

## AGENDA FOR CLIMATE RESPONSE MINISTERIAL GROUP MEETING 31 MARCH 2022

| Meeting Agenda Items   |                 |  |  |
|--|-----------------|--|--|
| Date   |                 | 31 March 2022  |  |
| Main items   |                 |  |  |
| Agenda item 1: Confirming emissions budgets and sufficiency update<br>Agenda item 2: Key policies and outcomes underpinning the Emissions Reduction Plan |                 |  |  |
| Date   | Time            | Location   | Attendees  |
| 31 March 2022  | 4.30p m-5.30p m |  | <p><b>Chair:</b> Rt Hon Jacinda Ardern, Prime Minister<br/> <b>Deputy Chair:</b> Hon James Shaw, Minister for Climate Change<br/> Hon. Nanaia Mahuta – Minister of Foreign Affairs; Local Government; Associate Māori Development<br/> Hon. Damien O'Connor – Minister of Agriculture<br/> Hon. David Parker – Minister for the Environment<br/> Hon. Michael Wood – Minister of Transport<br/> Hon. Megan Woods – Minister of Energy and Resources; Minister for Housing<br/> Hon. Carmel Sepuloni – Minister of Social Development and Employment<br/> Hon. Poto Williams - Minister of Building and Construction<br/> Hon. Willie Jackson – Minister for Māori Development</p> <p><b>Apologies:</b><br/> Hon. Grant Robertson – Minister of Finance; Minister of Infrastructure<br/> Hon. Stuart Nash – Minister of Forestry; Minister for Economic Development</p> |
| #  | Time            | Agenda Item  | Recommendations  |
| 1  | 30mins          | Lead Speaker: Minister of Climate Change<br>Confirming emissions budgets and sufficiency update  |  |
|  |                 | <p>This item will:</p> <ul style="list-style-type: none"> <li>Endorse the emissions budgets</li> <li>Agree comfort with the sufficiency of the policies in the Emissions Reduction Plan</li> <li>Discuss further options if required</li> </ul> <p><b>Supporting Document:</b><br/> Slide pack: <i>Emissions budgets and sufficiency of Emissions Reduction Plan</i></p> | <ol style="list-style-type: none"> <li><b>Note</b> that when Cabinet endorsed the changes to the emissions budgets in August 2021 the changes to forestry emissions projections in emissions budget period 1 (EB1) were incorrectly attributed to afforestation instead of deforestation</li> <li><b>Note</b> that in light of this error the Minister of Climate Change is considering changes to the emissions budgets, which would increase the emissions reductions required in EB1 by 2 mega tonnes</li> <li><b>Endorse</b> the Minister of Climate Change's emissions budgets decision</li> <li><b>Agree</b> whether the policies of the ERP are sufficient to meet the emissions budgets</li> </ol>   |
| #  | Time            | Agenda Item  | Recommendations  |
| 2  | 30mins          | Lead Speaker: Minister of Climate Change<br>Key policies and outcomes underpinning the Emissions Reduction Plan  |  |
|  |                 | <p>This item will:</p> <ul style="list-style-type: none"> <li>Discuss the key policies and outcomes of the emissions reduction plan</li> <li>Confirm whether any policies or outcomes should be added to the top-level summary</li> </ul> <p><b>Supporting Document:</b></p>   | <ol style="list-style-type: none"> <li><b>Confirm</b> the overall narrative of the Emissions Reduction Plan</li> <li><b>Indicate</b> comfort with the most prominent policies and outcomes of the ERP</li> </ol>   |

|  |  |  |
|--|--|--|
|  | <i>NZ's first Emissions Reduction Plan – summary booklet</i> |  |
|--|--|--|

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Ministry for the  
**Environment**  
Manatū Mō Te Taiao

# Emissions Budgets and Sufficiency of Emissions Reduction Plan

Climate Change Response Ministers Group, 31 March 2022

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# **I recommend we update the first set of emissions budgets before they are communicated, to take account of an error in advice previously provided to Cabinet**

- The Climate Change Response Act requires that I set the first set of emissions budgets by 31 May 2022.
- Cabinet agreed in-principle to a set of proposed emissions budgets for inclusion in the public consultation on the emissions reduction plan in August 2021.
- The emissions budgets included in the public consultation were based on the advice of the Climate Change Commission, and considered new information on projected forestry emissions that wasn't available when the Commission reported.
- There was an error in how this information was interpreted and reported to Cabinet. Advice attributed increased emissions in the first budget period 2022-2025 to emissions generated in the early stages of planting forests (afforestation), when this increase was due to a projected increase in deforestation.
- Officials still anticipate a significant increase in forest area over EB1 relative to the information the Commission used in its advice, with an additional 23,000 hectares of afforestation, and 1,900 hectares deforestation.
- There is a risk that this presents as a 'relaxing' of the emissions budgets to allow for increased deforestation.
- Based on this change, I recommend we revise the level of the emissions budgets to reflect this updated information.
- The remainder of this presentation sets out the main options available for the levels of the emissions budgets, their implications, and my proposal.

# There are three main options available for the levels of the first set of emissions budgets

- The options are:
  - Option 1 (recommended): Revised proposal based on corrections to the interpretation of the forestry projections (290, 305, 240 Mt CO<sub>2</sub>-e)
  - Option 2: The Climate Change Commission's original emissions budgets (290, 312, 253 Mt CO<sub>2</sub>-e across EB1, EB2, EB3 respectively)
  - Option 3: The emissions budgets endorsed by Cabinet in August (292, 307, 242 Mt CO<sub>2</sub>-e)
- Appendix 1 provides more detail on the options.

The key implication of my recommended option for emissions budget period one (EB1) is an increase in ambition of 2 Mt CO<sub>2</sub>-e, compared to the budgets Cabinet agreed in-principle in August.

The Act requires that in setting emissions budgets, I have regard to how they can be realistically met. The test here is if our proposed policy package meets that threshold.

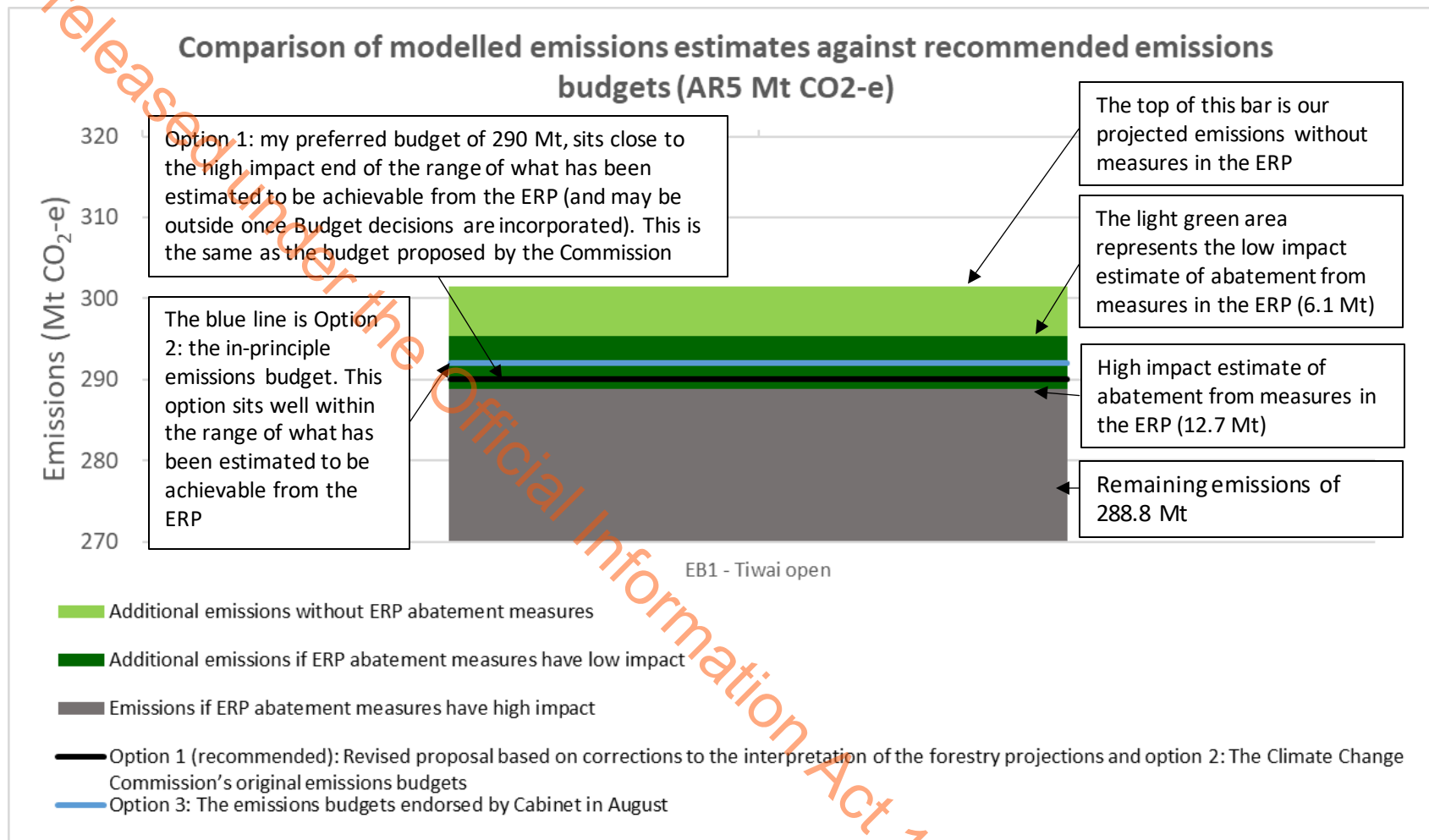
# The proposed emissions budget for EB1 of 290 Mt CO<sub>2</sub>-e is at the high end of what current projections suggest is achievable from the ERP for the first period

The analysis suggests that an emission budget set at 290 Mt CO<sub>2</sub>-e (shown by the black line) falls within the estimate of what is potentially achievable with the currently proposed ERP policies, but nearer the high impact end of the range (288.8 Mt CO<sub>2</sub>-e).

The difference between the high and low policy impact is driven by different assumptions for technology change and behaviour change.

The high impact estimate includes 5.1 Mt of abatement that is subject to funding being confirmed as part of Budget22.

If Tiwai closes that would add a buffer of 2.4 Mt to the first emissions budget.

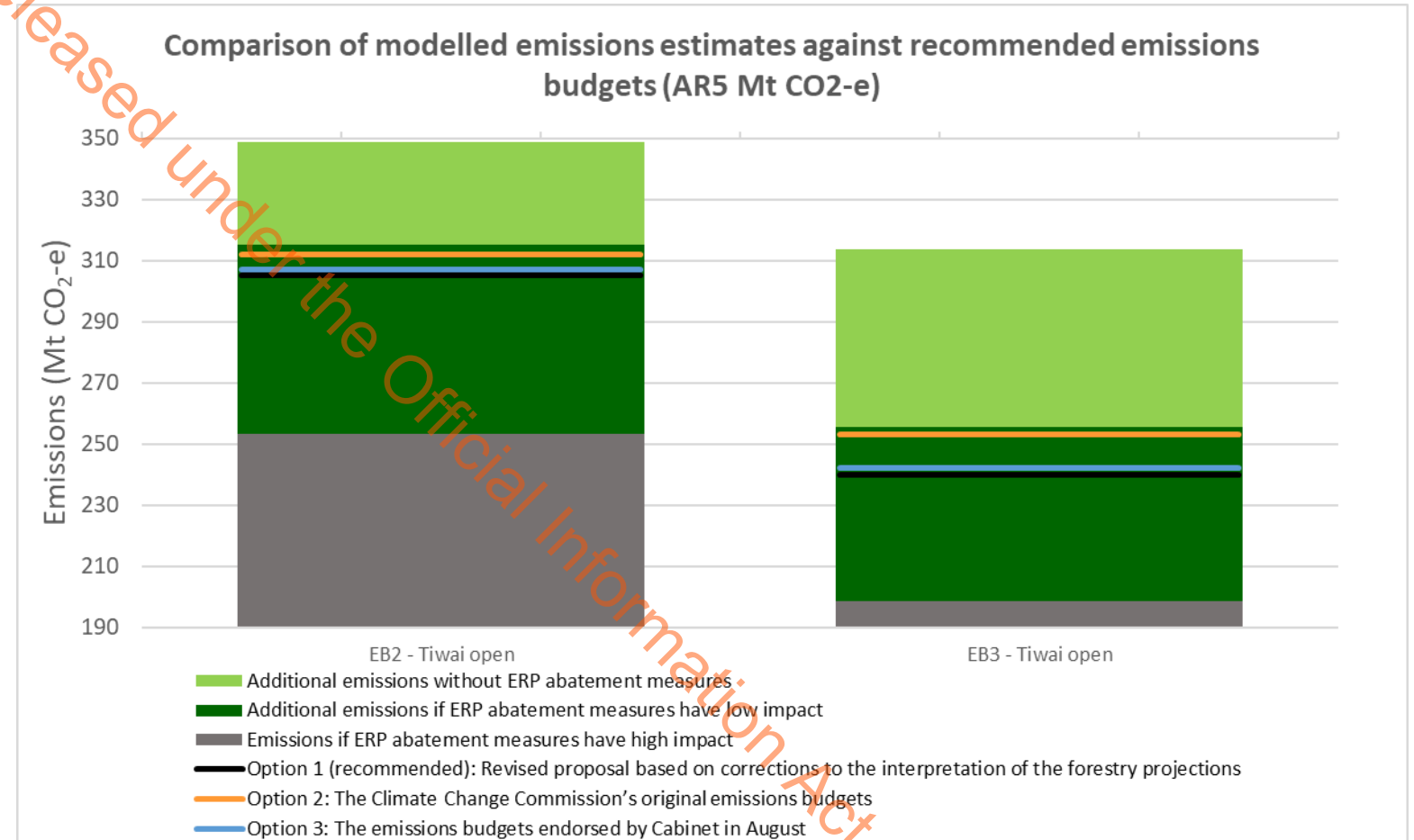


## The proposed policy package is likely sufficient to meet the revised proposal for emissions budget 1, but does not provide much of a buffer

- We need to consider if the proposed policy package in the Emissions Reduction Plan (ERP) can realistically meet the proposed emissions budgets.
- Modelling indicates that 290 Mt CO<sub>2</sub>-e is at the top end of the range of what the ERP will achieve if all policies are funded, well implemented and if the Tiwai smelter remains open. It may fall outside the range once Budget decisions are incorporated.
- Significant uncertainty remains in how New Zealand's emissions will change over time, and the impacts of our proposed policies. The figures reflect officials' best estimates of future emissions levels, but are necessarily based on multiple assumptions and predictions of the future.
- Global events such as the current global energy market shocks are impossible to predict, and will continue to impact both emissions levels and policy impacts. On a more local level, the closure of the Tiwai Point smelter would also have a material impact on emissions (2.4; 9.3; 3.0 Mt CO<sub>2</sub>-e across the three emissions budgets respectively).
- In light of this, we have previously agreed to take an adaptive management approach to managing emissions budgets – regularly checking in on progress and taking corrective action as required.
- There are also options for additional action to reduce emissions that could be used to provide a buffer. We have previously considered some of these options, and they are summarised in appendix 2.

# The revised proposal for emissions budgets are within the range of expected emissions reductions for EB2 and EB3

- Greater emissions reductions are needed as we head towards the 2050 target.
- The modelling indicates that we may achieve EB2 and EB3 with the policies and measures in the current ERP at both the high and relatively low impact levels (the proposed budgets fall within the dark green area in the graphs which represents abatement potential).
- Action to reduce emissions taken in EB1 sets us on the path to achieving the emissions reductions needed for EB2 and EB3.
- The uncertainties are larger for EB2 and EB3 than EB1 because we are forecasting further into the future.



# I intend to seek Cabinet's endorsement for the proposed emissions budgets

- I am currently preparing a paper for consideration at DEV on 13 April and Cabinet on 19 April, seeking endorsement of the proposed emissions budgets:

| Budget period    | EB1                       | EB2                       | EB3                       |
|------------------|---------------------------|---------------------------|---------------------------|
| Emissions budget | 290 Mt CO <sub>2</sub> -e | 305 Mt CO <sub>2</sub> -e | 240 Mt CO <sub>2</sub> -e |

- That paper will be circulated for Ministerial consultation prior to consideration at DEV.

# Appendix 1: Summary of options for first emissions budget

| EB1 Option 1 (recommended)   | EB1 Option 2: Climate Change Commission's budgets   | EB1 Option 3: In-principle budget  |
|--|---|--|
| 290 Mt CO <sub>2</sub> -e  | 290 Mt CO <sub>2</sub> -e   | 292 Mt CO <sub>2</sub> -e  |
| <p><b>How calculated:</b></p> <ul style="list-style-type: none"> <li>This removes the impacts of new information on deforestation intentions from the in-principle budget and considers only new information on afforestation intentions. This results in an EB1 of 290 Mt CO<sub>2</sub>-e.</li> </ul>  | <p><b>How calculated:</b></p> <ul style="list-style-type: none"> <li>This is detailed in the Climate Change Commissions report. Their advice is dated May 2021 and is based on best data available at the time</li> </ul>   | <p><b>How calculated:</b></p> <ul style="list-style-type: none"> <li>As agreed in principle in August 2021 for the October ERP consultation. This increased the Commission's recommended emissions budget by 2 Mt CO<sub>2</sub>-e to take account of new information on <u>both</u> afforestation and deforestation intentions.</li> </ul>  |
| <p><b>Rationale:</b></p> <ul style="list-style-type: none"> <li>Cabinet agreed in principle to modify the Commission's recommended number to take account of new information from the latest Afforestation and Deforestation Intentions Survey (published in June 2021 after the Commission reported).</li> <li>But the August Cabinet paper mistakenly attributed the 2 Mt CO<sub>2</sub>-e increase in EB1 to emissions from early stages of afforestation when it was due to an increase in deforestation intentions.</li> <li>If Cabinet had been aware the change in EB1 was driven by deforestation, they may have decided not to adjust the Commission's recommended number.</li> </ul> | <p><b>Rationale:</b></p> <ul style="list-style-type: none"> <li>As recommended by the Climate Change Commission</li> </ul>  | <p><b>Rationale:</b></p> <ul style="list-style-type: none"> <li>This is the proposed emissions budget agreed in principle in August 2021 and included in public consultation in October 2021.</li> <li>Cabinet agreed in principle to modify the Commission's recommended number to take account of new information from the latest Afforestation and Deforestation Intentions Survey (published in June 2021 after the Commission reported).</li> <li>The numerical adjustments provided to Cabinet were correct, however the description was incorrect. The emissions impact in EB1 is driven by deforestation intentions, but the land-use change is driven by afforestation intentions.</li> </ul> |
| <p><b>Implications for sufficiency of ERP policies:</b></p> <ul style="list-style-type: none"> <li>290 Mt CO<sub>2</sub>-e is at the top end of what ERP policies are estimated to achieve if the smelter remains open, so there is higher risk of not achieving it compared with a less ambitious budget.</li> <li>Ensuring the ERP does achieve this emissions budget would likely require one or more of: private sector actions, fully funding all the EB1 emissions reducing proposals in the ERP, determined rapid implementation and corrective action for any policies not fully on track, and possibly additional emissions reduction policies.</li> </ul>                            | <p><b>Implications for sufficiency of ERP policies:</b></p> <ul style="list-style-type: none"> <li>290 Mt CO<sub>2</sub>-e is at the top end of what ERP policies are estimated to achieve if the smelter remains open, so there is higher risk of not achieving it compared with a less ambitious budget.</li> <li>Ensuring the ERP does achieve this emissions budget would likely require one or more of: private sector actions, fully funding all the EB1 emissions reducing proposals in the ERP, determined rapid implementation and corrective action for any policies not fully on track, and possibly additional emissions reduction policies.</li> </ul> | <p><b>Implications for sufficiency of ERP policies:</b></p> <ul style="list-style-type: none"> <li>292 Mt CO<sub>2</sub>-e falls within the range of estimated policy impact estimates of ERP policies even if the smelter remains open.</li> <li>The current suite of ERP policies is likely to achieve the emissions reductions required based on current emission projections (noting that private sector actions can change emission projections significantly under any option).</li> </ul>   |

# Summary of options for second and third emissions budgets

| EB2 & EB3 Option 1 (recommended)   | EB2 & EB3 Climate Change Commission's budgets  | EB2 & EB3 Option 3: In-principle budgets  |
|--|--|---|
| <p>EB2: 305 Mt CO<sub>2</sub>-e</p> <p>EB3: 240 Mt CO<sub>2</sub>-e</p>  | <p>EB2: 312 Mt CO<sub>2</sub>-e</p> <p>EB3: 253 Mt CO<sub>2</sub>-e</p>  | <p>EB2: 307 Mt CO<sub>2</sub>-e</p> <p>EB3: 242 Mt CO<sub>2</sub>-e</p>   |
| <p><b>How calculated:</b></p> <ul style="list-style-type: none"> <li>Consistent with EB1 option 1, this reduces the agreed-in-principle emissions budgets for EB2 and EB3 to remove the impacts of new information on deforestation intentions and to take account of new information on afforestation intentions only.</li> <li>Compared to the in-principle budgets, this reduces each emissions budget by a further 2 Mt CO<sub>2</sub>-e, rounded to the nearest Mt CO<sub>2</sub>-e.</li> </ul> | <p><b>How calculated:</b></p> <ul style="list-style-type: none"> <li>Emissions budgets as recommended by the Commission in May 2021.</li> </ul>  | <p><b>How calculated:</b></p> <ul style="list-style-type: none"> <li>As agreed in principle in August 2021, this modifies the Commission's recommended emissions budgets to take account of new information on both afforestation and deforestation intentions</li> </ul> |
| <p><b>Rationale:</b></p> <ul style="list-style-type: none"> <li>Logically consistent with EB1 Option 1, ie, if Ministers would have decided to not include deforestation impacts into EB1 when adjusting for new forestry information, then the same rationale would logically be applied to all three emissions budgets periods.</li> </ul> <p><i>[Note we are confirming the Minister of Climate Changes preferred option for EB2 &amp; 3]</i></p>   | <p><b>Rationale:</b></p> <ul style="list-style-type: none"> <li>s 9(2)(g)(i)</li> <li>The Commission's modelling and analysis is a cohesive package and based on the information available at the time. The advice factored in uncertainty and allows for flexibility. Sensitivity analysis and scenario testing were used to demonstrate the recommended budgets could still be met under a wide range of circumstances.</li> </ul> | <p><b>Rationale:</b></p> <p>Takes into account all the new forestry information that has been produced since the Commission produced their budgets, irrespective of what the caused the change in emissions.</p>  |

## Implications for sufficiency of ERP policies:

- All options are achievable based on current emissions projections and ERP policy impact assessment, as the current high to low policy impact range estimates with Tiwai Point remaining open are 253 to 315 Mt CO<sub>2</sub>-e in EB2, and 199 to 255 Mt CO<sub>2</sub>-e in EB3.
- Option 1 is slightly more ambitious than the in-principle budget, both are slightly more ambitious than the Commission's recommendations

## Appendix 2: Potential additional measures previously considered by CRMG

s 9(2)(f)(iv)



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# Table continued from previous slide

| Initiative  | Description  | Implications   | Assessment and recommendation |
|---|--|--|-------------------------------|
| s 9(2)(g)(i)  |  |  |                               |
| s 9(2)(f)(iv)                                       | s 9(2)(f)(iv)  | s 9(2)(f)(iv)  | s 9(2)(f)(iv)                 |
| An Agricultural Greenhouse Gas Centre of Excellence | This Centre would be a joint venture for government, industry, Māori and the science sector to strengthen capability and capacity for agricultural greenhouse gas research and accelerate the development of mitigation tools.<br>A consortium of companies has indicated a willingness to provide up to \$50m per annum of funding. | The Centre would focus on: <ul style="list-style-type: none"> <li>• driving faster technology development</li> <li>• commercialisation and uptake of emissions mitigation technologies;</li> <li>• creating a strong system to support delivery of mitigations over the long term; strengthening leadership in and alignment of biological emissions efforts.</li> </ul> | Agree to investigate further. |