paper.

- b. **Additional domestic action**, ie. significant new government initiatives and/or investments that go well above and beyond what is currently required to meet the domestic emissions budgets. Finding and exploring options for significant additional domestic action is needed to test both the Government's stated priority for domestic action, and also to ensure that any expenditure on offshore mitigation represents value for money compared to investing into domestic initiatives.

We suggest the Cabinet paper will need to spend some time explaining and articulating a coherent strategy for firstly identifying and then developing and assessing significant new additional domestic options. Some key issues are discussed further below.

- c. **International cooperation** is currently the default option for up to two thirds of the NDC task. Availability and price are both still highly uncertain. Securing high integrity international mitigation to contribute to the NDC requires its own portfolio and strategy approach, and needs to start urgently.



We suggest this only needs a light touch in this Cabinet paper, as the more detailed paper on building the international mitigation portfolio is on track to be considered following decisions on the NDC strategy. It may be useful to seek an in principle decision to commit the initial fiscal outlay needed to enable pilot purchasing etc.

- d. **Domestic sequestration/removals:** We suggest treating this as a separate category, although there could be overlap as new options are developed for the additional domestic action category. The current contributions to NDC sequestration come almost entirely from forestry, and due to the time lags in afforestation and forest growth, these are mainly already fixed for NDC1.

However, ongoing incentives and the implications of policy settings that are being determined now are critical for NDC2, because of the long investment horizons and lag times involved. This will also therefore likely be a relatively significant section of the Cabinet paper. Some key issues and ideas are discussed further below.

30. The Cabinet paper could then provide more detailed analysis and advice on each of the four main categories. For example, this could include:

- a. clarifying the baselines and starting points, ie. what was agreed to when the NDC was set and subsequently enhanced, and what was known at the time
- b. updating to the current situation, i.e. where do we think subsequent decisions/actions have got us (in terms of the potential to contribute further to the NDC shortfall)
- c. risks and risk management – identifying thresholds and triggers for what can be agreed to progress now, versus what will need to come back to Cabinet.

31. We anticipate Ministers and their advisers will be looking for a particular focus on the relative costs and benefits of progressing the potential in the four main categories, and in particular the trade-off involved in investing in new opportunities domestically versus expenditure overseas.

32. **We suggest the paper can certainly address these critical questions, but in most cases not provide decision-ready answers**, due to the high levels of uncertainty and the need for further work and careful assessments to be undertaken. This issue is dealt with in the section on *Strategic Approach* further below, including suggesting an explicit adaptive management approach to deal with it.

*Key issues relating to additional domestic action – further discussion*

33. The established domestic mitigation arrangements under the CCRA (for setting emissions budgets and developing and implementing successive emissions reduction plans over time to meet them) already provide a process for finding new options over time to meet or exceed emissions budgets. Building and maintaining a buffer against the risk of any

element under-performing requires ongoing identification of new options. Deliberately developmental elements of the ERP (such as the energy strategy) also provides a mechanism to identify and develop significant new and additional mitigation actions.

34. This played out already between the time Cabinet considered the enhanced NDC in 2021 and finalised the emissions reduction plan in 2022. In addition to work on policies and proposals expected to be included in the first emissions reduction plan, officials also identified a broad range of early proposals for other domestic emissions reduction initiatives. At the time Cabinet directed officials to undertake a process to narrow the list of proposals for domestic initiatives aligned with the emissions reduction plan and budget processes. The pathway to consider and develop these proposals further was subsequently built into the emissions reduction plan and the CERF budget round.
35. More new options can continue to be developed, built up and implemented through emissions reduction plans, for example through ongoing work on the energy strategy and the climate innovation platforms. These components of the emissions reduction plan were reconfigured to enable this in response to the initial exploration of significant additional domestic opportunities in 2021.
36. Any new options for additional domestic action to make even more significant in-roads into the NDC shortfall would of necessity involve some fairly radical and disruptive departures beyond the established domestic transition pathway. These would be “big calls” and would likely involve a significant government stake in major technology and infrastructure investment and/or major departures in industry policy with respect to the small number of very large emissions intensive plants. Serious options will need time and effort to develop to the point where the full and wider costs and benefits can be clarified and realistically compared to acquiring international mitigation.
37. There are also historical lessons about the risks and social licence implications of governments driving through these sorts of “think big” projects. There are also successful examples, both domestically and internationally, but there are no simple solutions.
38. There are some major low-emissions technology upgrade investments already being contemplated in New Zealand. These examples reveal a general challenge of low-emissions options that appear to be economically feasible with a positive NPV from a national resource perspective but face a private investment hurdle as they do not generate the required commercial rate of return on capital and/or are not the most profitable option.
39. This suggests further careful work is also required to articulate the appropriate mix of public and private funding, and the role of non-funding levers to overcome investment barriers across climate policy, including for contributions to the NDC. It will be important to avoid crowding out private capital, and manage the risk of any expectations that taxpayer funding will be the first source of finance for major domestic low-emissions investments. As clearly set out in the emissions reduction plan, the public and private sectors need to work together to provide the funding and financing that will be needed to reduce our emissions.

*Key issues relating to domestic sequestration and carbon removals – further discussion*

40. There are a number of related policy decisions that are currently being progressed, which will impact how sequestration might fit into the Government's climate and land use policy framework.
41. We are increasingly aware of some potential tensions between these workstreams. For example, the option set for the ETS review includes separating the market instruments to incentivise forestry from incentives for emission reductions, as a potential solution to the gross versus net issue and the potentially adverse environmental and social consequences of significant pine forest expansion. Whereas the He Waka Eke Noa sequestration strategy announcement has potentially created an expectation that additional sequestration categories could and should be brought into the ETS as it currently operates, alongside forestry.
42. Officials are undertaking a piece of work which considers how additional sequestration could be incentivised across the current and future climate and land use markets while also achieving a range of other outcomes including enhancing biodiversity, improving climate resilience, increasing innovation, and prioritising gross emissions reductions. This is being advanced with urgency in order to inform policy decisions around the ETS review and agriculture pricing. For the purposes of the NDC strategy, it is sufficient to note that additional sequestration is unlikely to play a significant role in delivering NDC1 (for the reasons noted above at paragraph 28.d). Any additional significant domestic intervention would need to come from the new policy interventions outlined at paragraph 34 above.
43. Another contentious issue relates to the different ways that the GHG Inventory, the NDC target accounting system and the ETS treat the LULUCF sector. This creates confusion over distinctions like net/net and gross/net accounting when assessing progress against targets and ultimately draws into question New Zealand's consistency with the 'economy-wide absolute emissions reductions' i.e. all sources and sinks, as required under the Paris Agreement and the CCRA.
44. It could be useful for this paper to set a longer term strategic goal of fully accounting for the LULUCF sector in subsequent NDCs and steadily bringing all valid forms of carbon removal into New Zealand's GHG Inventory and NDC target accounting systems as the science evolves and technology develops. This would align international target accounting with our domestic net-zero goal as we advance closer towards the 2050 net-zero target and means we will be able to account for all sources and all sinks of long-lived greenhouse gases on a net/net basis.
45. While in principle this approach could be expanded to deal with any major developments in ocean sequestration and non-nature based Carbon Capture and Storage (CCS) over time, the main focus for the foreseeable future in New Zealand is improving the net balance of emissions and removals in the LULUCF sector.
46. It is also important to note that New Zealand's non-forest land uses are currently an increasing net source of emissions. While our understanding of the land carbon balance

in these land uses and how to manage that will improve over time, the near-term focus for these land uses will be on reducing emissions first.

47. However, any such long term direction for comprehensive LULUCF accounting should not become an obstacle to progress. We suggest applying the same general strategic approach of enabling critical actions to progress on a 'no delay, no regrets' basis in the meantime. There is a high likelihood that progress on methodological improvements would be relatively slow and measured. It will be important that this does not prevent initiatives that can secure additional carbon sequestration (or removal) where this can be validated to a reasonably high standard of integrity and additionality on a project by project basis in advance of full inclusion in the Inventory or NDC target accounting. This flexibility will likely prove essential to enable sensible progress to be made on CNGP off-setting, VCM development and HWEN sequestration incentives.

### *Strategic approach*

48. Having clarified the four main categories of NDC actions as set out in the previous section, we suggest the paper then needs to lay out a strategic approach for right-sizing and balancing the 'portfolio' over time. For example ensuring that:

- a. there is a mandate and pathway for making necessary progress in each category, including potentially setting thresholds and/or triggers for coming back to Cabinet eg. to secure seed funding through CERF, or confirm consistency of actions with a 'no delay, no regrets' approach.
- b. Ongoing, periodic and scheduled decisions are taken to balance the effort between the categories, both in terms of resourcing and prioritising ongoing development work and resources, and in terms of anticipated mitigation outcomes. Preparatory work to inform these periodic decisions needs to be effectively managed with appropriate Cabinet mandates over time (with reference to ongoing assessments of relative costs and who pays).

49. This could lead to articulating some clear lines of strategy along the following lines (presented here as possibilities for discussion, not as firm proposals):

- a. International abatement will be necessary under all options:

- i. We need to do this effectively and efficiently.
- ii. There will be competition from other countries, and early mover advantage (including spreading portfolio timing risk between early and later purchase).
- iii. Therefore we need to move with haste to secure some initial pilot international options (as 'proof of concept' and to build New Zealand's capability and credentials as an active player).

b. We need to ensure that the mix of international and domestic effort considers overall value to all New Zealanders:

- i. This requires careful ongoing assessment of opportunities and risks of directing funds to international mitigation (including wider international strategic issues on climate change, development assistance, trade rules, biodiversity etc.).
- ii. It also requires careful ongoing assessment of opportunities and risks of re-directing international funds domestically.

50. As discussed at paragraph 21.b above, this strategic approach will also need to recognise and deal with significant uncertainty about several key elements, notably:

- a. wider macro-economic fundamentals that can have a much greater impact on emissions and emissions reductions than specific government interventions
- b. the amount of emissions reductions that can be achieved through domestic mitigation (under current plans or with enhanced government action/investment)
- c. the price/cost of offshore mitigation options and New Zealand's ability to access them as needed
- d. the extent and timing of forest planting and deforestation
- e. the realistic potential for other forms of carbon removal and the speed with which measurement, verification and accounting methodologies can be expanded to accommodate them.

51. The Cabinet paper could seek to shift thinking about the NDC and decision-making norms to better deal with the inherent complexity and uncertainty. It could build on past Cabinet advice on setting the emissions budgets and the first emissions reduction plan, and make a renewed case for a dynamic adaptive approach.

52. Taking a dynamic adaptive approach means careful sequencing of decision-making so that the options are sufficiently well-specified and the information needed to assess them is sufficiently well-developed. It also requires active monitoring of progress and reviewing/revisiting direction-setting and decision-making over time.

53. Some key adaptive management elements include:

- a. establishing regular monitoring and reporting to clarify current settings and what they can contribute – recognising wide error/uncertainty margins
- b. agreeing critical next step immediate actions (eg. ICM decisions, determined implementation of ERP1)
- c. clear processes, accountabilities and timeframes for developing serious options to enhance domestic action

- d. clear processes, accountabilities and timeframes for building the evidence base and analytical toolkit that will be needed to make choices on how hard and when to push the different options (balancing the portfolio)
- e. progress tracking and reporting: regular/ongoing (through IEB and CRMG); CEFA updates; international reporting
- f. identification of time frames and trigger points for sequencing key decisions over a number of years
- g. mechanisms to ensure coherence and integration of inter-dependent policy processes and decisions over time.

54. The Cabinet paper could potentially get a bit more specific about what this might mean in practice, for example:

- a. Clarify a small number of key future trigger points where meaningful choices can be made about domestic investment versus international cooperation, eg. because of necessary information not being available before then and/or based on progress milestones in international access/projects portfolio development. (A key initial trigger would likely be at least 2-3 years out and aligned with future CERF Budget timing.)
- b. Continue identifying and developing 'big call' additional domestic ideas with a view to be decision-ready at one or more of the future trigger points. (This does not preclude interim update reports to Ministers on progress and key issues requiring Cabinet consideration along the way. This is intended to remove barriers and ensure priority and resourcing for developing proposals for significant additional domestic action, but not in a way that triggers premature decisions or actions.
- c. Be disciplined about not 'end-gaining' ie. not seeking to make decisions to finally decide and invest in 'big call' alternative ideas before 1) the time is right and 2) they are ready for decisions to commit to them.

### *Type of decisions that could be sought in this Cabinet paper*

- 55. In our engagement to date with other key climate change policy agencies we have been presenting the content discussed above (ie. to this point in the briefing). We have also prepared and shared some very initial indicative draft recommendations.
- 56. These have been floated purely for illustrative purposes to prompt discussions about scope and coverage of the paper from the 'so what' end of the pipe, for those who prefer to think in terms of decisions rather than the top-down conceptual framing.
- 57. We have been making it clear that they are not intended to be firm proposals or positions at this stage. Still, there has been some adverse reaction that it is too early to start drafting even illustrative recommendations with this degree of specificity. There could potentially be significant implications for other workstreams, conflicting priorities and resources.

58. Our indicative recommendations cover the following topics:

- a. Restate and confirm the nature and implications of New Zealand's NDC commitment. For example:
  - i. **note** and/or **reconfirm** previous decisions and understandings reached when setting and enhancing the NDC commitment
  - ii. **note** the expected contributions to NDC (domestic and international) and cost estimates etc. from when the NDC was set and **note** the updated estimates from the CEFA
  - iii. **note** that the NDC commitment includes an international transparency and reporting element, ie. the requirement to "show as we go" and demonstrate progress and regularly report this for international scrutiny, beginning in 2024.
  - iv. **note** that we are already over 2 years in to the 10 year NDC period, and there is already a significant shortfall in meeting the commitment
  - v. **note** that regardless of whether New Zealand will be able to undertake the necessary domestic action or access sufficient international mitigation to achieve its NDC goal, the imperative is to make all possible efforts to do so from the outset and report this progress internationally
  - vi. **agree** a broad "no delay, no/low regrets" approach to advancing efforts to meet all aspects of the NDC commitment
- b. Clarifying the practical steps for taking an adaptive management approach (for example along the lines set out in paragraph 51 above. For example:
  - i. **agree** the need to manage significant ongoing uncertainty about key elements, such as wider macro-economic fundamentals, potential emissions reductions through domestic mitigation, and availability and cost of offshore mitigation options

#### *Timeframes*

- ii. **agree** a phased multi-year sequence of work programmes and report backs for dealing with NDC related issues

#### *Critical immediate actions – 2023*

- iii. **agree** that the work programme to develop portfolio of international abatement opportunities and options is an urgent priority
- iv. **agree** to start acquiring/purchasing some international abatement as part of portfolio development (within reviewable limits)

- v. **reconfirm** previous Cabinet directives that the emissions reduction plan must be closely monitored and tightly managed to ensure it delivers
- vi. **reconfirm** previous Cabinet directives that the CC IEB is the mechanism to ensure that any corrective action needed to keep the emissions reduction plan on track is taken with high priority and urgency
- vii. **note** other relevant policy processes (ETS review, HWEN sequestration strategy, etc.) that will be reporting back over next 12 months

59. Potential focus on processes, accountabilities and timeframes for developing serious options to enhance domestic action – 2023-2025, eg:

- i. **agree** to take a focused (taskforce?) approach to identify and investigate opportunities for significant emissions reductions in major EITE plants and develop a comprehensive EITE policy (building on current work eg.
  - cross-government decarbonisation support structure for proposals from large industrial emitters
  - IRD/TSY carbon leakage project
  - ERP action 11.4.2 ie. the BAU approach to addressing single firm hard-to-abate industries

60. **agree** to report-back with a 2-3 year timetable for the EITE taskforce to develop a comprehensive emissions intensive industry policy and/or a schedule of detailed business cases (including wider assessment of net benefit to NZ Inc and international trade and emissions leakage implications) to enable a rolling series of specific negotiations and/or decisions

- i. **agree** that the relevant strategies being developed under ERP1, ie energy (incl. hydrogen strategy, gas transition etc.), bioeconomy (incl bioenergy), circular economy, etc. must all report back by say mid 2024 with specific options for enhanced domestic action to contribute to the NDC
- ii. **agree** that the Climate Innovation Platforms (CIP) being developed under ERP1 must all report back by say mid 2024 with any early likely candidate specific options for significant enhanced domestic action to contribute to the NDC
- iii. **agree** that development of ERP2 **in 2024** following the Climate Change Commission's advice and 12 more months of ERP1 implementation is the right timeframe and vehicle for deciding whether to progress (and fund) options from ERP1 strategies or CIP or other enhanced measures to achieve or exceed the second emissions budget



b. *Progress tracking and reporting*

- i. **note** that regular (annual?) Climate Economic and Fiscal Assessments (CEFA) and UNFCCC Biennial Reports are the formal transparency mechanisms for reporting NDC progress and implications to domestic and international audiences respectively
- ii. **agree** that officials should develop and build into existing monitoring processes a more regular NDC progress and outlook dashboard (including eg. offshore mitigation secured and accumulated shortfall YTD) and report regularly to IEB/CRMG
- iii. **agree** that this must address the latency (lag) of information and be designed to enable corrective action
- iv. **agree** a report back on development of the monitoring tool, and how it will be used by 1) officials and 2) Ministers

c. *Mid-course assessment in 2025*

- i. **note** that Climate Commission will provide advice on 2050 targets and emissions budget for 2036-2040 and international shipping/aviation by 31 December 2024
- ii. **agree** to start now a serious 2-3 year work programme preparing for the assessment and submission of NZ's second NDC by end of 2025.

61. We have received some understandable feedback from agencies that this set of indicative recommendations are too detailed and prescriptive, and imply a strategic coherence across the system that agencies and the CC IEB are still working towards. It has been suggested a higher level approach might be preferable for Ministers, for example a stronger assertion of the need for actions towards meeting the NDC to meet a national interest/value for money test.
62. There are also concerns that there should perhaps be more recognition of elements in the current ERP that have either been discontinued or are now at some risk of delay. In other words there is a question of timing and alignment with the CC IEB's six-monthly reporting and advisory role. (As we draft the paper, we will work with the IEB to ensure alignment over assessments and reporting about the progress being made towards the delivery of ERP1, including potential risks to successful delivery.)

### *Timing*

63. You indicated in your responses to BRF-2672 (International Cooperation on Mitigation-Update 6(a) ) that the next ICM progress report Cabinet Paper would be sequenced after the NDC strategy paper, whereas the expectation created in November 2022 when the ICM paper was deferred was that they would go up together.

64. The ICM team are currently aiming for their paper to go to Committee in mid-May. The Parliamentary schedule for April includes the Easter break and a sizeable recess. The available DEV committee dates are 5 April, 3 May and 10 May 2023. We could be ready to lodge this paper for any of those meetings. The advantage of the early May dates is that it would allow more time to refine the contents, and the Parliamentary recess would create space for further consultation and engagement with key Ministers
65. There is a trade-off between how deeply and comprehensively a single Cabinet paper can deal with all the components of an NDC strategy, how smooth its path is through Cabinet committee, and how early it is delivered. We seek your feedback on the right trade-off between these goals.
66. We would like to discuss and confirm your intentions over when the paper should go to Cabinet, especially in the light of recent national emergency events and other strategic prioritisation discussions.
67. We would also like to discuss your intentions for seeking Ministerial engagement and buy-in before the paper goes to Cabinet (ie. in addition to the standard two week period of Ministerial consultation).
68. In particular we are seeking your direction on how to proceed following recent discussions between your office and the Minister of Finance's office over the extent to which you envisage taking a joint approach to bringing the NDC strategy paper to Cabinet.