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**Office of the Minister of Climate Change DEV - Cabinet
Economic Development Committee**

NDC Strategy

Proposal

- 1 This paper lays out a strategy that helps government balance the contribution of domestic and offshore mitigation to meet our nationally determined contribution (NDC) under the Paris Agreement. It proposes the strategy at Appendix 1 be published and made publicly available in July, subject to final formatting and design.
- 2 The paper details how the strategy will work in practice. This includes how the government will operationalise its priority for domestic action to meet the NDC, and how this will be supplemented with international cooperation. It also details how we will adapt the approach over time as domestic action is scaled up and the need for offshore mitigation decreases.
- 3 The paper also seeks agreement to progress further policy work needed to enable implementation of the strategy.

Relation to government priorities

- 4 The Government declared a climate change emergency on 2 December 2020. The Cabinet Business Committee (CBC) agreed 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].
- 5 Meeting our Paris Agreement NDC is critical to upholding the Government’s commitment to ambitious climate action and is in keeping with the declaration of climate emergency. The proposals in this paper are our strategy for achieving this.

Executive Summary

- 6 NDCs are at the heart of the Paris Agreement and the achievement of the 1.5°C long-term temperature goal. On 26 October 2021, Cabinet agreed to update Aotearoa New Zealand’s first NDC (NDC1) to reduce net emissions by 50 percent below gross 2005 levels by 2030 [CAB-21-MIN-0434].
- 7 Our NDC1 is substantially more ambitious than the domestic emissions budgets we have set for the same period (2021-2030) under the Climate Change Response Act. There is an estimated 99 MtCO₂-e of additional abatement needed to meet the NDC over and above achievement of our first two domestic emissions budgets.

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- 8 The difference between the NDC and domestic emissions budgets exists because the Paris Agreement recognises that countries can pursue voluntary cooperation in the implementation of their NDCs to allow for higher ambition in their mitigation actions.
- 9 At the time of updating our NDC1, Cabinet also:
- 9.1 noted that the government's priority is to meet NDC1 through domestic action as much as possible to support New Zealand's transition to a lowemissions climate-resilient future [CAB-21-MIN-0435]
- 9.2 agreed to complement domestic action with international cooperation to access offshore mitigation, taking a portfolio approach that focuses on sustainable development [CAB-21-MIN-0434].
- 10 The system of emissions reduction plans (ERPs) established under the Climate Change Response Act 2002 (CCRA) is how New Zealand meets emissions budgets and is the main vehicle to reduce domestic emissions. ERPs are how we can deliver domestic action towards meeting the NDC.
- 11 Meeting more of our NDC1 through domestic action will require getting fully on track with our actions under the first emissions reduction plan (ERP1). It also requires doing much more through the second emissions reduction plan (ERP2), to reduce emissions beyond the domestic emissions budgets for the period 2021-2030.
- 12 The scale of emissions reductions needed to meet NDC1 means that even in the most optimistic scenarios of domestic delivery, international cooperation will still be needed to supplement domestic action.
- 13 The right balance of domestic action and international cooperation for meeting NDC1 depends on several factors which are expected to change over time. It is not possible to determine upfront the exact combination of domestic action and international cooperation that will be required throughout the period. This is why a strategy that is adaptive to change is needed.
- 14 I am proposing an NDC strategy (Appendix 1) which gives effect to the Government's stated priority for domestic action and uses an adaptive management approach to facilitate decision-making on the policy balance over time.
- 15 This paper details how the strategy will work in practice. This includes:
- 15.1 priority given to domestic action through determined implementation of ERP1 and additional domestic action through ERP2, including some indicative examples
- 15.2 international cooperation to complement domestic action, primarily for NDC1, s 9(2)(f)(iv)

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- 15.3 an illustrative view of what future NDCs could look like, consistent with 1.5°C and our legislated net zero target for 2050, showing that the need for international cooperation has the potential to decrease over time as New Zealand takes additional domestic action
 - 15.4 an adaptive management approach that sets a 'Dynamic Pathway' for assessing the appropriate mix of domestic and offshore mitigation over time, through two-yearly monitoring and reporting cycles which provide critical decision points where adjustments may be made
 - 15.5 a view of further cross-government work needed to enable implementation of the NDC strategy, including funding options and institutional arrangements for monitoring progress and overseeing the Dynamic Pathway.
- 16 I propose that the NDC strategy at Appendix 1 be published and made publicly available in July, pending formatting and design.

Background

- 17 The impacts of climate change, including extreme weather events, such as cyclones, flooding and drought, have already begun severely impacting people and property in New Zealand. It is in New Zealand's interest, as well as the interests of our Pacific neighbours, to limit global warming to 1.5°C to minimise the worst impacts of climate change.
- 18 The Intergovernmental Panel on Climate Change (IPCC) has stated unequivocally that limiting global warming to 1.5°C requires global net zero emissions by mid-century.
- 19 Nationally Determined Contributions (NDCs) are at the heart of the Paris Agreement and the achievement of the 1.5°C long-term temperature goal. The Paris Agreement requires each country to prepare, communicate and maintain successive NDCs that it intends to achieve.
- 20 NDCs are submitted every five years to the United Nations Framework Convention on Climate Change (UNFCCC) secretariat. To enhance the ambition over time, the Paris Agreement provides that successive NDCs will represent a progression compared to the previous NDC and reflect its highest possible ambition. Successive NDCs, in alignment with the latest available science, will step us towards our net zero target for 2050. New Zealand's second NDC is due at the end of 2025.
- 21 On 26 October 2021, Cabinet agreed to update Aotearoa New Zealand's first NDC (NDC1) to better align with the global effort to limit warming to 1.5°C. The updated NDC1 commits New Zealand to reducing net emissions by 50 percent below gross 2005 levels by 2030 [CAB-21-MIN-0434].
- 22 The enhanced transparency framework of the Paris Agreement is how countries hold each other to account. Regular reporting of information on the implementation and achievement of country commitments allows global

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progress to be measured. The reported information undergoes peer assessment, which builds mutual trust and confidence among countries.

- 23 Our NDC1 therefore includes a commitment to international transparency and regular progress reporting. This involves taking action from the outset and showing progress as we go. The first progress report is due in 2024.
- 24 At the time of updating our NDC1, Cabinet also:
- 24.1 noted that the government's priority is to meet NDC1 through domestic action as much as possible to support New Zealand's transition to a lowemissions climate-resilient future [CAB-21-MIN-0435]
- 24.2 agreed to complement domestic action with international cooperation to access offshore mitigation, taking a portfolio approach that focuses on sustainable development [CAB-21-MIN-0434].
- 25 In November 2022, I brought a paper to Cabinet to provide a progress update on the international cooperation for mitigation (ICM) work programme. I sought Cabinet agreement to authorise officials to progress discussions on international cooperation with partner countries and to signal to other Governments New Zealand's intention to use offshore mitigation to meet our NDC. Cabinet decided to defer consideration of the paper until a broader strategy for the NDC was agreed.
- 26 The present paper's focus on the NDC strategy will be complemented by subsequent decisions relating to international cooperation, which I will bring back to Cabinet in mid-June.

New Zealand's NDC1 is significantly more ambitious than our domestic emissions budgets

- 27 New Zealand committed to achieve its NDC1 using a multi-year emissions budget for the period 2021-2030 [CAB-21-MIN-0434]. The provisional NDC1 emissions budget is 571 MtCO₂-e. This represents the cumulative net emissions between 2021 and 2030, if net emissions decline in a straight line from 2020 levels to the point-year target in 2030.
- 28 The NDC1 emissions budget is substantially lower (ie, more ambitious) than the statutory levels of domestic action we have set for the same period under the Climate Change Response Act. Combining our current projected emissions for 2021 with the first two domestic emissions budgets, covering 2022-2025 and 2026-2030, gives a domestic emission budget for the NDC1 period of 670 MtCO₂-e.
- 29 This means there is currently an estimated 99 MtCO₂-e gap to fill over and above achievement of our first two domestic emissions budgets. This is the equivalent of around 15 months of total net emissions at current levels.
- 30 The difference between the NDC and domestic emissions budgets exists because the Paris Agreement recognises that countries can pursue voluntary

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cooperation in the implementation of their NDCs to allow for higher ambition in their mitigation actions.

- 31 New Zealand's NDC is a commitment to a mix of ambitious domestic action and an intention to take additional responsibility for reducing global emissions.¹ In contrast, only domestic action is counted towards domestic emissions budgets.
- 32 Meeting more of our NDC through domestic action will require not only getting fully on track with our actions under the first ERP, but also doing much more to reduce emissions beyond the domestic emissions budgets for the period 2021-2030.

Analysis

Strategy for meeting the NDC

- 33 I have worked with officials to develop a strategy for meeting the NDC (Appendix 1). The strategy covers the approach to meeting our first NDC and lays the foundation for meeting future NDCs that take us on a pathway to net zero by 2050. Recognising that future NDCs have not been set, the illustrative pathway considers the increasing ambition expected of successive NDCs under the Paris Agreement, aligned with 1.5°C, the latest available science, and the legislated net zero target by 2050.
- 34 The strategy gives effect to the Government's stated priority for domestic action. It also provides the ability to draw on international cooperation to contribute further emissions reductions beyond what is currently domestically viable. The strategy provides for a decreasing requirement for international cooperation in future NDC periods as our domestic transition progresses.
- 35 The remainder of this paper details how the strategy will work in practice. This includes:
- 35.1 priority given to domestic action through determined implementation of ERP1 and additional domestic action through ERP2, including some indicative examples
- 35.2 international cooperation to complement domestic action, primarily for NDC1 s 9(2)(f)(iv)
- 35.3 an illustrative view of what future NDCs could look like, consistent with 1.5°C and our legislated net zero target for 2050, showing that the need

¹ The NDC explicitly declares the intention to use international market mechanisms and cooperative approaches:

"In meeting its target New Zealand intends to use international market mechanisms, cooperative approaches and carbon markets that enable trading and use of a wide variety of units/emission reductions/mitigation outcomes that meet reasonable standards and guidelines to:

- ensure the environmental integrity of emissions reductions generated or purchased
- guard against double claiming/double-counting, and
- ensure transparency in accounting and governance."

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for international cooperation has the potential to decrease over time as New Zealand takes additional domestic action

- 35.4 an adaptive management approach that sets a 'Dynamic Pathway' for assessing the appropriate mix of domestic and offshore mitigation over time, through two-yearly monitoring and reporting cycles which provide critical decision points where adjustments may be made
- 35.5 a view of further cross-government work needed to enable implementation of the NDC strategy, including funding options and institutional arrangements for monitoring progress and overseeing the Dynamic Pathway.
- 36 I propose that the NDC strategy at Appendix 1 be published made publicly available in July, subject to formatting and design. The strategy sets the foundation for important work programmes such as advancing ICM and the preparation and development of ERP2.
- 37 The strategy also demonstrates to New Zealanders and the international community that the government is committed to achieving our NDC and has a plan for doing so.

Prioritising domestic action to meet the NDC

- 38 The system of emissions reduction plans (ERPs) established under the Climate Change Response Act 2002 (CCRA) is how New Zealand meets its emissions budgets and is the main vehicle to reduce domestic emissions. ERPs are how we can deliver domestic action towards meeting the NDC.
- 39 The first emissions reduction plan (ERP1) was published last year and covers the first emissions budget (2022-2025). The second emissions reduction plan (ERP2) is being developed now and will be implemented in 2026 to cover the second emissions budget (2026-2030). ERP1 and ERP2 are therefore the two key pillars to prioritising domestic action to meet NDC1.
- 40 The Commission's new draft recommendations for ERP2 acknowledge the role of emissions budgets in setting the upper limit for allowable emissions rather than the goal. The Commission notes that if achieving emissions reductions beyond the emissions budget requirements becomes possible, doing so would offer several advantages, including closing the gap to meeting the NDC.

Prioritising domestic action through determined implementation of ERP1

- 41 Determined follow through and effective implementation of ERP1 is critical not only for meeting our legislated emissions budgets, but also for ensuring we are on a path to meet our NDC with reduced reliance on international cooperation.
- 42 In February 2022, the Climate Change Chief Executives Board (the Board) produced its first six-monthly monitoring report on the progress of the emissions reduction plan towards the first emissions budget (EB1). It also assessed progress towards emissions budgets two (EB2) and three (EB3).

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- 43 The Board stated that meeting EB1 and EB2 was finely balanced and “*any reductions in scope or delays in delivery of the emissions reduction plan will make achieving emissions budgets even more challenging. We are currently not on track to meet EB3.*” This assessment was based on data insights from December 2022.
- 44 Officials updated this assessment in April, reflecting latest changes in the operating context. As a result, Officials have determined we are no longer on track to meet EB1. We are projected to overshoot EB1 between 1.2 and 4.3 percent.¹
- 45 The success of ERP1 and whether we meet EB1 will also affect the size of the challenge for ERP2. Any shortfall in the first emissions budget period will increase the amount of abatement required in later budget periods to meet the NDC and the 2050 target.
- 46 The Commission’s most recent draft recommendations for ERP2 have made similar conclusions. Each of the 19 proposed recommendations indicate that the Commission has found evidence of a risk to meeting EB2 and/or New Zealand’s long-term climate change goals.²
- 47 I propose Cabinet reconfirm its commitment to deliver ERP1. Where ERP1 actions are not on track, as determined by the Board’s six-monthly report, agencies should be instructed to respond urgently and escalate any delivery risks to Cabinet and the Board. In addition to being critical for meeting legislated emissions budgets, this will ensure that the action we are taking now is aligned with the Government’s priority for meeting the NDC as much as possible with domestic action.

Enhanced domestic action through ERP2

- 48 The CCRA requires a new emissions reduction plan to be published at least 12 months ahead of the next emissions budget period. The second emissions budget begins on 1 January 2026, meaning ERP2 must be published by 31 December 2024. Work on ERP2 is being progressed now.
- 49 The second emissions budget limits the amount of greenhouse gas emissions that are permitted from 2026-2030 to 305 Mt CO₂-e (61.0 Mt CO₂-e per annum) and requires significantly more abatement than EB1.

¹ Our projections include a high degree of uncertainty and are based on assumptions about New Zealand’s economic growth and other economic variables, future policy implementation and technological advancement. If future circumstances differ from underlying assumptions, emissions could vary widely from projections scenarios.

² “2023 Draft advice to inform the strategic direction of the Government’s second emissions reduction plan”, page 28 <https://www.climatecommission.govt.nz/public/Advice-to-govt-docs/ERP2/draft>https://www.climatecommission.govt.nz/public/Advice-to-govt-docs/ERP2/draft-erp2/CCC4940_Draft-ERP-Advice-2023-P02-V02-web.pdf

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50 The current risk of overshooting EB1 means that the challenge for ERP2 is not limited to achieving EB2. ERP2 will be required to deliver emissions reductions that not only meet but exceed EB2.

51 To enhance domestic action and reduce the amount of international cooperation that will be required in the NDC1 period, ERP2 will need to deliver emissions reductions that further exceed EB2.

52 Delivering significantly enhanced domestic mitigation through ERP2 will take time, effort, and resourcing to develop adequate options. This work is underway, however clear direction on the ambition of policy development through the ERP2 process is needed.

53 I propose that development of ERP2 should include a process to identify, develop and assess significant new proposals capable of delivering emissions reductions well in excess of the second emissions budget to further contribute to NDC1. Developing these proposals does not commit us to any particular action, but will put options on the table for Cabinet to consider.

54 s 9(2)(f)(iv) [Redacted]

[Redacted]

[Redacted]

[Redacted]

55 The viability of these options has not been tested or analysed in detail in this paper. They are included to illustrate the nature of ideas that could deliver the scale of reductions needed, and which we could consider within the ERP2 process.

56 The process to develop a robust pipeline of options for ERP2 can lay a foundation of sufficient scale to deliver both our near term (EB2), medium term (NDC1) and long term (2050) goals. s 9(2)(f)(iv) [Redacted]

57 It is essential that ERP2 take a long-term view and drive investment now to enable the larger, transformational changes needed in a way that is fair, equitable and inclusive.

58 I intend to bring further details on the initial options for consideration within ERP2, to the Climate Change Response Ministers Group (CRMG) in July.

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International cooperation is needed to supplement domestic action

- 59 The scale of emissions reductions needed to meet NDC1 means that even in the most optimistic scenarios of domestic delivery, international cooperation will still be required to supplement domestic action.
- 60 In 2021 the Climate Change Commission provided advice to the Government on meeting NDC1 using offshore purchasing in comparison with greater domestic action.
- 61 The Commission previously advised that the Government should adopt policies that allow it to overachieve the domestic emissions budgets. It also noted that attempting to achieve New Zealand's NDC1 through drastic domestic action, well beyond its recommended emissions budgets, would likely lead to severe social and economic costs on communities, people, and businesses.
- 62 The Commission concluded that *“even in the most technology optimistic scenarios... a significant amount of offshore mitigation is needed to meet the current NDC”*.
- 63 Aligned with the Commission's advice, Cabinet agreed 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 [CAB-21-MIN-0435 refers].
- 64 Cabinet also previously noted that there is a wide range of international cooperation options that are possible, with varying levels of readiness, risks and co-benefits. By developing a diverse portfolio of international cooperation options, the government can manage and spread delivery, ensure environmental integrity, and manage risks.

65 s 9(2)(f)(iv)

The need for offshore mitigation to help meet the NDC has the potential to diminish over time

- 67 In addition to its modelling on the path to meet NDC1, the Commission also modelled indicative scenarios for the path to 2050. This set of scenarios helps convey the changes that are possible over time and how Aotearoa New Zealand could meet NDCs on the pathway to the 2050 targets with little to no international cooperation.
- 68 The 'Demonstration Pathway' shows a path to 2050 where New Zealand's net domestic emissions combine some degree of new technology and behaviour change. With illustrative future NDCs demonstrating a progression over time

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and moderate emissions reduction progress, New Zealand would be reliant on international cooperation through to mid-century.

- 69 The Commission's 'Tailwinds Scenario' shows a path to 2050 where improvements in new technologies and behaviour change substantially increase New Zealand's ability to reduce emissions domestically. Using the same illustrative NDCs showing progression to 2050, New Zealand's reliance on international cooperation is reduced and eventually no longer needed.
- 70 The path we take to 2050 will need to be dynamic, responding to changing circumstances including available options, technology, social license, business models, finance, and investment. An adaptive strategy that responds well to change and maximises opportunities where low-carbon technologies become more affordable, attractive and accessible, has the potential to shift the policy balance over time.
- 71 The NDC strategy enables this adaptive management approach to allow for the shift away from international cooperation as more domestic action is developed and implemented. This could lead to a future more in line with the Commission's 'Tailwinds Scenario'.

Dynamic Pathway for assessing the balance of domestic and offshore mitigation

- 72 The right balance of domestic action and international cooperation for meeting NDC1 depends on several factors. These include the cost of abatement, the availability of mitigation opportunities, social and economic impacts, and the short and long-term benefits to New Zealand.
- 73 These key factors are expected to change over time. Such changes create a high degree of uncertainty on the path to meet the first NDC. It is not possible to determine upfront the exact combination of domestic action and international cooperation that will be required throughout the period. This is why a strategy that is adaptive to change is needed.
- 74 Using an adaptive management approach, the strategy to meet the NDC delivers a 'Dynamic Pathway' to 2030. The Pathway is designed to enable oversight and strategic decisions behind the policy mix. It considers changes in key factors and changing contexts, with decisions able to be made iteratively as options become available.
- 75 The choices along the Pathway are guided by five principles to deliver consistency in decision making within changing contexts.
- 75.1 **Contribute to the global fight against climate change** – New Zealand continues to make a full contribution to global efforts to reduce emissions in line with the 1.5°C temperature goal of the Paris Agreement and encourages and reinforces full efforts from other countries.
- 75.2 **Prioritise action to reduce emissions in New Zealand** – supplemented by international cooperation to deliver an equitable transition to a net zero and climate-resilient economy.

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80 s 9(2)(f)(iv)

Further policy work is needed on institutional arrangements for the NDC

82 To enable the assessments and decisions around the balance of domestic action and international cooperation there is a need for effective oversight for the implementation of the NDC strategy. I am seeking Cabinet agreement to progress the policy work needed for these arrangements.

83 In accordance with the Dynamic Pathway, there will be an ongoing need to monitor progress against the NDC, revisit the ambition and pace of action being taken under ERP2, take stock of new opportunities, and modify the acquisition of offshore mitigation through the international cooperation portfolio accordingly.

84 s 9(2)(f)(iv)

Necessary functions include (noting a more nuanced breakdown of necessary functions will emerge as analysis progresses):

84.1 maintaining an account of progress towards the NDC, including both domestic reductions and removals and the quantity of offshore mitigation accessed

84.2 overseeing the pipeline for development of new domestic options

84.3 adjusting the balance of domestic and offshore action at key decision points and as opportunities emerge, in accordance with the NDC strategy principles and Dynamic Pathway.

85 s 9(2)(f)(iv)

86 I am seeking Cabinet agreement to progress the necessary policy work to determine institutional arrangements needed for the wider NDC strategy in consideration of existing infrastructure. I propose that details of institutional arrangements are not included as part of the public-facing strategy. Further announcements can be prepared following the analysis and Cabinet decisions.

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Funding arrangements for the NDC need to be established

- 87 The Climate Change Economic and Fiscal Assessment (CEFA) released in April highlights the fiscal cost of meeting the NDC and the uncertainty surrounding the total cost assessment. The report emphasises that there are several factors that impact the estimated cost of meeting the NDC which are difficult to ascertain upfront.
- 88 The cost of using offshore mitigation from international cooperation is highly uncertain but has been estimated by CEFA analysis to range between \$3-24 billion over the period. The total fiscal cost of achieving NDC1 will depend not only on the costs of international emissions reductions, but also the direct and indirect fiscal costs of accelerating New Zealand's domestic transition.

§ 9(2)(iv)

- 92 I am seeking Cabinet agreement to progress the necessary policy work to determine the funding arrangement for the wider NDC strategy, in alignment with the work already underway on funding options for international cooperation, with options to be brought back to Cabinet.
- 93 I propose that detailed funding options are not included as part of the publicfacing strategy. Further announcements can be prepared following the analysis and Cabinet decisions.

Financial Implications

- 94 There are no direct fiscal or wider economic implications directly arising from this paper. However, decisions made later under this strategy will have fiscal and economic consequences.
- 95 The two subsequent processes for 1) developing additional domestic action through ERP2 and 2) developing a portfolio of international cooperation for mitigation provide mechanisms for identification and assessment of fiscal and wider economic implications of specific proposals as these come up for decision.

Legislative Implications

- 96 There are no legislative implications directly arising from this paper.

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97 A regulatory impact statement is not required for this paper.

Climate Implications of Policy Assessment

98 Although decreasing greenhouse gas emissions is the key policy objective of this paper, it does not of itself create any additional implications requiring a Climate Implications of Policy Assessment.

Population Implications

99 There are no specific implications arising as a direct result of the proposals in this paper. However, the results of any future decisions could have flow on impacts for communities, regions, iwi/Māori and other population groups.

Human Rights

100 The proposals in this paper are not in any way inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

101 This draft that has been circulated to HUD, MBIE, DOC, IEB, MOT, Te Waihangā, MSD, TSY, MFAT, DPMC, EECA, DIA, NEMA, and MPI. Initial agency feedback has been incorporated into this version.

102 Feedback from MPI and TSY in particular expressed concerns on (a) the focus on delivering additional domestic action that exceeds the second emissions budget, (b) the use of ERP2 as the main vehicle to deliver additional domestic abatement, and (c) illustrating the pathway to 2050 using future NDCs.

103 This feedback has not been fully incorporated given the aim of the NDC strategy is primarily to give effect to Cabinet's stated priority of meeting the NDC as much as possible through domestic action. This priority requires enhanced domestic abatement which impacts the delivery of EB2 and the development of ERP2.

104 Further consultation is planned, and the description here will be updated once this is complete.

Communications

105 This paper proposes that the NDC strategy at Appendix 1 be published in the coming weeks and made publicly available, subject to formatting and design.

106 A communications plan will be prepared in parallel with the public release of the strategy.

Proactive Release

107 I intend to release this paper in full when the NDC strategy is published.

Recommendations

The Minister of Climate Change recommends that the Committee:

- 1 **note** that on 26 October 2021 Cabinet agreed to update New Zealand's NDC to align with the temperature goals of the Paris Agreement, committing to reduce net greenhouse gas emissions to 50 per cent below gross 2005 levels by 2030 [CAB-21-MIN-0434].
- 2 **note** that in parallel to updating the NDC, Cabinet:
 - 2.1 noted that the 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 [CAB-21-MIN-0435]
 - 2.2 agreed to complement domestic action with international cooperation to access offshore mitigation, taking a portfolio approach that prioritises

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sustainable development outcomes and resilience in the Asia-Pacific region [CAB-21-MIN-0434].

- 3 **note** that to meet NDC1 there is an estimated 99 MtCO₂-e gap to fill over and above achievement of our first two domestic emissions budgets.
- 4 **note** that the system of emissions reduction plans (ERPs) are how we can best contribute to meeting the NDC through as much domestic action as possible.
- 5 **note** that meeting more of our NDC1 through domestic action will require getting fully on track with our actions under the first emissions reduction plan (ERP1) and doing much more through the second emissions reduction plan (ERP2) to reduce emissions for the period 2021-2030.
- 6 **note** that the scale of emissions reductions needed to meet NDC1 means that even in the most optimistic scenarios of domestic delivery, international cooperation will still be needed to supplement domestic action to meet NDC1.
- 7 **note** that the right balance of domestic action and international cooperation for meeting NDC1 is not possible to determine upfront.
- 8 **note** that the NDC strategy takes an adaptive management approach that allows for flexibility throughout the NDC period to balance domestic delivery and international cooperation.
- 9 **reconfirm** determined implementation of ERP1 in the immediate term, as crucial for making progress towards our NDC.
- 10 **agree** where ERP1 actions are not on track, as determined by the Climate Change Chief Executive Board's six-monthly report, agencies should respond urgently.
- 11 **agree** that development of ERP2 should include a process to identify, develop and assess significant new proposals capable of delivering emissions reductions well in excess of the second emissions budget to further contribute to NDC1.
- 12 **note** that developing new proposals for ERP2 does not commit us to any particular action but will put options on the table for Cabinet to consider.
- 13 **note** delivering significantly enhanced domestic mitigation through ERP2 will take time, effort, and resourcing to develop.
- 14 **note** Cabinet decisions are needed as soon as possible on the development of the portfolio of offshore mitigation to enable our ability to draw from it as needed.
- 15 **note** I will be seeking decisions on the portfolio of offshore mitigation options through the ICM Cabinet paper in mid-June.
- 16 **note** the cost of using offshore mitigation has been estimated by CEFA analysis to range between \$3-24 billion over the NDC1 period.

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- 17 **note** the total fiscal cost of achieving NDC1 will depend not only on the costs of international emissions reductions, but also the direct and indirect fiscal costs of accelerating New Zealand's domestic transition.
- 18 **note** that an adaptive NDC strategy provides the potential to shift away from international cooperation as more domestic action is developed and implemented and low-carbon technologies become more affordable, attractive and accessible.
- 19 **agree** to the proposed Dynamic Pathway for monitoring, assessing and adjusting the balance of domestic and international mitigation at key decision points.
- 20 **agree** that the NDC strategy document (Appendix 1) will be made publicly available, with final editorial and design choices, as well as timing of publication, delegated to the Minister of Climate Change.
- 21 **agree** to progress further ongoing policy work to determine funding and institutional arrangements for the NDC work programme.

Authorised for lodgement

Hon James Shaw

Minister of Climate Change