



PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	Portfolio	Climate Change
Name of package	Response to the Climate Change Commission's emissions reduction monitoring report	Date to be published	26/2/2025

List of documents that have been proactively released

Date	Title	Author
26 September 2024	Cabinet paper: Response to the Climate Change Commission's Emissions Reduction Monitoring Report	Ministry for the Environment
30 September 2024	Cabinet Business Committee Minute of Decision: CBC-24-MIN-0101	Cabinet Office

Information redacted **YES**

Any information redacted in this document is redacted in accordance with the Ministry for the Environment's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Summary of reasons for redaction

Removed the Cabinet paper classification to enable release ('In Confidence')
Refused the Cabinet paper Appendix 1 as this is already publicly available (section 18(d)).



Cabinet Business Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Response to the Climate Change Commission's Emissions Reduction Monitoring Report

Portfolio **Climate Change**

On 30 September 2024, the Cabinet Business Committee:

- 1 **noted** on 16 July 2024, the Minister of Climate Change (the Minister) received the Climate Change Commission's inaugural Emissions Reduction Monitoring Report (ERM report), and must respond to the report within three months (i.e. by 16 October 2024), as required under the Climate Change Response Act 2002;
- 2 **noted** the four key findings of the ERM Report outlined in the paper under CBC-24-SUB-0101, and the assessment and response to the key findings outlined in Appendix 2;
- 3 **approved** the report and response to the ERM Report, attached as Appendix 1 to the submission under CBC-24-SUB-0101;
- 4 **agreed** that the Minister present the response to the ERM Report to the House of Representatives by 16 October 2024, at which point it will be made publicly available on the Ministry for the Environment's website.

Jenny Vickers
Committee Secretary

Present:

Rt Hon Christopher Luxon (Chair)
Hon David Seymour
Hon Nicola Willis
Hon Shane Jones
Hon Dr Shane Reti
Hon Simeon Brown
Hon Erica Stanford
Hon Paul Goldsmith
Hon Judith Collins KC

Officials present from:

Department of the Prime Minister and Cabinet

Classification

Policy and Privacy

Classification

Office of the Minister of Climate Change

CBC - Cabinet Business Committee

Response to the Climate Change Commission's Emissions Reduction Monitoring Report

Proposal

- 1 I seek approval to present to the House of Representatives and make public, the response to the Climate Change Commission's (the Commission) inaugural emissions reduction monitoring report (ERM Report), as required under the Climate Change Response Act 2002 (the Act).

Relation to government priorities

- 2 The response to the Commission's ERM Report is required to meet statutory obligations under the Act. The response is consistent with the Government's new Climate Strategy and climate commitments. This includes the Prime Minister's ninth public service target to meet New Zealand's 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025, and 305 megatonnes from 2026 to 2030.

Executive Summary

- 3 The Act requires the Commission to independently monitor and report annually on the Government's progress towards meeting the 2050 target and emissions budgets, along with progress towards implementing emissions reduction plans (sections 5ZJ and 5ZK(1) and (2) of the Act).
- 4 On 16 July 2024, I received the inaugural ERM Report from the Commission. I must present to the House of Representatives a response to this report that also describes the progress made in implementing the first emissions reduction plan (ERP1) and notes any amendments to ERP1. This must be done by 16 October – no later than three months after I received the ERM Report (s5ZK(4)). The Commission's findings are also being considered as part of developing policies for the second emissions reduction plan (ERP2), where relevant.
- 5 The Commission has based its assessment on publicly available emissions data and information on Government policies up to April 2024. The assessment, therefore, does not include consideration of the Government's Climate Strategy and revised approach to meeting climate targets, nor the proposed policies or latest Government interim emissions projections provided in the discussion document for ERP2, both released in July this year.
- 6 While the Commission's exact numbers for emissions projections differ from Government figures, many of the findings are broadly aligned with Government findings. This includes that gross emissions have declined each year since 2019 as a

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result of policy efforts and factors external to Government,¹ and that available emissions data and projections are consistent with the first emissions budget (EB1) being met (for the period 2022-2025). As with any use of projections, both the Commission and the Government findings note that there are inherent levels of uncertainty and that current projections can be highly influenced by factors external to Government policy and action.

- 7 Some findings in the ERM Report, however, do differ from Government reporting. Key points of deviation mainly relate to the certainty and risks of meeting the second and third emissions budgets (2026-2030 and 2031-2035 respectively), and include:
 - 7.1 The Commission states there are significant risks to meeting EB2 and EB3 and indicate a need to strengthen policies in response. The central estimate of the Government's July 2024 interim projections shows that EB2 is achievable with proposed ERP2 policies, and that achieving EB3 is within the range of uncertainty.
 - 7.2 The Commission states there are significant risks to meeting the 2030 biogenic methane target. The central estimate of the Government's July 2024 interim projections suggest that we may meet the 2030 target, but exceeding the target is within the range of uncertainty.
- 8 I am now seeking approval of my response to the Commission's ERM Report (see Appendix 1), and agreement to present it to the House of Representatives by 16 October 2024 as required by the Act.

Background

- 9 The Act legislates New Zealand's domestic emissions reduction targets. These are:
 - 9.1 Net zero emissions of all greenhouse gas (GHG) emissions other than biogenic methane by 2050; and
 - 9.2 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.
- 10 Domestic emissions budgets act as stepping-stones, or interim targets, to reaching our 2050 emissions reduction targets. An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period. For each emissions budget period, there must be an emissions reduction plan in place that sets out the policies and strategies for meeting the emissions budget.
- 11 The Commission is required to independently monitor and report on the Government's progress towards reducing emissions. The Commission's annual report must include:
 - 11.1 measured emissions and measured removals for the most recent year of the emissions budget period for which data is available from the New Zealand GHG Inventory; and
 - 11.2 the latest projections for current and future emissions and removals; and

¹ External factors include, but are not limited to, macro-economic and demographic conditions, consumer behaviour, dry/wet years; and also methodological improvements to how emissions in different sectors are measured. These factors can be variable year-on-year.

- 11.3 an assessment of the adequacy of the emissions reduction plan and progress in its implementation, including any new opportunities to reduce emissions (s5ZK(1) and (2)).
- 12 On 16 July 2024, I received the inaugural ERM Report from the Commission. Under the Act I am required to provide a report in response within three months of receiving the report (by 16 October 2024), that:
- 12.1 sets out my response to the report and recommendations;
- 12.2 describes the progress made in implementing the current emissions reduction plan (ERP1); and
- 12.3 notes any amendments to that plan (s5ZK(4)).
- 13 The Climate Change Chief Executives Board (the Board)² also provides regular reporting to Ministers on progress towards emissions budgets and Government's Target 9, and six-monthly reports on progress made across agencies implementing ERP1. These reports, and the Government's strategy and proposals for ERP2, have been used to inform my response to the ERM Report. The Commission's findings are also being considered as part of developing policies for ERP2, which will be published later this year.

Responding to the Climate Change Commission report and recommendations

The key findings of the ERM Report

- 14 As required under the Act, the Commission's ERM Report presents its assessment of the progress being made towards achievement of EB1 (2022–2025), EB2 (2026–2030) and EB3 (2031–2035), and progress towards the 2050 target, and to assess the adequacy of ERP1 and progress in its implementation.
- 15 The Commission published the ERM Report using publicly available data and information on Government policies until the end of April 2024, including available monitoring reports from the Board. The ERM Report contains four key findings:
- 15.1 *Key finding 1: Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
- 15.2 *Key finding 2: Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
- 15.3 *Key finding 3: There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*

² The Board was established in 2022, under the Public Service Act 2020, as an interdepartmental executive board. It provides oversight of the Government's response to climate change. The Board is chaired by the Secretary for the Environment, and comprises eight members, supported by the Deputy Solicitor-General. The Board advises the Minister of Climate Change and the cross-Ministerial governance group, the Climate Priorities Ministerial Group (CPMG).

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- 15.4 *Key finding 4: Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*
- 16 The key findings are underpinned by a wider set of detailed findings, which identify the risks to Government at the sector level. Note that the biogenic methane target only applies to the agricultural and waste sectors. The proposed response to these findings and the requirements in the Act is provided in Appendix 1.

High-level assessment

- 17 Government's July 2024 interim emissions projections³ broadly align with the first two key findings of the Commission's ERM Report that:
- 17.1 gross emissions overall have been declining since 2019 due to policy changes and external factors, and
- 17.2 we are currently on track to meet EB1 albeit with some uncertainty, which is inherent in the use of projections and due to factors outside of Government control, such as dry year impacts on hydro flows or the rate of deforestation.
- 18 Key points of deviation mainly relate to the certainty and risks of meeting EB2 and EB3, and include:
- 18.1 The Commission states there are significant risks to meeting EB2 and EB3 and indicate a need to strengthen policies in response. As Minister of Climate Change, I have a legal duty to ensure emissions budgets are met. The central estimate of the Government's July 2024 interim projections shows that EB2 is achievable with proposed ERP2 policies, and that achieving EB3 is within the range of uncertainty. ERP2 will be the vehicle to further ensure there is a plan to meet EB2.
- 18.2 The Commission states there are significant risks to meeting the 2030 biogenic methane target. Again, ERP2 will be the vehicle to further ensure there is a plan to meet the 2030 methane target.
- 19 For its assessment, the Commission compared data against benchmarks from the Commission's 2022 demonstration path to gauge the pace of progress in different areas.⁴ This is sensible as the demonstration path was used to inform the previous Government's approach to ERP1. This Government's Climate Strategy with its revised approach to meeting emissions budgets and targets, and the Government's interim projections of July 2024 were not available to the Commission at the time of its report.
- 20 The Government response uses the July 2024 interim emissions projections to inform its assessment. Updated projections and modelling is being prepared to support the publication of ERP2 later this year, which will take into account the impact of the final ERP2 policy package. As much of the abatement that can be achieved in EB1 (to end of 2025) is largely 'locked in', draft updated data indicates we remain on track to meet EB1 and officials do not anticipate this is likely to change in the updated projections.

³ The July interim projections were published in the discussion document for ERP2: [New Zealand's second emissions reduction plan \(2026–30\): Discussion document | Ministry for the Environment](#)

⁴ The demonstration path reflects judgements by the Commission about a durable path to the 2050 target consistent with the areas required to be considered under the Act.

- 21 We are taking a net-based approach to meeting emissions budgets, with the New Zealand Emissions Trading Scheme (NZ ETS) as the main tool to reduce emissions and increase removals. Together with emissions pricing, there is a clear role for policies that allow the NZ ETS to work better and support the early adoption of emerging technologies. The NZ ETS is agnostic about where reductions and removals occur across the sectors the NZ ETS covers. Therefore, the response gauges progress made, and the future potential reductions, in a particular sector in the context of economy-wide emissions reductions, when assessing the sector findings made in the ERM Report. More details on the assessment of the Commission's findings are provided in Appendix 2.

Implementation progress and amendments proposed to the first emissions reduction plan

- 22 The Government's response is required to outline implementation progress of the current ERP, and note any amendments made to that plan. The ERP1 was published in 2022 and sets out climate change policies and strategies for meeting EB1. Many of the ERP1 actions are exploratory in nature or related to developing strategies and plans. Not all are expected to contribute directly to emissions abatement.
- 23 Overall, implementation progress for ERP1 is mixed. The Board's most recent implementation monitoring data for the period ending 30 June 2024, shows that of the 305 actions, more than half are either complete or actively being implemented, though a small number of actions (4 percent, or 11 actions) have not yet started to be implemented.
- 24 However, 13 percent of actions (41 actions) have been discontinued.⁵ Six actions were discontinued by the previous Government and 35 actions have been discontinued by the current Government as they do not align with the Government's approach to meeting emissions budgets or climate change priorities, or had no impact on emissions abatement.
- 25 The Government's July 2024 interim projections reflected the impact of ERP1 policy changes that can be modelled. They show that these changes to actions are not expected to materially impact our ability to meet EB1. Progress to date to reduce emissions and the remaining ERP1 actions are projected to be sufficient for New Zealand to stay on track for EB1, and officials do not anticipate this is likely to change in updated projections.
- 26 With the change in approach to meeting emissions budgets, and the volume of actions that have been discontinued from ERP1, I undertook to consult with the public (in July 2024 through the discussion document on ERP2) on formally amending ERP1 as provided for in the Act (section 5ZI(3)). I intend to bring any decision to formally amend ERP1 to Cabinet alongside the final ERP2 approval later this year.

Implementation

- 27 No direct implementation requirements associated with the publication of this report.

⁵ As have been made available in discussion document on ERP2.

Cost-of-living Implications

- 28 No direct cost of living implications are expected as a result of the publication of this report.

Financial Implications

- 29 No direct financial implications are expected as a result of the publication of this report.

Legislative Implications

- 30 No direct legislative implications are expected as a result of the publication of this report.

Impact Analysis

Regulatory Impact Statement

- 31 The report in response to the Commission's ERM Report does not require a RIS.

Climate Implications of Policy Assessment

- 32 There will be no direct emissions impacts from the publication of the report. Decisions on changes to individual climate change policies will include a CIPA where required.

Population Implications

- 33 There will be no direct population implications from the publication of this report.

Human Rights

- 34 There are no inconsistencies between this report and the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Consultation

- 35 The following agencies were consulted on this Cabinet paper and the Government response to the Commission's report: Ministry for the Environment, Ministry for Primary Industries, Ministry of Business Innovation and Employment, Ministry of Transport, the Treasury, Department of Conservation, Ministry of Culture and Heritage, Ministry of Housing and Urban Development, National Emergency Management Agency, Te Puni Kokiri, Department of Internal Affairs, Ministry of Foreign Affairs and Trade.

- 36 The Department of the Prime Minister and Cabinet has been informed.

Communications

- 37 The attached report will be presented to the House of Representatives by 16 October, at which point it will be made publicly available through the Ministry for the Environment's website. I do not intend to issue a press release.

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Proactive Release

- 38 I intend to proactively release this paper and associated Cabinet committee papers and minutes within 30 business days of final decisions being confirmed by Cabinet, subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

- 1 **Note** on 16 July 2024 I received the Climate Change Commission's inaugural Emissions Reduction Monitoring Report (ERM report) and must respond to this report within 3 months (by 16 October 2024) as required under the Climate Change Response Act (ss5ZJ, 5ZK).
- 2 **Note** the four key findings of the ERM Report outlined in this paper, and the assessment and response to the key findings outlined in Appendix 2.
- 3 **Approve** the report and response to the ERM Report, attached as Appendix 1.
- 4 **Agree** that I present the response to the ERM Report to the House of Representatives by 16 October, at which point it will be made publicly available on the Ministry for the Environment's website.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

**Appendix 1: Government response to the Climate Change Commission report:
Monitoring Report: Emissions Reduction, 2024**

(see attached report)

Appendix 2: Further detail on the assessment of the ERM Report findings

Assessment of the ERM Report key findings

- 1 Government July 2024 interim projections broadly align with the first two key findings of the Commission's ERM Report that:
 - 1.1 gross emissions overall have been declining since 2019 as a response to policy changes and external factors, and
 - 1.2 we are currently on track to meet the first emissions budget (EB1) although with some uncertainty, which is inherent in the use of emissions projections and can in large part be influenced by factors outside of Government control, such as dry years affecting hydro inflows or macro-economic and demographic conditions.
- 2 When assessing the ability to meet future emissions budgets and targets, the uncertainty in projections increases as is expected when modelling projections further into the future. However, based on July 2024 interim emissions projections, the central estimate shows that EB2 is achievable, assuming policies in the ERP2 discussion document are implemented as proposed. The interim projections also show achieving EB3, with the proposed ERP2 policies, is within the range of uncertainty (while acknowledging this is highly uncertain). The final ERP2 will be published later in 2024 and will set out the plan to meet EB2, as is required by the Act.
- 3 The July 2024 interim projections showed high uncertainty with regard to whether biogenic methane emissions will meet the 2030 target, with exceeding the target being a possibility. In addition to agricultural emissions pricing no later than 2030, the ERP2 discussion document proposed similar technology-based approaches to reducing biogenic methane emissions, which somewhat aligns with the Commission proposed additional policies to target these emissions. Methane projections are being update as part of finalising ERP2.
- 4 The ERM Report identified five opportunities for further emissions reductions to meet emissions budgets and targets. For a number of these areas, the Government already has work underway, such as looking at options to bring online more renewable electricity generation, making better use of gas capture systems (in particular the Commission identify landfills and geothermal power stations), and improving the charging network to incentivise the uptake of low and zero emissions vehicles.

Assessment of the key sector and sub-sector findings

- 5 Officials from across the relevant agencies have reviewed the sector and sub-sector findings of the Commission's report and supporting analysis against Government information and data.
- 6 The Commission has stated that the NZ ETS is an essential part of an effective policy package for reducing emissions, but it cannot itself ensure the emissions budgets are met. The Government's climate strategy, released in July this year, relies on a credible NZ ETS, complemented by policies that reduce barriers to investment in emissions reductions and removals. In line with this, Cabinet has recently taken decisions to reduce the number of units available in the NZ ETS between 2025-2029 to ensure the NZ ETS market operates as intended and that settings align with New Zealand's climate targets. This will give participants confidence that investments to reduce emissions will be rewarded.

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- 7 The Commission's report reiterates advice from their earlier advice on NZ ETS settings, particularly around the size of the surplus stockpile, uncertainty over post-1989 foresters' behaviour, and the inability of the NZ ETS to guarantee an emissions outcome. Post-1989 forest NZ ETS registrations increased in 2022/23 and the high current level of NZ ETS participation reduces the likelihood of deforestation for these forests because of the requirement to repay units received following deregistration. Deforestation of post-1989 forests not registered in the NZ ETS is also not expected to exceed projections. Introducing a mechanism to control deforestation of post-1989 forests not registered in the NZ ETS is not currently being proposed and would need to be carefully considered so that it minimises any infringement on private property rights.
- 8 Agencies agree that the NZ ETS cannot guarantee an emissions outcome during a given period such as an emissions budget, due to the Government's inability to control the timing of surrender of stockpiled NZUs. However, recent changes to NZ ETS settings will ensure New Zealand has a more credible market. The Government has committed to aligning the NZ ETS with New Zealand's climate targets and to giving participants confidence that their investments to reduce emissions will be rewarded. The Government agreed to reduce the number of units available between 2025 and 2029, from 45 million to 21 million. This will provide a very high probability that NZ ETS emissions will be within the estimated NZ ETS cap for both the second and third emissions budgets.
- 9 The NZ ETS is limited in its ability to drive achievement of the third emissions budget on its own. Other policies and measures expected through the finalisation of ERP2 and development of the subsequent plan will be required to ensure the achievement of EB3.
- 10 The Government is taking a net-based approach to meeting emissions budgets so progress in a particular sector should be read in the context of achieving emissions reductions across the economy at least cost.
- 11 The Commission assessment shows the agriculture and transport sectors having the largest risks for not delivering emissions reductions, and insufficient action to reduce emissions in these sectors will put the second and third emissions budgets at risk.
- 12 The Commission views agriculture as a high-risk sector for meeting EB2, EB3 and the 2030 methane target. Overall, the agriculture sector has been given a 'significant risks' rating in the Commission's scorecard system. The Government is taking a technology-based approach and has made a long term substantial financial commitment to accelerating the development of new agricultural GHG mitigation tools and technologies. Budget 2024 committed \$419m over the next four years, with \$105m per annum from 2028/2029. This includes building on and enhancing the core R&D through the long-term commitment to the New Zealand Agricultural Greenhouse Gas Research Centre research programme, and a minimum 10-year commitment to invest in AgriZero.
- 13 The Commission also views transport as a high-risk sector for EB2 and EB3. This is based on the assessment that current policy tools on their own are unlikely to drive a shift to lower-carbon modes of transport and to decarbonise freight and aviation. Alongside this is a risk that uptake of low and zero emissions light vehicles will fall behind benchmark levels due to reduced policy support. This is consistent with the ERP2 discussion document modelling, which projected less transport sector abatement than in the Commission's path. This follows from the Government's

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approach to climate change of using the NZ ETS as the primary lever to reduce net-emissions, including being agonistic about where abatement comes from.

- 14 The Commission saw value in sending a clear signal on applying road user charges (RUC) to petrol vehicles. This would reduce a risk that new RUC for EVs and plug-in hybrids would disincentivise uptake of these vehicles. As part of the Revenue Action Plan, the Minister of Transport has indicated the light vehicle fleet will transition to RUC, and away from fuel tax, by as early as 2027.
- 15 Regarding the Commission’s findings on aviation, these are consistent with the ERP2 discussion document, which noted that under an NZ ETS-first approach to reduce emissions, it is assumed that hard-to-abate sectors like aviation and shipping will decarbonise later than other sectors where decarbonisation technologies are more mature.

Differences in Data and modelling approach

- 16 There are some differences in the data used by the Commission and their modelling approach to what has been used in Government reporting. The Commission used publicly available emissions data and information on Government policies up to April 2024, and based its assessment of progress on how projections stack up against its benchmark demonstration path (the Commission’s own plausible pathway to meet the 2050 target, originally developed for ERP1).
- 17 Due to its timing, the Commission’s report could not consider the Government’s revised approach to meeting emissions budgets and targets (the Climate Strategy), or the proposed policies and July 2024 Government interim emissions projections provided in the ERP2 discussion document. As such, using its demonstration path was a sensible approach to guide the Commission’s assessment in the absence of this information.
- 18 The July 2024 Government interim projections, the first report on Target 9 reporting and ERP1 progress are informed by more recent data and Government policies up until July 2024, presented in the table below.

Emissions budget limits	Target 9 projections -with existing measures, without proposed ERP2 policies (central estimate*)	Interim projections - with proposed ERP2 policies (central estimate*)	Uncertainty for interim projections
First emissions budget 290 Mt CO2-e	284.0 Mt CO2-e	284.0 Mt CO2-e	±4 Mt CO2-e
Second emissions budget 305 Mt CO2-e	307.1 Mt CO2-e	303.3 Mt CO2-e	±18 Mt CO2-e
Third emissions budget 240 Mt CO2-e	N/A	257.4 Mt CO2-e	±29 Mt CO2-e

**'Central estimate' refers to the value believed to be most likely based on current understanding of relevant assumptions.*