

PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	Portfolio	Climate Change
Name of package	Papers for the 2025 adaptive management advice and Government response to the CCC's monitoring report	Date to be published	28 November 2025

List of documents that have been proactively released

Date	Title	Author
10 July 2025	BRF-6329 Implementing the adaptive management approach	Climate Change Interdepartmental Executive Board Unit (Climate IEB Unit)
18 July 2025	BRF-6489 Event note / talking points: meeting with the CCC on the 2025 annual monitoring report	Climate IEB Unit
24 July 2025	BRF-6460 CCC 2025 annual monitoring report - support to table in the House	Climate IEB Unit
26 August 2025	BRF-6688 Initial assessment and proposed approach - 2025 adaptive management assessment and Government response to CCC ERM report	Climate IEB Unit
8 September 2025	BRF-6730 Cabinet material for adaptive management and Government response to CCC's annual monitoring report	Climate IEB Unit
29 September 2025	BRF-6873 2025 adaptive management assessment and Government response to the CCC ERM report – approval to lodge	Climate IEB Unit
2 October 2025	CAB-571 2025 adaptive management assessment of progress towards the second emissions budget and Government Response to Climate Change Commission's Emissions Monitoring Report	Climate IEB Unit
8 October 2025	ECO-25-MIN-0155 ECO Committee minute of decision: Progress Towards Second Emissions Budget and Government Response to Climate Change Commission's Emissions Monitoring Report	Cabinet Office
13 October 2025	CAB-25-MIN-0348 Cabinet minute of decision	Cabinet Office
13 October 2025	BRF-6936 Next steps for the release of the 2025 response to the CCC ERM report	Climate IEB Unit

Information redacted

YES

NO

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

The following documents have information withheld under section 9(2)(h) of the Official Information Act due to legal privilege:

- BRF-6329
- BRF-6730
- BRF-6873: Appendix 4
- CAB-571

The following documents have information withheld under section 9(2)(f)(iv) of the Official Information Act due to still being under active consideration, awaiting decision or direction:

- BRF-6329
- BRF-6460
- BRF-6688
- BRF-6730
- BRF-6873: in appendices
- CAB-571

The following documents have information withheld under section 9(2)(g)(i) of the Official Information Act as free and frank expression of opinion:

- BRF-6460
- BRF-6489
- BRF-6873

The following documents have information withheld under section 9(2)(b)(ii) of the Official Information Act due to commercial sensitivity:

- BRF-6460

Briefing: Implementing the adaptive management approach

Date submitted: 10 July 2025

Sub Security level: In-Confidence

MfE priority: Not urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	<p>Note that you and ERP2 Ministers are due to deliver the first adaptive management assessment for EB2 to Cabinet in October.</p> <p>Agree the high-level design to implement the three-phase cycle for adaptive management of track, review, respond.</p> <p>Agree that for 2025 only, a two-step process is taken should a Response be needed to manage risks to meeting EB2.</p> <p>9(2)(f)(iv) [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>Note the delivery timeline for 2025.</p>	16 July 2025

Actions for Minister's office staff
Return the signed briefing to the Climate Change Interdepartmental Executive Board Unit (board@climateieb.govt.nz).


Appendices and attachments
9(2)(h) [REDACTED]
[REDACTED] Appendix withheld in full under section 9(2)(h) of the Act.

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Lauren Smith		
Chief Advisor	Amy Tisdall		
Executive Director	Kirsty Flannagan	021 0420264	✓

Minister's comments

Implementing the adaptive management approach


Key messages

1. This briefing outlines the high-level process to implementing the annual adaptive management approach to ensure New Zealand can meet the second emissions budget.
2. The second emissions reduction plan (ERP2) provides for an adaptive management cycle to manage any risks to meeting the second emissions budget (EB2) which:
 - i **tracks** policy delivery and leading indicators;
 - ii **reviews** emissions projections and risks, and evaluates progress against EB2;
 - iii **responds** when necessary to stay on track to meet EB2.
3. We recommend that the standard annual cycle of adaptive management advice to Cabinet includes an assessment of:
 - the progress made to implement ERP2, trends over time using economy-wide and sectoral indicators and identify emerging opportunities or risks (track);
 - whether New Zealand is on track to meet EB2, the most material risks to achieving EB2, and whether corrective action is recommended (review);
 - options to act to manage risks and help ensure we remain on track if required (respond).
4. This cycle requires you, and Ministers responsible for ERP2 policies, to report back to Cabinet annually to confirm whether the Government remains on track to meet EB2 and, if not, to recommend further actions that might be necessary to get back on track. This report back is planned for October, aligned with Cabinet's consideration of the Government's response to the Climate Change Commission's (the Commission) emissions reduction monitoring (ERM) report.
5. For 2025 only, we propose a two-step process to the Respond phase. In October, Cabinet will decide whether a response is required as part of its consideration of recommendations on adaptive management. If agreed a response is required, we will work with agencies to rapidly develop options and report back to Cabinet as soon as possible. 9(2)(f)(iv)

6. Updated annual emissions projections will be the key determinant for assessing if New Zealand is on track to meet EB2. You will be briefed on annual projections in August, and on the broader adaptive management assessment in September.
7. You will also receive advice on decisions for the annual ETS settings in August. Decisions on the 2025 ETS settings and associated accordancy assessments will be an input into the adaptive management process to ensure consistent consideration of assessing progress towards meeting EB2.

Recommendations

8. We recommend that you:
- a. **note** that you and ERP2 Ministers are due to deliver the first adaptive management assessment for EB2 to Cabinet in October
 - b. **agree** the high-level design to implement the three-phase cycle for adaptive management to:
 - i. **TRACK** the progress made to implement ERP2, trends over time using economy wide and sectoral indicators and identify emerging opportunities or risks
 - ii. **REVIEW** whether New Zealand is on track to meet EB2, and the most material risks to achieving EB2, and
 - iii. **RESPOND** with options to address risks and help ensure we remain on track for EB2 if required
 - c. **agree** for 2025 only, a two-step process in the event a Response is needed that first seeks Cabinet agreement a response is required, then subsequently presents options for a proportionate response
 - d. 9(2)(f)(iv) [REDACTED]
 - e. **note** the delivery timeframe for 2025 outlined in this briefing.

Signatures



Kirsty Flannagan
Executive Director
**Climate Change Interdepartmental
Executive Board Unit**
10 July 2025

Hon Simon WATTS
Minister of Climate Change

Date

Implementing the adaptive management approach

Purpose

9. This briefing outlines the high-level process for implementing the annual adaptive management approach to ensure New Zealand can meet the second emissions budget (EB2). It also outlines the timeline to deliver the 2025 adaptive management assessment to Cabinet.

Background

10. In November 2024, Cabinet agreed to the second emissions reduction plan (ERP2) as the plan to meet EB2 (ECO-24-MIN-0243 refers). Chapter three of ERP2 provides for an adaptive management cycle to manage risks that may arise to achieving the requirement to meet EB2, which:
 - **tracks** policy delivery and leading indicators;
 - **reviews** projections and risks, and evaluates progress against the emissions budget;
 - **responds** when necessary to stay on track to meet EB2.
11. In approving ERP2, Cabinet also invited you and other Ministers responsible for ERP2 policies to report back to Cabinet annually to:
 - confirm whether the Government remains on track to meet EB2 and, if not,
 - recommend further actions that might be necessary to get back on track, as outlined in the adaptive management approach for ERP2.
12. Cabinet agreed its consideration of adaptive management would occur alongside the Government's response to the Climate Change Commission's (the Commission) emissions reduction monitoring (ERM) report, which is due mid-October every year. ¹
13. The Climate Change Chief Executives Board (the Board) is responsible for administering the adaptive management function, alongside reporting on Target 9. The CCIEB Unit has worked with agencies to develop the detailed design of the annual adaptive management cycle. 9(2)(h)

¹ prepared under s 5ZK Climate Change Response Act 2002.

Three phases of the annual adaptive management cycle

14. The high-level design to implement the three-phase cycle for adaptive management is to:

- TRACK the progress made to implement ERP2, trends over time using economy-wide and sectoral indicators, and identify emerging opportunities and risks;
- REVIEW whether New Zealand is on track to meet EB2, and assess the most material risks to achieving EB2; and
- RESPOND with options to address risks and help ensure we remain on track for EB2 if required.

TRACK phase – key data and information inputs to inform progress towards EB2

15. In the Track phase, the CCIEB Unit will monitor New Zealand's progress towards meeting the second emissions budget, using:

- Qualitative and quantitative indicators (including ERP2 policy implementation progress and whether these policies are achieving intended outcomes);
- Horizon scanning (including collecting and interpreting information about emerging trends, risks and opportunities that may impact emissions outcomes);
- the annual emissions projections.

16. The findings of the Track sources inform the Review phase and other reporting requirements, including Target 9 reports.

REVIEW phase – assessing risks to meeting EB2

17. The review phase of the adaptive management cycle is about determining whether we are on track to meet EB2 or not, identifying the main drivers of change, and assessing any emerging risks or opportunities. This will be based on an overall assessment of any risks identified through the annual emissions projections, and any additional risk/s identified through horizon scanning, the indicator framework and the Commission's ERM report that are not already accounted for in projections.

18. Standard risk assessment tools (including a risk taxonomy, consequence matrix, and a likelihood matrix) will be used to support this phase. These tools have been designed to support a judgement-based assessment of risks, and to be agile to respond to different circumstances within the EB2 period. For example, an abatement impact of 0.5 Mt CO₂-e in 2025 may be deemed to be minor but towards the end of the EB2 period it is likely to be rated higher.

19. The findings of the Review phase will inform the Board's and Ministers' assessment and judgement of whether to recommend to Cabinet that a response is required to manage risks to EB2.²

² This annual advice to Cabinet does not exclude the possibility that the Minister may need to be briefed on, and determine an appropriate response to, any risks to EB2 that arise throughout the year.

RESPOND phase – determining if a response is required, and what that might be

20. For the Respond phase, the Board will consider whether a response is recommended to manage any risks to EB2, and the nature of a proportionate response to be recommended. Such an assessment will necessarily be fact specific and be informed by where the central estimate of emissions projections is sitting relative to the EB2 limit.
21. The findings of the Review phase will inform the assessment of whether New Zealand is:
- i. On track, and no risk/s to EB2 need managing; or
 - ii. On track, but some risk/s to EB2 need managing; or
 - iii. Off track, and risk/s to EB2 need managing.
22. Ministers will need to consider the degree to which the risk/s is likely to materialise, the impact of the risk if it does materialise, and what a proportionate response might then be. ERP2 notes that response options could include additional monitoring or policy interventions (e.g. ensuring ETS settings are aligned with EBs via the annual review, adjusting other existing policies, or a new policy).³ In addition, proactive cooperation with the private sector on industry-led initiatives is another option to consider for a response.
23. Ultimately, it will be a question of judgement, depending on the nature of risk/s that need managing. The findings of the assessment and, if required, options and key judgements for a proportionate response will be set out in the annual Cabinet report-back.

We propose a two-step process for 2025

24. For 2025, the Board proposes that the October advice to Cabinet outlines whether New Zealand is on track to meet EB2, including the key findings of the risk assessment and whether any risks to EB2 may need managing. Then, if required, Cabinet will seek further advice from officials on options for a proportionate response to manage those risks.
25. This two-step process is only recommended for 2025, because:
- the EB2/ERP2 period is yet to commence, with time required this year to establish the function and process;
 - Cabinet invited the annual consideration of adaptive management advice to be delivered alongside the Government response to the Commission's annual ERM report, and there are tight timeframes associated with this response (paragraph 33-34 note that the Climate Change Response Act 2002 (CCRA) efficiency review seeks to address this for 2026 onwards);
 - there is limited time and capacity (given the factors above) to work through possible options for a proportionate response, if required to respond to risks, ahead of consideration by Cabinet in October.

³ Note that the role of banking or borrowing between emissions budgets is not included as an option to assess in the case that a response scenario is triggered. This is subject to a separate assessment and advice from the Commission at the end of the previous emissions budget period, and subsequent decisions taken by the Minister of Climate Change.

26. If Cabinet agrees in October that the risk/s to EB2 need to be managed, we will recommend parameters for you to discuss with your ERP2 Ministerial colleagues for developing any response options to include in the subsequent advice to Cabinet. These parameters will be a question of judgement and will require Ministerial direction.
27. In the event further advice on a proportionate response is sought, a report back to Cabinet will need to be done quickly given your duty in section 5X of the Act to ensure the emissions budget is met, and that some responses will take time to be implemented and to have an emissions abatement effect.

Next steps

28. Note the following upcoming inputs to the adaptive management process, including:
- The Commission's annual monitoring report, prepared under s 5ZK of the CCRA, which you will receive in mid-July. You will be provided with a separate briefing paper ahead of that to support you to table it in Parliament.
 - Emissions projections will be finalised in August. These are the key determinant for assessing if New Zealand is on track to meet EB2.
 - NZ ETS settings decisions and associated accordance assessments which will occur in August.
29. Table 1 sets out our proposed timeframes in order to meet the legislative timeframes for delivering the Government's response to the Commission's annual monitoring report. Adaptive management timeframes are designed to allow both products to be delivered in one Cabinet paper.

Table 1: 2025 timeframes for delivery

Date	Activity
Mid-August	CCIEB Unit and MfE will brief you on the latest emissions projections and what they mean for the adaptive management assessment for 2025
By 4 Sept	CCIEB Unit will provide you with draft Cabinet material on the adaptive management assessment, and the Government response to the Commission's annual monitoring report
8-19 Sept	Ministerial consultation on Cabinet material commences (in parallel with agency consultation)
22-30 Sept	CCIEB Unit integrate consultation feedback and opportunity for further Ministerial engagement
2 Oct	Lodge Cabinet paper for ECO
8 Oct	ECO consideration
13 Oct	Cabinet consideration
15 Oct	Table Government response to annual monitoring report

- 30. Should the findings of the 2025 assessment indicate there is a need to respond to any risk/s, engagement with your ERP2 colleagues may be needed during the Ministerial consultation period to confirm this assessment to present to Cabinet.
- 31. Should a Response be recommended, the October Cabinet paper will include recommendations for the subsequent process, parameters and timeframe to report back with options. The CCIEB Unit will work with agencies on options for a proportionate response.
- 32. 9(2)(f)(iv)
[REDACTED]

Related proposals for amendments to the CCRA

- 33. You will be receiving advice from MfE on proposals for amendments to the CCRA as part of the efficiency review (BRF-6321 refers). The CCIEB Unit is working with MfE officials to understand opportunities through this amendment process, to better align and sequence adaptive management decisions with ETS settings decisions and improve the efficiency of the monitoring framework, which links to the delivery of the annual adaptive management advice.
- 34. The CCIEB Unit will work with agencies on any adjustments required to the adaptive management process following CCRA amendment decisions and learnings from the 2025 process, ahead of commencing the process for 2026.

Event note / Talking points: Meeting with the Climate Change Commission on the 2025 annual monitoring report

Date submitted: 18 July 2025

Tracking number: BRF-6489

Security level: In confidence

Actions sought from ministers	
<i>Name and position</i>	<i>Action sought</i>
To Hon Simon WATTS Minister of Climate Change	Note the talking points in Appendix 1.

Appendices and attachments
<ol style="list-style-type: none"> 1. Talking points Appendix 1 not included in this proactive release. 2. One-page summary of the 2025 annual monitoring report (attached).

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Manon Julien		
Responsible Manager	Llinos Williams		
Executive Director	Kirsty Flannagan		✓

Appendix 2 is available at: https://www.climatecommission.govt.nz/assets/Monitoring-and-reporting/ERM-2025/CCC-5929-One-page-summary-ERM-2025_FA.pdf

Meeting with the Climate Change Commission on the 2025 annual monitoring report

Purpose

1. You are meeting with the Climate Change Commission (the Commission) on 21 July to discuss their 2025 annual report *Monitoring report: Emissions reduction* (ERM report). This meeting provides an opportunity to discuss the key findings of the ERM report with the Commission ahead of the report being tabled in the House and made public.

Context

2. The Commission is required to report annually and assess progress toward emissions budgets, the 2050 target, and implementing emission reduction plans. The Commission provided you with its 2025 ERM report on 15 July. The report must be tabled in the House of Representatives within 10 working days, and you are required to provide a formal response within three months¹.
3. The Commission's ERM report is being used as a key input into the analysis supporting the Government's adaptive management approach for managing progress towards meeting the second emissions budget (EB2) (refer BRF-6392). You will receive briefings over the coming months as this work progresses, ahead of taking a paper to Cabinet in October on the adaptive management advice and the Government's response to the ERM report.

Meeting details

4. The meeting is on Monday 21 July, from 4.30pm-5pm online. The key purpose of this meeting is for the Commission to brief you on its latest ERM report. Dame Patsy Reddy (Chairperson of the Commission) and Jo Hendy (Chief Executive of the Commission) will be attending.
5. You will be supported by Kirsty Flannagan, Executive Director and Mel Rae, Principal Analyst from the Climate Change Interdepartmental Executives Board (CCIEB) Unit, along with Mark Vink, General Manager Markets from the Ministry for the Environment (MfE).
6. Talking points and possible questions to raise during the meeting are provided in Appendix 1. We understand that you are also receiving a briefing directly from the Commission to support this meeting.
7. The CCIEB Unit will provide you a more detailed briefing on the ERM report, including input from relevant sector agencies next week to support you tabling the ERM report in the House.

¹ Section 5ZJ and 5ZK of the Climate Change Response Act 2002

Key findings from the ERM report

8. The 2025 ERM report contains three overall key findings:
 - i. Aotearoa New Zealand is making progress on reducing greenhouse gas emissions – net emissions fell by 2% between 2022 and 2023.
 - ii. Emissions are on track for the first emissions budget (for 2022–2025) but will need more work – urgently – to set up for future budgets and the 2050 target.
 - iii. Action across a wide range of sectors can strengthen the country’s resilience to changing global conditions. There are many viable opportunities for further reductions that could reduce risk for the economy and return other benefits to the country.
9. The 2025 ERM report contains one overall recommendation:
 - i. The Government acts ahead of the third emissions reduction plan, to reduce risk for the second emissions budget and get on track for the third budget and 2050 target, by:
 - a. strengthening the New Zealand Emissions Trading Scheme (NZ ETS) to ensure it can be effective as a key policy tool for reducing emissions; and
 - b. implementing additional targeted policies to complement the NZ ETS, focused on renewable energy, transport and agriculture.
10. The Commission used the government projections published in ERP2 in December 2024 in the assessment of tracking progress towards emissions budgets. As such, the assessment is largely consistent with government assessments. The ERM report states:
 - i. emissions are on track to meet EB1 with the Commission identifying that the remaining risks to EB1 are external factors (such as low rainfall levels impacting hydroelectric generation, or unexpected loss of forest area through deforestation, storm or wildfire)
 - ii. the EB2 can be met, with the Commission assessing there are moderate risks in most areas and some areas of significant risk (relating to both delivery risk and risk from external factors)
 - iii. current plans are insufficient to meet the third emissions budget (for 2031–2035). The Commission identifies a particular risk of relying on a single sector for a large proportion of reductions with 46% of planned reductions in EB3 through forest removals
 - iv. There are significant risks for meeting the 2050 target unless further action is taken.
11. The key findings and recommendation are underpinned by an assessment of progress and risks in emitting sectors and of system enablers (such as the NZ ETS, funding and financing system, research, science and technology and governance). The ERM report outlines ‘Areas for attention’ that could support early action and would be consistent with the approach set out in ERP2. Potential targeted policies to complement the NZ ETS include taking advantage of falling prices for solar, EVs, and batteries to accelerate the

shift to a low emission energy system and facilitating the uptake of new technology and farm practices in the agriculture sector.

12. The Commission highlighted the need for the NZ ETS to evolve to remain effective in reducing net emissions in the 2030s and beyond. The net emissions cap is projected to reach zero at that time, limiting the scheme's effectiveness as a tool for meeting emission targets. The Commission notes a considered and well signalled evolution of the NZ ETS would help maintain market confidence in the scheme.
13. The Commission also note the current NZU price is too low to influence emission reductions in energy and industry, and too variable for investments in removals. To maintain market confidence and achieve emission reduction targets, it says the ETS needs to evolve and have greater price stability and predictability.
14. The Commission's one page summary of its report can be found in Appendix 2.

Next steps

15. Officials will prepare a further briefing and work with your office to support you in tabling the ERM report in the House by 29 July (within 10 days of receiving the report). This will include a more detailed assessment of the Commission's findings, sector specific commentary, and reactive Q&As. The Commission's ERM report is potentially market sensitive. We will work with your office to have the report tabled in the House before the market opens. Once it is tabled, and before trading begins, we will issue a market announcement email.
16. Your next regular performance meeting with the Commission's Chair and Chief Executive is scheduled for 14 August 2025. This meeting will provide an opportunity to discuss matters such as the proposed use of funds returned to the Commission following incorrect resident withholding tax deductions. MfE will provide you with a briefing to support your discussion ahead of the meeting.

Appendix 2: One-page summary of the 2025 annual monitoring report

See attached pdf.

Appendix is available at: https://www.climatecommission.govt.nz/assets/Monitoring-and-reporting/ERM-2025/CCC-5929-One-page-summary-ERM-2025_FA.pdf

Briefing: Climate Change Commission's 2025 annual monitoring report – support to table in the House

Date submitted: 24 July 2025

Tracking number: BRF-6460

Sub Security level: In-Confidence

MfE priority: Urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	Note we will work with your office to support tabling the annual monitoring report in the House on Friday 25 July. Agree the timeline for delivering your response to the annual monitoring report, as set out in paragraph 16.	30 July 2025

Actions for Minister's office staff
Return the signed briefing to the Climate Change IEB Unit (board@climateieb.govt.nz)

Appendices and attachments
1. Initial cross-agency assessment of the ERM key findings and sector findings
2. Reactive key messages and Q&As on the ERM report

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Manon Julien		
Responsible Manager	Llinos Williams		
Executive Director	Kirsty Flannagan	021 0420264	✓

Minister's comments

Climate Change Commission's 2025 annual monitoring report – support to table in the House

Purpose

1. The purpose of this briefing is to support you to table the Climate Change Commission's (the Commission's) 2025 annual report *Monitoring report: Emissions reductions* (ERM report). It also provides you with initial high-level 'take-outs' of the report's key findings, and key messages and Q&As to assist with any enquiries following the report's release.

Tabling the Commission's ERM report

Independent monitoring and reporting on progress towards meeting climate change targets

2. The Climate Change Response Act 2002 (CCRA) requires the Commission to independently monitor and report annually on the Government's progress towards meeting the 2050 target, progress against emissions budgets and emissions reduction plans (s5ZJ and 5ZK).
3. On 15 July, you received the Commission's ERM report. You met with the Commission on 21 July to discuss the report (refer BRF-6489). You are required to table the ERM report in the House of Representatives within 10 working days of receiving it.
4. An initial assessment of the key findings, developed with relevant agencies, is provided in Appendix 1.

Presenting the ERM report to the House of Representatives

5. Officials will work with your office to support the tabling of the ERM report, which we understand is confirmed for 25 July. The report has been assessed by the Ministry for the Environment as potentially market sensitive for the New Zealand Emissions Trading scheme (NZ ETS). As such, it will be tabled in the House before the market opens. Officials from your office will table the report on your behalf.
6. Consistent with last year's approach, we understand you are not planning any communications activity following the ERM report's release. A set of reactive key messages and Q&As are provided in Appendix 2 to support you in responding to any enquiries. As the Commission is the author of the report, most enquiries can be referred directly to them.

Key findings of the Commission's ERM report

ERM report key findings

7. You received an initial briefing last week on the key findings of the ERM report, ahead of your meeting with the Commission (refer BRF-6489).
8. The ERM report highlights that Aotearoa New Zealand is making progress on reducing greenhouse gas emissions, with net emissions falling by 2% between 2022 and 2023.
9. The Commission used the Government's emissions projections from the second emissions reduction plan (ERP2, published in December 2024) to assess emissions reduction progress. As such, its findings are broadly consistent with the Government's own progress assessments. The Commission finds that:
 - i emissions are on track to meet the first emissions budget (EB1), with the Commission identifying that the remaining risks to EB1 are external factors (such as low rainfall levels impacting hydroelectric generation, or unexpected loss of forest area through deforestation, storm or wildfire);
 - ii the second emissions budget (EB2) can be met, with the Commission assessing there are moderate risks in most areas and some areas of significant risk (relating to both delivery risk and risk from external factors);
 - iii current plans are insufficient to meet the third emissions budget (EB3, for the period 2031–2035). The Commission identifies a particular risk of relying on a single sector for a large proportion of reductions with 46% of planned reductions in EB3 through forest removals;
 - iv there are significant risks for meeting the 2050 target unless further action is taken.
10. To reduce the risks to EB2, EB3 and the 2050 target, the Commission recommends acting ahead of the third emissions reduction plan (ERP3) by:
 - i strengthening the NZ ETS to ensure it can be effective as a key policy tool for reducing emissions; and
 - ii implementing additional targeted policies to complement the NZ ETS, focused on renewable energy, transport and agriculture.
11. We have developed an initial cross-agency assessment and commentary of the key findings and sector findings, provided at Appendix 1.

How the Commission assessed risk

12. The Commission uses "policy scorecards" to assess current policies and plans in delivering emissions reductions in different sectors of the economy, to then determine

the risk (rated as low, moderate or significant) associated with delivering those emissions reductions.¹

13. The Commission aggregates the sector scorecards to provide an overall assessment of risk to meeting the emissions budgets and the 2050 target under current policies and plans (figure 2.5 in the ERM report, or figure 2 in the one-page summary). This approach is consistent with the approach taken in the 2024 annual monitoring report.

Next steps

14. The ERM report is scheduled to be tabled in the House on 25 July, before the market opens. The Commission will then make the report publicly available and engage the public on its findings.
15. The ERM report is being used as a key input into the analysis supporting the Government’s adaptive management approach for managing progress towards meeting EB2 (BRF-6329 refers). You will receive briefings over the coming months as this work progresses, ahead of taking a paper to Cabinet in October on the adaptive management advice and the Government’s response to the ERM report.
16. The timeframe is driven by the CCRA requirement for you to table and make public a response to the Commission’s ERM report within three months of receiving it (i.e. by 15 October). Table 1 sets out the proposed delivery timeframe.

Table 1: Delivery timeline for the adaptive management advice and government response

Timeframe	Action
25 July	Table the Commission’s ERM report in the House
Mid-August	MfE and CCIEB Unit will brief you on the 2025 emissions projections work
By 4 Sept	CCIEB Unit will provide you with draft Cabinet material on the adaptive management assessment, and the Government response to the Commission’s ERM report
8-19 September	Ministerial consultation on the response to the ERM report (in parallel with agency consultation)
2 October	Cabinet paper lodged with ERM response appended
8 October	ECO consideration
13 October	Cabinet consideration
By 15 October	Present the response to the House of Representatives

¹ Scorecards assess each sector against four criteria: what are the key policies in place; is there sufficient funding and financing in place; are there other barriers or enablers to consider; are timeframes sufficient to achieve emissions reductions in the EB2 and EB3 periods?

Recommendations

We recommend that you:

- a. **Note** you have 10 working days to table the ERM report in the House of Representatives
- b. **Note** the report is being treated as NZ ETS market sensitive (category 3) and will be tabled and released outside of market hours on 25 July, with a notification sent to market participants as soon as possible following tabling
- c. **Agree** to the timeline for delivering your response to the ERM report set out in paragraph 16.

Yes | No

Signatures



Kirsty Flannagan
**Executive Director, Climate Change Chief
Executives Board Unit**

Date: 24 July 2025

Hon Simon Watts
Minister of Climate Change

Date:

Appendix 1: Initial cross-agency assessment of the ERM key findings and sector findings

**Note: This table is based on figures taken directly from the Climate Change Commission’s 2025 ERM report. We note there may be some uncertainty around the accuracy of these figures; further validation may be required.*

Key findings	Cross-agency initial assessment commentary
<p>Emissions budget 3 and beyond</p> <p>Current plans are not sufficient to meet the EB3 with a major risk being the heavy reliance on a single sector, forestry, which accounts for 46% of planned emissions reductions.</p> <p>The Commission recommends the Government acts ahead of ERP3, to reduce risk for EB2 and get on track for EB3 and the 2050 target.</p>	<p>The Commission’s finding that current plans are not sufficient to meet EB3 is consistent with the Government’s own assessment.</p> <p>Officials agree with the Commission’s recommendation to act ahead of EB3 to reduce risks to EB2 and get on track for EB3 and the 2050 target. This work can be guided by the Government’s climate strategy and focused on addressing barriers and enabling market-led action.</p> <p>Officials also agree with the broad areas the Commission has identified for investigation.</p> <p>These align with the market-led approach and include incentivising activity in NZ ETS-covered sectors, particularly by clarifying the NZ ETS beyond 2030. Further priorities include working with the agriculture industry to adopt new technologies and farm practices, and incentivising forestry removals.</p>
<p>New Zealand’s Emissions Trading Scheme</p> <p>The NZ ETS needs to evolve to remain effective beyond 2030. It emphasises the importance of a considered and well-signalled approach to maintain market confidence.</p> <p>The Commission highlights that, as net emissions are projected to reach zero around 2030, the current NZ ETS settings may become less effective at driving further reductions. Without change, this could lead to market instability and increase the risk of not meeting the 2050 long lived gas target.</p>	<p>9(2)(g)(i) [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>

Key findings	Cross-agency initial assessment commentary
<p>The current NZ Unit price is too low to drive emissions reductions in energy and industry, and too volatile to support investment in removals.</p> <p>To maintain market confidence and achieve emissions reduction targets, the NZ ETS needs to evolve and have greater price stability and predictability.</p>	<p>Officials support the Commission's recommendation to provide greater clarity on how the NZ ETS emissions cap will be managed over time, including the circumstances under which it might change. 9(2)(f)(iv)</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>Energy and industry</p> <p>The Commission has increased the risk to achieving reductions in this sector to moderate on EB2 and significant in EB3. This reflects the increasing risk that the NZ ETS will not maintain a sufficient price signal under current settings, as well as a need for greater action to address capital cost barriers to investing in actions or technologies that reduce emissions. The report also identifies uncertainty for realising reductions from carbon capture and storage (CCUS), and concerns over gas prices and availability.</p> <p>...and building and construction</p> <p>The Commission has increased the risk assessment from 'moderate' to 'significant' for phasing out fossil fuels for operational energy and reducing energy demand in buildings.</p> <p>The risk has also increased in the last year for realising emissions reductions in the building and industrial sectors through electrification.</p>	<p>Government policy is focussed on core affordability and security of supply concerns as these are a necessary precursor to effectively enabling electrification and associated emissions reductions in both energy and other sectors such as transport.</p> <p>The main driver behind the potential lack of viability for Todd Energy's proposed CCUS work at Kapuni is the decline in gas reserves and production. This means that while there is a risk forecast abatement from CCUS activities may not eventuate, net emissions from this sector are in fact likely to be lower given the reduced production of gas.</p> <p>Work is under way to provide greater long-term certainty, including a Government Policy Statement on Electricity, developing an energy strategy, and enabling the development of wood energy and biogas markets.</p> <p>Building and construction</p> <p>Officials generally agree with the Commission's assessment. The Government is focussed on incentivising emissions reductions from buildings by streamlining consenting processes and making better data and information more widely available. For example, by clarifying that a building consent is not required to install rooftop solar on buildings.</p>

Key findings	Cross-agency initial assessment commentary
<p>Transport</p> <p>The Commission identifies improvements to integrated planning for urban development and freight transport to better support the shift to lower emissions transport options for both people and goods. For freight, the Commission also identifies the barrier of high upfront costs of zero emissions heavy vehicles will need to be overcome.</p> <p>The Commission also recommend making it easier to use low-carbon liquid fuels and sustainable aviation fuels by funding research, offering tax incentives or grants to fuel producers, and setting rules that encourage the use of low-carbon fuels is a way to lower emissions in these areas.</p>	<p>The Government’s current actions align with the Commission’s recommendation to address the high upfront cost barrier to zero-emission heavy vehicles by providing targeted incentives.</p> <p>The work underway to reform the Resource Management Act includes a focus on improving infrastructure funding and financing to support urban growth which will help lower emissions from private and public transportation options.</p> <p>At the 2024 Australia–New Zealand 2+2 Climate and Finance Dialogue, Ministers agreed to explore the necessary conditions for establishing a regional SAF industry for aviation emissions. This work is ongoing with a number of key industry players part of a trans-Tasman working group.</p>
<p>Agriculture</p> <p>The risk to achieving reductions in emissions from farming is moderate in EB2 as this area is expected to have little impact in ERP2. The overall risk assessment for EB3 is significant.</p> <p>The Commission finds that while technology solutions are promising, they carry significant risk due to uncertainty around commercialisation and adoption.</p> <p>The report suggests farmers have little incentive to reduce emissions. It recommends that the government take action to incentivise early adoption of low emission technologies and farm practices ahead of agricultural pricing being introduced in 2030.</p>	<p>The Government recognises the risk in the reliance of technological solutions and is addressing it by investing in a portfolio of different technologies so there is no reliance on a single technology or approach.</p> <p>Officials agrees with the Commission’s recommendation to facilitate earlier uptake of technology by partnering with the private sector to provide greater incentives to farmers who act on emissions. 9(2)(b)(ii)</p> <p>██████████ MPI is aware of challenges to delivering technologies and is working to streamline the regulatory processes to speed up approvals and deliver technologies to farmers sooner.</p> <p>Officials also note that the report overlooks the broader economic and production drivers that shape agricultural emissions. We will seek to address this in the more fulsome response to the ERM report as part of the next phase of work.</p>

Key findings	Cross-agency initial assessment commentary
<p>Forestry and removals</p> <p>The Commission highlights a major risk of over reliance on forestry removals, noting they are expected to account for 33% of reductions in EB2 and 46% in EB3. The Commission recommends prioritising gross emission reductions across all sectors to reduce this risk.</p>	<p>Officials acknowledge there is some risk in relying on forestry removals to meet emissions budgets. As noted above, we agree with the Commission’s recommendation to act ahead of ERP2 to reduce the risk for meeting EB2 and EB3. We recommend further work to support reductions across the economy, including sectors beyond forestry.</p>
<p>Waste</p> <p>The Commission notes that the total amount of waste sent to landfill continues to rise, but the emissions are decreasing (may be due to increased waste diversion or fluctuation in landfill gas capture levels). The Commission identifies changes in policy and reduced momentum on organic waste reduction and diversion from landfill as leading to its increased ‘significant risks’ assessment for the sector.</p>	<p>Officials acknowledge the risk in the sector however policy development is actively underway across a number of levers in the sector.</p>

Appendix 2: Reactive key messages and Q&As on the ERM report

Reactive key messages

- The Government welcomes the Climate Change Commission’s annual monitoring report on emissions reductions.
- The Commission’s role in this process is to provide an independent analysis annually of how we’re progressing toward our climate change targets, including our 2050 target and the first three emissions budgets. It also includes an assessment on how New Zealand is progressing towards implementing the first emissions reduction plan, which finishes at the end of this year.
- The report gives us valuable insights and lessons, as well as opportunities to further reduce emissions to consider. We will carefully consider the report’s findings before developing our formal response to the report, which is due in October 2025.
- The report is one of several regular touchpoints throughout the year that provides evidence on how we are tracking toward our climate change targets. It is released three months after the annual Greenhouse Gas Inventory to provide the Commission with the latest measured emissions and removals data.
- The Government also reports on climate change targets through quarterly reporting on progress toward Public Service Target 9, which is to meet the first and second emissions budgets. These show we are on track, based on most recent official projections. Our 2025 projections will be published in the coming months.

Possible question	Answer
<p>The Commission has recommended that the Government act earlier than the third emissions reduction plan (i.e. ahead of 2029) to keep the country on track for EB2 and EB3.</p> <p>Would you consider adding more policies to ERP2/taking action ahead of the third emissions reduction plan to ensure we stay on track?</p>	<p>The Government is committed to meeting the emissions budgets.</p> <p>Our latest emissions projections were released in December 2024 alongside the second emissions reduction plan and confirm New Zealand is on track to meet the second emissions budget. Those projections also indicate New Zealand is on track to meet our net zero target as early as 2044 and stay at net zero from 2050. The second emissions reduction plan includes an annual adaptive management approach. This means closely monitoring progress, so we can make adjustments if necessary to ensure we stay on track to meet our second emissions budget.</p> <p>The second emissions reduction plan has helped close the gap to the third emissions budget (additional policies in ERP2 are projected to reduce emissions by 17 Mt in EB3). The third</p>

Possible question	Answer
	emissions reduction plan has the role of confirming the Government's plan to meet EB3. However, we remain open to exploring further opportunities that may arise in the meantime.
The Commission has noted some risks to meeting the first emissions budget and the little time left there is to make changes here. Does the Government agree with this assessment and are there any plans that could be enacted that would meaningfully reduce emissions in the next six months?	Although our official projections are based on the best available data at the time, projections are not predictions, and all projections are inherently uncertain. Our most recent projections show that we are likely to overachieve the first emissions budget target by 5.9 megatonnes. This provides a buffer if some of these external risks eventuate. Updated projections will be available in the coming months and will provide an updated assessment of how we are tracking.
Why does the Commission produce an annual emissions monitoring report when there are other ways to track progress?	<p>The annual emissions monitoring report is one of several touchpoints throughout the year that provides evidence on how we are tracking toward our climate change targets. It is released three months after the annual Greenhouse Gas Inventory to provide the Commission with the latest emissions monitoring data. The Government then has three months to respond to the report.</p> <p>The Commission's role in this process is to independently monitor our progress toward our targets. This is supplemented by cross-agency monitoring and reporting, and updated official projections. Combined, these will inform the Government's policy decisions on whether action is required to stay on track to meet our targets.</p>
The Commission has made an assessment on how we are tracking toward the 2050 target. Are those assessments based on the current target? What happens if those targets are changed as part of the ongoing 2050 target review?	Yes, the Climate Change Commission's assessment of progress toward targets is based on current legislative targets. If any changes were made as part of the review of the 2050 target, it would require a change to the Climate Change Response Act.
Can you provide more detail about specific content/assumptions that inform the report?	The Climate Change Commission are the authors of this report and are the best contacts for clarifying the specifics of the report. We can confirm their analysis has been informed by the December 2024 Ministry for the Environment emissions projections, and the April 2025 Greenhouse Gas inventory.

Possible question	Answer
<p>The Commission has recommended the NZ ETS needs to be strengthened to ensure it remains effective. Does this mean an ETS Review (or similar) is back on the table?</p>	<p>The Commission's recommendation is focused on supporting the scheme's credibility in the longer term to ensure we can continue to meet challenges in the 2030s and beyond. The Government is taking time to consider the report's findings before developing its response.</p> <p>The Government is committed to supporting strong and credible markets as part of its climate response, and as part of that we want to promote stability. The Government outlined a series of commitments to do just that when it was elected and as part of the second emissions reduction plan. This included a commitment to not reviewing the scheme unnecessarily, and we continue to support that commitment.</p>



Briefing: Initial 2025 Adaptive Management Assessment and Response to the Climate Change Commission’s Emissions Monitoring Report

Date submitted: 26 August 2025

Tracking number: BRF-6688

Sub Security level: In-Confidence

MfE priority: Urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	<p>Agree to the initial 2025 adaptive management assessment.</p> <p>Agree risks in the agriculture sector and ETS are noted in the Cabinet paper and reassessed through the 2026 adaptive management process.</p> <p>Agree to the proposed approach and structure for the Government’s response to the Commission’s ERM report.</p>	1 September 2025

Actions for Minister’s office staff
Return the signed briefing to the Climate Change Interdepartmental Executive Board Unit (Board@climateieb.govt.nz).

Appendices and attachments

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Tom Womack		
Responsible Manager	Llinos Williams		
Executive Director	Kirsty Flannagan	021 0420264	✓

Minister’s comments

Initial 2025 Adaptive Management Assessment and Response to the Climate Change Commission's Emissions Monitoring Report

Key messages

1. The second emissions reduction plan (ERP2) includes an adaptive management process to manage any risks to meeting the second emissions budget (EB2). This briefing informs you of our initial adaptive management assessment and seeks your feedback on our proposed approach for advice to Cabinet on the 2025 adaptive management assessment and the Government response to the Climate Change Commission's (the Commission) emissions reduction monitoring (ERM) report.
2. Our initial assessment is based on the provisional 2025 emissions projections. Our finalised assessment and Cabinet package will be provided to you once projections are finalised, ahead of Ministerial and agency consultation in early September.
3. You have recently been briefed on the provisional projections (BRF-6512 and BRF-6547), which are key inputs to the adaptive management assessment for EB2 and the Government response to the ERM report. The provisional projections indicate that:
 - New Zealand remains on track for the first emissions budget (EB1) and EB2, with increased buffers compared to 2024 projections (buffer of 7.8 Mt¹ and 4.5 Mt for EB1 and EB2, respectively);
 - a gap to meet the third emissions budget (EB3) remains (an abatement gap of 7.9 Mt); and
 - New Zealand is projected to achieve the 2050 target for long-lived gases and biogenic methane but currently fall short of meeting the 2030 biogenic methane target.
4. Cabinet recently agreed to the 2025 unit and price control settings for the New Zealand emissions Trading Scheme (NZ ETS) based on 2024 projections, including confirming the NZ ETS cap as outlined in ERP2. Compared to 2024 projections, provisional 2025 projections indicate greater reductions in net emissions in NZ ETS sectors and higher emissions from non-ETS sectors than had been anticipated. This means that ETS-covered net emissions are projected to be within the EB2 and EB3 NZ ETS caps recently agreed by Cabinet.

Adaptive management assessment: no response or corrective action is needed

5. While New Zealand is on track to meet EB2, we have identified some risks that could arise if assumptions in the 2025 projections do not eventuate, namely in the agriculture sector.
6. There are known risks within the NZ ETS, most notably the ability for time-bound emissions budgets to be exceeded through use of stockpile units. The recently agreed unit and price control settings largely mitigate this risk through drawing down the stockpile over time. 9(2)(f)(iv)

[REDACTED]






[REDACTED]

[REDACTED]

¹ For the purposes of this briefing, "Mt" refers to megatonnes of carbon dioxide equivalent (MtCO₂-e).

7. Our overall provisional adaptive management assessment is that no response or corrective action is required to keep on track for EB2, but we recommend these risks and future choices are noted by Cabinet and reassessed through the 2026 adaptive management process.

Government response to ERM report: explore opportunities to act early and monitor action delivery

8. As set out in BRF-6460, the Commission's ERM report sets out three key findings and one overarching recommendation which recommends that the Government act ahead of the third emissions reduction plan (ERP3) to reduce the risk for EB2 and get on track for EB3. The ERM report also highlights delivery risks in the agriculture, energy and forestry sectors.
9. We have considered the ERM report and recommend a focus on four key areas:
 - i. agreeing that New Zealand is on track for EB1 and EB2;
 - i. noting an intention to explore opportunities for acting ahead of ERP3 in the broad areas identified by the Commission for further investigation;
 - ii. addressing delivery risk concerns in forestry, agriculture and energy which have a greater effect on later emissions budgets and targets; and
 - iii. noting the work already underway to improve the effectiveness of the NZ ETS as the core tool in our response, but also recognising that there will be the need to do further work in the future, especially to prepare the NZ ETS for the 2030s.
10. We recommend that Cabinet advice focuses on the Commission's overarching recommendation to act ahead of ERP3. While ERP3 is not due to be set until 2029, 
9(2)(f)(iv) 




Recommendations

11. We recommend that you:
 - a. **note** that you are scheduled to take a Cabinet paper to ECO Committee on 8 October and Cabinet on 13 October, covering the adaptive management assessment for EB2 and ERM response.
 - b. **note** the provisional estimates for the 2025 emissions projections as outlined in BRF-6512 and BRF-6547, which indicate New Zealand remains on track to meet EB1 and EB2, but a gap to EB3 remains, and New Zealand can meet the 2050 target for long-lived gases and biogenic methane but currently fall short of meeting the 2030 biogenic methane target.

Adaptive management assessment

- c. **note** that although New Zealand is on track to meet EB2, officials have identified some risks to EB2 (relating to the agriculture sector and NZ ETS), but these risks do not change the overall adaptive management assessment that no response or corrective action is required.

- d. **agree** these risks are noted in the Cabinet paper and reassessed through the 2026 adaptive management process.

Yes | No

- e. **agree** to the provisional 2025 adaptive management assessment, that no 'response' or corrective action is required to keep on track for EB2, noting this assessment will be confirmed once projections are finalised.

Yes | No

Government response to ERM report

- f. **agree** to the proposed approach and structure for the Government's response to the Climate Change Commission's ERM report and advice to Cabinet, as set out in paragraph 29, including:

- i. agreeing that New Zealand is on track for EB1 and EB2;
- ii. noting an intention to explore opportunities for acting ahead of ERP3 9(2)(f)(iv)
[REDACTED]
[REDACTED]
- ii. addressing delivery risk concerns in forestry, agriculture and energy which have a greater effect on later emissions budgets and targets; and
- iii. noting the work already underway to improve the effectiveness of the NZ ETS as the core tool in the response, but also recognising that there will be the need to do further work in the future, especially to prepare the NZ ETS for the 2030s and beyond.

Yes | No

Signatures



Kirsty Flannagan
Executive Director
**Climate Change Interdepartmental
Executive Board Unit**
Date: 26 August 2025

Hon Simon WATTS
Minister of Climate Change

Date

Initial 2025 Adaptive Management Assessment and Response to the Climate Change Commission's Emissions Monitoring Report

Purpose

12. This briefing informs you of our initial adaptive management assessment for EB2 and seeks feedback on our proposed approach for advice to Cabinet on the 2025 adaptive management assessment and Government response to the Climate Change Commission's (the Commission) emissions reduction monitoring (ERM) report.

Background

13. You have previously been briefed on the adaptive management approach for EB2 (BRF-6329 refers) and the Commission's 2025 ERM report (BRF-6460 refers). You will recall that the annual adaptive management approach is mandated as part of ERP2. It tracks and reviews progress against EB2 so that responsive action can be taken where necessary.
14. The Commission's ERM report is also an annual monitoring report, but its focus is longer term. The Government is required to formally respond to the ERM report within three months of receiving it, in this case by 15 October 2025.
15. Our initial adaptive management assessment is based on the provisional 2025 emissions projections and will be confirmed once projections are finalised. Your feedback on our assessment and proposed approach to the ERM response will also be incorporated ahead of finalising the Cabinet package for endorsement by the Climate Change Chief Executives Board on 2 September, and your final approval ahead of Ministerial and agency consultation in early September.
16. Our initial adaptive management assessment and proposed approach to the ERM response have been endorsed by the cross-agency Climate Senior Officials Group.

Provisional 2025 emissions projections

17. Last week, you received the provisional emissions projections (see BRF-6512). Projections are key inputs to the adaptive management assessment for EB2 and the Government response to the ERM report. Annual emissions projections provide our best indication of progress towards emissions budgets and inform different long-term pathways to meet New Zealand's 2050 targets.
18. The provisional estimates for the 2025 projections indicate that:
 - New Zealand remains on track for EB1 and EB2 with an increased overachievement buffer compared to 2024 projections, but there is still a gap to EB3 (Table 1);
 - New Zealand can meet the 2050 target for long-lived gases. Long-lived gas emissions are projected to be slightly below net-zero in 2050 (Table 2);
 - biogenic methane emissions are projected to be 7.9% below 2017 levels in 2030 compared to the target of 10%, although the projected uncertainty range includes meeting the 2030 target (Table 2); and

- biogenic methane emissions are projected to reach 24.7% below 2017 levels in 2050 compared to the target of 24-47% (Table 2) using a scenario-based approach post-2030 for the efficacy and adoption of agricultural biogenic methane technologies².

Table 1: Provisional 2025 projections for EB1, EB2 and EB3. All values are in Mt.

Emissions budget	Notified emissions budget	Provisional 2025 projections (uncertainty band)	Provisional projected net NZ ETS emissions (NZ ETS cap)	Buffer/gap to emissions budget	Change in emissions over EB period relative to 2024 projections
EB1	290	282.2 (±1.7)	-	-7.8*	-1.9
EB2	305	300.5 (±12.4)	82.9 (89.4)	-4.5*	-2.5
EB3	240	247.9 (±20.7)	39.1 (40.7**)	+7.9*	-1.3

*A positive value means there is an abatement gap to achieving the emissions budget, a negative value means there is a buffer.

**The NZ ETS cap for EB3 is provisional

Table 2: Provisional 2025 projections for 2050 target. All values are in Mt.

2050 Target subcomponent	Target date	Target	Provisional 2025 projections	On track
Long-lived gases*	2050	Net-zero*	-0.3	Yes
Biogenic methane	2030	34.0 (10% below 2017)	34.8 (7.9%)	No
Biogenic methane	2050	28.7 – 20.0 (24-47% below 2017)	28.5 (24.7%)	Yes

*The net-zero target requires that net target accounting emissions of greenhouse gases, other than biogenic methane, are zero by 2050.

NZ ETS and non-ETS Sector implications of provisional projections 2025

19. You have just taken decisions through 2025 NZ ETS unit and price control settings to set the cap for the next five years to provide market confidence and certainty. The unit settings were also set with a view to drawing down the surplus stockpile of units by the end of EB2, to reduce the risk posed by the stockpile to achieving time-bound emissions budgets. These decisions were informed by 2024 projections, as updated projections were not available at the time of decision-making.
20. The provisional 2025 emission projections indicate that sectors covered by the NZ ETS are on track or over-performing in relation to the NZ ETS cap (the NZ ETS share of emissions budgets) for a range of reasons, as detailed in BRF-6512 which you received last week. This means that the NZ ETS cap for EB2 is 89.4 Mt, while NZ ETS-covered net emissions are now projected to be 82.9 Mt (Table 1). Provisional projections show emissions from the agriculture

² The scenario used as the central scenario assumes that continued technology development leads to improvements in the efficacy of key mitigation technologies, and that there is a stronger driver of adoption (BRF-6512 refers).

sector are expected to be higher than previously anticipated through to 2030 (but still declining over EB1 and EB2)³.

21. The provisional projections are now in the process of being finalised and quality assured. In early September, you will receive final projections as part of the accompanying briefing for the draft Cabinet paper on adaptive management and the Government's response to the ERM report.

2025 adaptive management assessment for EB2

22. In July, you agreed to the detailed adaptive management process (BRF-6329). Officials have now undertaken this process leading up to the delivery of the annual cycle of adaptive management advice to Cabinet in October. This briefing sets out the initial results of that analytical process and a recommended approach to the adaptive management Cabinet paper, subject to confirmation once emissions projections are finalised.
23. This analysis focuses on downside risks, as these are emphasised in the adaptive management chapter of ERP2. These risks are more critical to address because they have the potential to undermine progress toward meeting the emissions budget if not managed effectively.

Initial adaptive management assessment

24. Officials recommend the 2025 adaptive management provisional assessment for EB2 is that no response or corrective action is required as New Zealand remains on track to meet EB2. This assessment is based on:
- the provisional 2025 emissions projections; and
 - a review of the most material risks to achieving EB2, informed by tracking of leading indicators including monitoring of delivery risks to ERP2 policies.

Review of whether New Zealand is on track to meet EB2

25. The central estimate from the provisional 2025 emissions projections indicates the buffer for EB2 is 4.5 Mt, an increase from a buffer of 1.9 Mt in the 2024 projections, with total emissions over the EB2 period projected to be 300.5 Mt. BRF-6512 outlines the key drivers for the increased buffer to EB2.
26. While New Zealand is on track to meet EB2 based on the central estimate, the provisional 2025 emissions projections indicate that there is a reasonable level of uncertainty in the projected level of total emissions over the EB2 period. This is reflected in the upper end of the uncertainty band continuing to sit substantially above the EB2 limit (uncertainty range of ± 12.4 Mt, with the upper end at 312.9 Mt) but slightly lower than previously projected in 2024 (upper end of uncertainty band at 317.7 Mt). This is why the adaptive management process includes its own risk assessment — to help identify and understand the factors contributing to this uncertainty range, and to support timely decisions as risks emerge.

³ The near-term relative increase in agricultural emissions (relative to ERP2) reflects higher production and livestock populations based on the projected increase in agricultural export revenue over the next five years. Private sector commitments and mitigation technology are supporting the agriculture sector to reduce emissions. MPI advise there is a strong pipeline of technologies expected to be available over the next five years to support meeting the 2030 biogenic methane target (BRF-6512 refers).

27. The central estimate from the provisional 2025 emissions projections also indicates the buffer in achieving EB1 is now 7.8 Mt, an increase from 5.9 Mt in 2024 projections. As noted in BRF-6512, any surplus reductions from EB1 could be counted towards EB2 under the “banking” provisions in the Climate Change Response Act 2002 (CCRA), with an understanding of any surplus or gap an important consideration when assessing progress to meeting current and future emissions budgets.

Review of risks to achieving EB2

28. While New Zealand is on track to meet EB2, we have identified some risks to the central estimate for 2025 projections, noting that our risk assessment was focused on risks not already captured within the projections.

29. To undertake this risk assessment, we developed a structured five-step risk assessment process, supported by a framework that was peer-reviewed by Deloitte. This process supported the identification of possible risks to EB2, categorised by sector and theme, and an assessment of risks against likelihood and consequence (factoring in existing mitigations), which were then aggregated at the sectoral level.

30. In assessing risks, the majority did not have a likelihood or consequence rating that warranted escalation or further action at this stage. In many cases, risks are already being actively managed through existing policy levers. Others are either too uncertain, or the policies are still in early stages of implementation, making it premature to intervene.

31. Risks in the agriculture sector were assessed as more material due to their potential emissions impact at a sectoral level, if they eventuate, but remain too uncertain to require acting on now. We recommend you highlight these risks to Cabinet for visibility and note they will be reassessed via the 2026 adaptive management assessment. We also recommend noting to Cabinet the potential risk related to the NZ ETS stockpile, alongside noting efforts to manage this via recent NZ ETS settings decisions.

32. However, these risks do not alter our overall adaptive management assessment that no response or corrective action is required at this time.

Agriculture sector risks (non-ETS covered sector)

33. We have also identified two material risks relating to the agriculture sector (Table 3).

Table 3: Material risks relating to the agriculture sector

Risk	Estimated abatement loss
Uptake of mitigation technology by farmers may be less than modelled in 2025 projections, as uptake is influenced by many factors including market demand and support, policy interventions, technology availability, and factors at the individual farm business level.	Up to 1.9 Mt over the EB2 period.
The improved economic outlook for agriculture may drive increased emissions. Increases in production above that assumed in 2025 projections increase the risk of missing EB2 unless fully mitigated.	Has not been modelled

- 34. Cabinet is likely to take a decision soon to remove the ERP2 commitment to agricultural pricing by 2030. The 2025 projections anticipate a significantly greater adoption of agricultural mitigation technology over the EB2 period than was projected in ERP2, as a result of industry plans and incentives.⁴ Removing agricultural pricing, in the absence of any other action, would lead to increased emissions in the EB3 period, but we understand you would like to replace agricultural pricing with market-driven approaches to meet this gap (BRF-6320 refers). We recommend the adaptive management Cabinet paper note this decision, along with any follow up work that is agreed to (caveated as necessary if this decision is still awaiting Cabinet consideration).
- 35. We propose to frame the second risk in the Cabinet paper as a cross-sectoral one as it is true for other non-ETS sectors as well. Given this Government's emphasis on economic growth, we recommend positioning this risk as a consequence of necessary and desirable economic activity, but one that should be monitored in terms of any impact on meeting emissions budgets.
- 36. For your awareness, expected abatement from the additional waste sector policies⁵ has a relatively small impact for EB2 (1 Mt) but is more significant in the context of the 2030 methane target. Delays in landfill gas capture policy and potential reductions or scope changes to the Waste Minimisation Fund could reduce expected abatement from landfill-bound organic waste, compounding risks from the agriculture sector and further widening the projected 0.8 Mt gap to the 2030 methane target.

NZ ETS-related risks

- 37. The primary risk to the NZ ETS supporting the achievement of EB2 is the surplus stockpile of units. This is being actively managed through the annual NZ ETS settings process, which is following a consistent policy of drawing down the surplus stockpile by 2030. Removing the surplus by 2030 also puts the NZ ETS in a better position to support the achievement of EB3.
- 38. We recommend that Cabinet note that, even when the surplus stockpile is fully drawn down, the NZ ETS has limited ability to drive short term emissions reductions. This reflects that businesses and households usually have limited options to reduce emissions in the short term. However, over the long term, the signals provided by the NZ ETS enable businesses and households to make efficient and informed decisions and investments on how to reduce net emissions.

39. 9(2)(f)(iv) [Redacted]

⁴ The 2025 projections include three scenarios post-2030 (BRF-6512 refers), which vary in the efficacy and uptake of biogenic methane reduction technologies, but assume an incentive to adopt mitigation technologies beyond 2030. This incentive could come in the form of government policy (such as pricing), industry incentive schemes and/or a collaboration between government and industry.

⁵ This is the additional abatement from the additional policies modelled in the 'with additional measures' scenario relative to the 'with existing measures' scenario over the EB2 period.

40. There are also some risks that could arise within NZ ETS-sectors, such as the energy sector,⁶ if assumptions in the 2025 projections do not eventuate. If these risks were to materialise, the NZ ETS cap should, in theory, ensure that equivalent emissions reductions occur elsewhere within NZ ETS-covered sectors. However, in practice, the stockpile of units means offsetting emissions reductions may not occur within the budget period. That said, the buffer between provisional net NZ ETS emissions and the NZ ETS cap for EB2 (6.5 Mt) means the NZ ETS should be able to absorb additional emissions without compromising the overall emissions budget. Therefore, we consider that Cabinet does not need to note these risks at this point.
41. Looking ahead, the upcoming Cabinet consideration of the CCRA efficiency review changes will align NZ ETS settings and adaptive management decisions from 2026 onwards, strengthening how these risks are managed.

Government response to the ERM report

Review of the key findings

42. As set out in BRF-6460, the 2025 ERM report contains three overall key findings and one overarching recommendation. The scope of the ERM report is wider than the adaptive management process as it covers all budgets and targets, while adaptive management focuses on EB2.
43. We will provide a draft public-facing government response to the ERM as an appendix to the October Cabinet paper. We recommend that the Cabinet paper itself focuses on the Commission's overarching recommendation to act ahead of ERP3. The proposed Government response, to be attached to the Cabinet paper, can then go into more detail, structured around the three key findings and recommendation.
44. The Commission's analysis for the ERM report was based on a reference scenario which mirrors the Government's 2024 ERP2 projections. The final 2025 emissions projections will be used in the Government response report, along with information to explain the key sectoral differences between the 2025 projections and 2024 ERP2 projections.
45. The three key findings of the ERM report are:
- New Zealand is making progress on reducing greenhouse gas emissions – net emissions fell by 2% between 2022 and 2023.
 - Emissions are on track for the first emissions budget (for 2022–2025) but will need more work – urgently – to set up for future budgets and the 2050 target.
 - Action across a wide range of sectors can strengthen the country's resilience to changing global conditions. There are many viable opportunities for further reductions that could reduce risk for the economy and return other benefits to the country.

⁶ Identified risks included increased emissions from electricity generation due to adverse climatic conditions (e.g. lower average rainfall than projected over the EB2 period) - combined with limited gas - means there could be an increase in coal burning (Up to 1 Mt during EB2), and delayed use of biomass at Huntly power station beyond 2028 could increase emissions from electricity generation (Up to 1 Mt during EB2).

46. The Commission recommended that, “the Government acts ahead of the third emissions reduction plan, to reduce risk for the second emissions budget and get on track for the third budget and 2050 target, by:

- strengthening the New Zealand Emissions Trading Scheme (NZ ETS) to ensure it can be effective as a key policy tool for reducing emissions; and
- implementing additional targeted policies to complement the NZ ETS, focused on renewable energy, transport and agriculture.”

47. The Commission’s rationale for this recommendation was that “early action will reduce investment uncertainty, avoid more disruptive measures later, and help put the country on track to meet EB3”.

Proposed high level content

48. At a high level, we propose that the Government response covers four key areas including:

- i. agree that New Zealand is on track for EB1 and EB2 by outlining updated 2025 projections and the growing buffer;
- ii. note an intention to explore opportunities for acting ahead of ERP3 (discussed further below);
- iii. address delivery risk in forestry (risk of over-reliance on forestry removals), agriculture and energy which have a greater effect on later emissions budgets and targets; and
- iv. note the work already underway to improve the effectiveness of the NZ ETS as the core tool in our response, but also recognising that there will be the need to do further work in the future, especially to ensure the NZ ETS remains effective in for the 2030s and beyond.

49. The Commission’s report also contains detailed sectoral analysis. We have been working with responsible agencies on responses to this analysis and will provide an overview of sectoral agency feedback with the draft Cabinet materials.

Responding to the Commission’s overarching recommendation

Acting ahead of ERP3

50. The provisional 2025 emissions projections show that, although NZ ETS sectors are projected to be within the NZ ETS cap for EB3, there is still an abatement gap to meet EB3. While ERP3 is not due to be set until 2029, 9(2)(f)(iv)

[REDACTED]

51. 9(2)(f)(iv)

[REDACTED]

52. We recommend that the public facing Government response acknowledge the current gap to meeting EB3 and agree to undertake preparatory work ahead of ERP3 in the areas broadly identified by the Commission for further investigation.

Strengthening the NZ ETS and other market signals

53. We largely agree with the Commission's chapter on the NZ ETS. In particular, we broadly support its core recommendations on:

- i the need for stable and predictable settings process;
- ii reducing the disincentives for industrial allocation - receiving firms to decarbonize and the need to explore alternative mechanisms to minimize leakage; and
- iii the need to set the NZ ETS up for the 2030s and beyond.

54. The Government is already taking action on (i) and (ii). This includes:

- reviewing the NZ ETS settings decision-making frameworks and tools with the Climate Change Commission;
- iii 9(2)(f)(iv) [REDACTED]
- iv 9(2)(f)(iv) [REDACTED]
- strengthening market governance through the CCRA amendments.

55. Where this work is currently public, we will note these projects in the public facing report. It is recommended that these workstreams are closely monitored to ensure they are achieving their intended purpose, and a further detailed report back is provided to you as part of the 2026 adaptive management advice.

56. 9(2)(f)(iv) [REDACTED]

Next steps

57. Our initial assessment is based on the provisional 2025 emissions projections, to be confirmed once projections are finalised. Your feedback will also be incorporated ahead of finalising the Cabinet package for endorsement by the Climate Change Interdepartmental Executive Board (CCIEB) on 2 September and your final approval ahead of Ministerial and agency consultation in early September.

58. The combined annual adaptive management assessment and ERM response is scheduled to go to Cabinet Economic Policy Committee (ECO) on 8 October and Cabinet on 13 October, ahead of the 15 October statutory deadline for publishing the ERM response. Table 4 sets out the agreed delivery timeframe (BRF-6460 refers).

Table 4: Agreed delivery timeframes for the combined annual adaptive management assessment and ERM response

Timeframe	Action
By 4 Sept	CCIEB provide you with the draft Cabinet paper and ERM response for ministerial consultation
8-19 September	Ministerial consultation on the Cabinet paper and appended response to the ERM report due to commence
2 October	Cabinet paper lodged with ERM response appended
8 October	ECO consideration
13 October	Cabinet consideration
By 15 October	Present the response to the House of Representatives



Cabinet material for 2025 adaptive management assessment and Government response to Climate Change Commission’s annual monitoring report

Date submitted: 8 September 2025

Sub Security level: In-Confidence

MfE priority: Urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	agree that the initial 2025 adaptive management assessment outlined in BRF-6688 can now be confirmed and approve the attached draft Cabinet paper and ERM response for Ministerial consultation.	11 September 2025

Actions for Minister’s office staff
<p>Commence Ministerial consultation on agreement of this briefing of the 2025 Government response to the CCC ERM report and Cabinet paper that includes the 2025 adaptive management assessment.</p> <p>Return the signed briefing to the Climate Change Interdepartmental Executive Board Unit (board@climateieb.govt.nz).</p> <p>Forward feedback received through Ministerial consultation to the Climate Change Interdepartmental Executive Board Unit.</p>

Appendices and attachments
<ol style="list-style-type: none"> Draft Cabinet paper: 2025 adaptive management assessment of the second emissions budget and Government response to the Climate Change Commission’s emissions monitoring report Note: Appendices 1 and 2 not included in this proactive release. Draft 2025 Government response to the Climate Change Commission’s annual emissions monitoring report Detailed ERM report sectoral analysis

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Jessie Algar		
Chief Advisor	Amy Tisdall		
General Manager	Kirsty Flannagan	021 0420264	✓

Minister’s comments

Cabinet material for 2025 adaptive management assessment and Government response to Climate Change Commission's annual monitoring report

Key messages

1. On 26 August 2025, we provided you with our initial assessment of the 2025 adaptive management decision and the Government's response to the Climate Change Commission's (the Commission's) 2025 emissions reduction monitoring report (ERM report), along with advice on how you may wish to reflect this to Cabinet (BRF-6688 refers). These were based on provisional 2025 emissions projections.
2. The 2025 emissions projections have now been finalised with minimal changes (BRF-6754 refers). This means the initial 2025 adaptive management assessment outlined in BRF-6688 can now be confirmed, with no corrective action required.
3. The approach to the Government response to the ERM report (ERM response) has been updated from that that outlined in BRF-6688,9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
4. In approving BRF-6688, you asked if this process has been reviewed by the Climate Change Response Act (CCRA) efficiency review and if it requires Cabinet consideration. The CCRA efficiency review proposes to retain an annual ERM report and response, but it will be aligned with NZ ETS settings decisions in years when NZ ETS settings decisions occur. Adaptive management is not a statutory requirement, but the second emissions reduction plan (ERP2) commits to annual Cabinet assessments.
5. This briefing outlines options for Cabinet consideration of the ERM response and adaptive management assessment. We recommend proceeding to Cabinet, in line with the process agreed when ERP2 was approved by Cabinet and Cabinet Manual guidance. Cabinet consideration of these matters also supports your duty to ensure emissions budgets are met and can usefully be referred to in the Environment Select Committee's annual examination of the ERM response.
6. As part of decisions on the 2050 target, Cabinet will shortly consider replacing the ERP2 agricultural emissions pricing policy with a market and technology-led approach. You have received advice on options to amend ERP2 to maintain its currency (BRF-6741) and expressed a preference for an amendment before EB2 commences. The

attached paper can be a vehicle for Cabinet approval of a process to amend ERP2. Subject to Cabinet decisions on the 2050 target and the Minister of Agriculture agreeing on the process and timeframe for amending ERP2, we can work with your office to include additional content in this Cabinet paper ahead of lodgement on 2 October.

- 7. We are seeking your approval of the attached draft Cabinet paper and ERM response (Appendices 1 and 2) for the purpose of Ministerial consultation. We recommend consultation commences as soon as possible and concludes on 23 September. This timing supports you to meet the statutory requirement to present the ERM response to Parliament by 15 October 2025.

Recommendations

8. We recommend that you:

- a. **note** the provisional 2025 emissions projections have undergone quality assurance and are now final, with minimal changes from the provisional results (BRF-6754 refers).
- b. **agree** that the initial 2025 adaptive management assessment outlined in BRF-6688 can now be confirmed, with no corrective action required to remain on track to meet EB2.

Yes | No

- c. **note** that the attached draft Cabinet material aligns with the approach you approved in BRF-6688, 9(2)(f)(iv)

[Redacted text]

d. **Either:**

- i. **agree** to maintain annual Cabinet consideration of adaptive management advice as outlined in ERP2, occurring alongside consideration of the annual ERM response and NZ ETS settings decisions in years when NZ ETS settings decisions occur (**recommended**)

Yes | No

OR

- ii. **agree** to add a recommendation to the Cabinet paper that future adaptive management advice does not need to be considered by Cabinet if assessments indicate that New Zealand is on track to meet EB2 and no further action is required

Yes | No

- e. **agree** that subject to Cabinet decisions on the 2050 target and the Minister of Agriculture agreeing on the process and timeframe for amending ERP2 to reflect the replacement of agricultural pricing with an industry-led approach, additional

content seeking approval of a process to amend ERP2 will be included in this Cabinet paper ahead of lodgement.

Yes | No

- f. **approve** the attached draft Cabinet paper and ERM response for Ministerial consultation commencing as soon as possible and concluding on 23 September 2025

Yes | No

Signatures



Kirsty Flannagan, Executive Director
**Climate Change Interdepartmental Executive
Board Unit**
8 September 2025

Hon Simon WATTS
Minister of Climate Change
Date

Cabinet material for 2025 adaptive management assessment and Government response to Climate Change Commission’s annual monitoring report

Purpose

9. This briefing provides you with the draft Cabinet paper for the 2025 adaptive management assessment and the Government response to the Commission’s 2025 ERM report for Ministerial consultation (see Appendix 1 and 2). It also responds to queries you raised when approving BRF-6688 about the requirement to go to Cabinet, and proposed changes to this process as part of the CCRA efficiency review.

Background

10. ERP2 includes an adaptive management approach to manage any risks to meeting EB2. In approving ERP2 and its adaptive management process, Cabinet agreed to assess annually (as part of the ERM response) whether New Zealand remains on track to meet EB2 and, if not, any recommended actions to get back on track (ECO-24-MIN-0243 refers).
11. You recently agreed to BRF-6688, which outlined the initial 2025 adaptive management assessment and proposed approach for advice to Cabinet on the adaptive management assessment and ERM response. The draft Cabinet Paper and ERM response are attached as **Appendix 1** and **Appendix 2**. We have also included further sectoral analysis of the ERM report in **Appendix 3**, as foreshadowed in BRF-6688.

Analysis and advice

Confirming the adaptive management assessment

12. You have agreed to the initial assessment that no course-corrective action is required this year under the adaptive management framework (BRF-6688 refers). This initial assessment was based on the provisional 2025 emissions projections, which have now been finalised with only minor updates that do not impact the initial assessment (BRF-6754 refers). On this basis, the initial 2025 adaptive management assessment can now be confirmed.

Updated approach in response to the Commission’s ERM report recommendation

13. The attached draft ERM response and associated Cabinet paper content is consistent with the approach you approved in BRF-6688, with one proposed adjustment. [REDACTED]

9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

14. 9(2)(f)(iv) [REDACTED]
15. The revised position in the draft Cabinet paper and ERM response acknowledges the Commission's recommendation and notes the Government's Climate Strategy already includes workstreams that align with the Commission's recommendation, including strengthening the NZ ETS, supporting renewable energy development, and accelerating uptake of agricultural mitigation technologies.
16. The draft Cabinet paper and ERM response also note that while ERP3 will set out how New Zealand intends to meet EB3, the Government is committed to looking at opportunities ahead of ERP3 to support policy development and ensure New Zealand is well-placed to deliver on its climate targets. In line with this, the ERM response acknowledges further work will be required over the long run to ensure the ongoing effectiveness of the NZ ETS.
17. This revised approach still provides for preparatory work and considering opportunities ahead of ERP3, whilst providing maximum flexibility to act when it is most appropriate and ensuring that future decisions can be informed by the evolving emissions outlook and the implementation of ERP2.

Responding to your queries

Review of this process in the CCRA efficiency review and requirement for Cabinet consideration

18. In approving BRF-6688, you asked if this process has been reviewed by the CCRA efficiency review and if it requires Cabinet consideration.
19. The CCRA efficiency review proposes to retain an annual ERM report and response to support your active duty to ensure emissions budgets are met, but to streamline related Cabinet decisions it will be aligned with NZ ETS settings decisions in years when NZ ETS settings decisions are made. Adaptive management is not a statutory requirement, but Chapter 3 of ERP2 refers to annual Cabinet report backs, and in approving ERP2, Cabinet agreed these would occur alongside the ERM response.
20. We recommend maintaining annual Cabinet consideration of adaptive management assessments and the ERM response, to follow the process outlined in ERP2 and to ensure a transparent and consistent decision-making process. The scope of the adaptive management assessment and ERM response are necessarily cross-economy and cross-sector, having implications for multiple portfolio interests and within scope of the Cabinet Manual's list of matters that must be submitted to Cabinet (5.12(j): matters concerning the portfolio interests of a number of Ministers).
21. Cabinet consideration of these matters also supports you to deliver your statutory duty to ensure emissions budgets are met (section 5X(4) CCRA, and can usefully be

referred to in the Environment Select Committee's annual examination of the ERM response.

22. You could include a recommendation in this year's adaptive management Cabinet paper that future adaptive management assessments do not need to be considered by Cabinet if New Zealand remains on track to meet EB2 and no further action is recommended. However, we do not recommend this at this stage and recommend that for 2026, the related decisions on NZ ETS settings, the ERM response and adaptive management assessments are considered together at Cabinet. At that time, you could reassess whether to seek delegated authority for adaptive management decisions in future years where no further action is necessary. This would give time for the process to bed in, and it would not involve additional administrative burden given the NZ ETS settings will need to be considered by Cabinet in 2026.

Including content on the ERP2 amendment in this Cabinet paper

23. As part of decisions on the 2050 target, Cabinet will shortly consider replacing the ERP2 agricultural emissions pricing policy with a market and technology-led approach. You have agreed to progress an amendment to ERP2 to reflect this change, and expressed a preference for this occurring ahead of the EB2 period commencing (BRF-6741 refers).
24. Your office has requested Cabinet approval of a process to amend ERP2 is sought via the adaptive management Cabinet paper, but has agreed such content should not be included for Ministerial consultation given the 2050 target paper is yet to be lodged. Subject to Cabinet decisions on the 2050 target and the Minister of Agriculture agreeing on the process and timeframe for amending ERP2, we can work with your office to include additional content in this Cabinet paper. However this is contingent on the timing of these decisions; the paper must be lodged by 2 October to meet your statutory timeframes for tabling the ERM response by 15 October.

Next steps

25. ERP2 agencies have been consulted on the draft Cabinet material, and their feedback is reflected in the attached versions. We propose that formal agency consultation occur in parallel with Ministerial consultation, both commencing as soon as possible and concluding on 23 September.
26. We will continue to work with your office as the 2050 target Cabinet paper progress to incorporate any necessary content on a resulting ERP2 amendment process ahead of finalising the Cabinet material. We can also provide you with more detailed advice on the amendment process and proposals.
27. Following Ministerial consultation, we will provide an updated Cabinet package and supporting material on 30 September for your final approval. To meet the statutory deadline for the ERM response to be tabled in the House of Representatives by 15 October, the Cabinet paper needs to be:
 - lodged on 2 October with Cabinet office
 - considered at Cabinet ECO Committee on 8 October
 - confirmed by Cabinet on 13 October.

9(2)(h) [REDACTED]

- [REDACTED]

Appendices 1 and 2

(see attached papers) **Note: Appendices 1 and 2 not included in this proactive release.**

Appendix 3: Assessment of the ERM report sector findings

The below table outlines the Commission’s key sectoral findings on ERP2 sectors and the NZ ETS, a summary of our approach to these findings in the Government response and our high-level rationale.

Commission’s key findings	Text currently in the Government response to the Commission’s ERM report	Officials’ comment
<p>NZ ETS</p> <p>The Commission highlighted the importance of a stable and predictable process for setting NZ ETS unit limits and price controls.</p> <p>The Commission also found that industrial free allocation continues to create disincentives for firms to decarbonise. The Commission recommended exploring alternative mechanisms to address emissions leakage while maintaining stronger incentives for emission reductions.</p> <p>Looking ahead the Commission advised that current settings could see the net emissions cap reach zero in the late 2030s limiting its effectiveness beyond that point. It recommends beginning a carefully signalled evolution of the NZ ETS to ensure it remains effective through the 2030s and beyond.</p>	<p>The NZ ETS is the Government’s primary tool for reducing emissions. The Government recognises the importance of maintaining a credible and effective NZ ETS toward and beyond 2030, and acknowledges that further work will be required over the long run to ensure its ongoing effectiveness.</p> <p>The Government agrees with the Commission’s findings on industrial allocation settings and the need to explore alternative mechanisms to address emissions leakage. We have committed to taking further action on this through ERP2.</p> <p>The Government’s annual ETS settings process enables the Government to make changes when needed to ensure the scheme remains stable and predictable while supporting New Zealand to meet its climate change targets.</p>	<p>We largely agree with the Commission’s chapter on the NZ ETS. In particular, we broadly support its core recommendations on the need for stable and predictable price settings, reducing disincentives from industrial allocation, and preparing the ETS for the 2030s and beyond.</p> <p>Current work to strengthen the system includes reviewing the ETS settings framework with the Commission, 9(2)(f)(iv) [redacted] and strengthening market governance through CCRA amendments.</p> <p>Looking ahead, ETS policy and settings will need to evolve to reflect changing circumstances and ensure continued impact. 9(2)(f)(iv) [redacted]</p>
<p>Non-ETS sectors</p> <p>Agriculture</p> <p>The Commission assessed that ERP2 is heavily weighted towards technological solutions to reduce emissions, particularly in the EB3 period.</p>	<p>The Government recognises the importance of supporting a mix of mitigation options for the agriculture sector to support emissions reductions and manage long-term risks.</p>	<p>We note the potential risk of over reliance on agriculture technology, particularly if uptake is slower than projected. To help mitigate against this, the Government is continuing to invest in a range of solutions to avoid</p>

Commission's key findings	Text currently in the Government response to the Commission's ERM report	Officials' comment
<p>These face uncertain timelines for commercialisation and uptake.</p> <p>The Commission warned that if these solutions are delayed or fail to deliver, there are limited alternative options available, which would make future emissions reductions harder to achieve.</p> <p>As a result, the Commission assessed delivery risks for agriculture as moderate in EB2, rising to significant in EB3.</p>	<p>We are partnering with industry to accelerate new mitigation technologies and support improvements in farming methods.</p> <p>Initiatives like AgriZero are lowering cost barriers and enabling large-scale adoption of mitigation technology, while regulatory processes are being streamlined to speed up the delivery of mitigation technologies.</p>	<p>dependence on any single approach, including partnering with the private sector through initiatives like AgriZero, which aims to lower cost barriers to uptake.</p> <p>MPI is also working to streamline regulations to speed up delivery of agriculture technology.</p> <p>We also note that the response to the risks in this sector may be criticised depending on the outcome of the 2050 target Cabinet decision.</p>
NZ ETS sectors		
Forestry		
<p>The Commission found that under ERP2, forestry removals are expected to comprise 33% of net emissions reductions sought in EB2 and 46% in EB3.</p> <p>They also found there are moderate delivery risks in EB2, as there could be more deforestation than anticipated and afforestation could fall short of expectations.</p> <p>In EB3, the delivery risk increases to significant due in part to uncertainty around the impact of registering exotic forests in the NZ ETS.</p> <p>In addition, the Commission noted that current actions are insufficient to support the scale and type of forest planting and management needed to sustain long term carbon sinks.</p>	<p>Forestry plays an important role in reducing net emissions and meeting New Zealand's climate change targets.</p> <p>The Government acknowledges the Commission's finding that there are delivery risks to the scale of removals needed in EB2 and EB3.</p> <p>We remain committed to a net-based approach that balances gross emissions reductions with removals, ensuring cost-effective climate action that provides value for money for New Zealanders.</p> <p>ERP2 has a strong focus on achieving reductions in a way that keeps costs manageable for households and businesses, while positioning New Zealand to meet long-term targets.</p>	<p>ERP2 focuses on reducing net emissions in cost effective ways. Cost effective emission reduction policies help minimise the cost-of-living impacts of climate change policy and increase the likelihood of successfully meeting targets and budgets.</p> <p>At the same time, we acknowledge that there are trade-offs in relying on forestry removals, particularly if this defers the costs of forest management and land-use constraints to future generations, or creates an ongoing reliance on planting.</p>
Energy		
<p>The Commission found that recent high energy prices highlight risks to energy affordability and reliability of supply.</p>	<p>Government policy is focussed on core affordability and security of supply concerns.</p> <p>Affordable, reliable energy is essential for electrification, and the Government is taking steps to make sure both are in place.</p>	<p>We agree with the Commission's view that energy affordability and security are critical to enabling electrification and emission reduction.</p> <p>There are a number of initiatives currently underway to address energy affordability and security risks, including the review of electricity market performance, measures to</p>

Commission's key findings	Text currently in the Government response to the Commission's ERM report	Officials' comment
<p>Long-standing energy supply and competition issues, including insufficient investment in new generation and steadily declining gas supply, have already contributed to recent industrial closures.</p> <p>The Commission also found that the current NZU price may not be sufficient to drive gross emissions reductions or to incentivise investment in emerging technologies, such as carbon capture utilisation and storage (CCUS).</p> <p>These issues contribute to the significant risk in EB3.</p>	<p>A wide range of work is underway to support this, including initiatives such as reviewing electricity market performance and the Electrify NZ programme, which aims to unlock investment in renewable generation and infrastructure, supporting a resilient, low-emissions energy system.</p> <p>The Government also takes a cost-effective approach to reducing emissions through the NZ ETS, which allows for both cutting emissions and increasing removals, in which ever way is most cost-effective. While the Commission note challenges for some emerging technologies, such as CCUS, declining gas reserves mean that overall emissions in this sector are expected to reduce.</p>	<p>support households in energy hardship, and the removal of barriers to consenting renewables.</p>
<p>Buildings</p> <p>The Commission has increased the risk assessment for phasing out fossil fuels for operational energy and reducing energy demand in buildings from moderate to significant in both EB2 and EB3.</p> <p>While the Government is focussed on a market-led approach for new builds and public funding to improve existing buildings, progress remains uncertain.</p>	<p>The Government agrees with the Commission that reducing emissions from building is a priority.</p> <p>We are focused on creating the right conditions for change by streamlining consenting processes and improving access to data and information.</p> <p>For example, we have clarified that a building consent is not required to install rooftop solar, making it easier for households and businesses to adopt renewable energy.</p>	<p>We generally agree with the Commissions assessment and consider it important that the Government continue to incentivise emissions reduction in the building sector.</p> <p>This includes streamlining consenting processes, improving the availability and quality of data and information, and strengthening workforce skills to support decarbonisation.</p>

Commission's key findings	Text currently in the Government response to the Commission's ERM report	Officials' comment
<p>Transport</p> <p>The Commission found there are moderate risks to achieving the planned reduction in passenger transport emissions intensity for EB2 and EB3, due in part to the risk rates of EV adoption staying low without policies to lower upfront purchase costs.</p> <p>The Commission also noted risks to aviation decarbonisation policies, freight emissions reduction and demand reduction for carbon-intensive passenger transport, the latter due to lack of integrated land use and transport planning.</p> <p>Waste</p> <p>The Commission found there are significant risks of not achieving planned waste emissions reductions in EB2 and EB3.</p> <p>The risk assessment reflects reduced momentum on organic waste reduction and diversion away from landfill.</p> <p>It also reflects a lack of clarity about how the anticipated reduction through landfill gas capture will be achieved by 2035.</p>	<p>The Government's policy is to use the NZ ETS as the primary tool for reducing emissions, with complementary measures where additional support is needed to address market barriers.</p> <p>In the transport sector, these complementary policies include initiatives to accelerate the uptake of electric vehicles and more efficient vehicles through the Clean Vehicle Standard.</p> <p>We are also investing in the Supercharging EV infrastructure work programme, which includes a new concessionary loan scheme to expand public charging infrastructure.</p> <p>The Government acknowledges the Commission's finding that there are risks to achieving planned waste reductions in EB2 and EB3.</p> <p>Work is underway to strengthen policy settings across the waste system, including measures to reduce organic waste and improve landfill gas capture. These efforts will support progress toward reducing emissions in line with the direction set out in ERP2.</p>	<p>In the transport sector, there a number of targeted initiatives underway to compliment the use of the ETS, this includes initiatives to accelerate the uptake of electric vehicles and more efficient vehicles through the Clean Vehicle Standard.</p> <p>There is also current investment underway in the Supercharging EV infrastructure work programme, which includes a new concessionary loan scheme to expand public charging infrastructure.</p> <p>While there is some risk of not achieving planned waste emissions reductions, policy development is progressing on levers across the system which will reduce waste and improve landfill gas capture. In the waste sector, credible pathways to achieving the planned abatement set out in ERP2 are underway.</p>

Briefing: 2025 adaptive management assessment and Government response to the Climate Change Commission's emissions reduction monitoring report – approval to lodge Cabinet paper

Date submitted: 29 September 2025

Tracking number: BRF-6873

Sub Security level: In-Confidence

MfE priority: Urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	Agree to lodge the attached Cabinet paper and Government response with Cabinet Office for ECO on 8 October Note the attached talking points to support the discussion at ECO	1 October 2025

Actions for Minister's office staff
Return the signed briefing to the CCIEB Unit (board@climateieb.govt.nz).

Appendices and attachments
<ol style="list-style-type: none"> Draft Cabinet paper and response to the Climate Change Commission's emissions reduction monitoring report (clean version) Draft Cabinet paper and response to the Climate Change Commission's emissions reduction monitoring report (tracked version) Table of consultation feedback received Proposed talking points to support Cabinet Economic Policy Committee

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Manon Julien		
Chief Advisor	Amy Tisdall		
Executive Director	Kirsty Flannagan		✓

Note: Appendices 1, 2, and 4 are not included in this proactive release.

Minister's comments

Briefing: 2025 adaptive management assessment and Government response to the Climate Change Commission's emissions reduction monitoring report – approval to lodge Cabinet paper

Purpose

1. This briefing presents you with an updated Cabinet paper and Government response to the Climate Change Commission's (the Commission) emissions reduction monitoring report (ERM Report) to approve for lodgement (attached at Appendix 1). Proposed talking points to support the discussion at ECO are also attached in Appendix 4.
2. This briefing also updates you on the inclusion of content in the Cabinet Paper and next steps regarding an amendment to ERP2 to reflect Cabinet's recent decision on agricultural pricing. These are captured in paragraphs 8, 31 to 34, and in the final two recommendations of the Cabinet paper.

Changes to the Cabinet Paper and Government response to ERM report

3. Parallel Ministerial and agency consultation on the draft Cabinet paper and Government response to the Commission's ERM report has recently concluded.
4. We have not received any Ministerial feedback via your office on the paper. Officials have updated the Cabinet paper and Government Response to reflect feedback received from agencies (as outlined in Appendix 3), and to include content on amending ERP2 (see below at paras 5 - 8). For your reference, the tracked versions of the Cabinet paper and Government response are attached at Appendix 2.

Amending ERP2

5. As agreed in BRF-6730 and as discussed with officials, the Cabinet paper has been updated to include content on amending ERP2, to reflect Cabinet's recent decision to not progress agricultural emissions pricing.

6. The version of the adaptive management Cabinet paper used for agency and Ministerial consultation did not include ERP2 amendment content, as relevant Cabinet decisions had not yet occurred. We have since shared the updated paper with ERP2 agencies.
7. We understand your preference is for an ERP2 amendment to be published by the end of 2025. To achieve this, the paper notes your intent, in consultation with Minister McClay, to approve a discussion document for consulting on the Government's revised approach to meeting EB2 for 3 weeks commencing mid-October 2025, and to confirm the final amended ERP2 for tabling before the end of 2025.
8. The statutory duty to amend an ERP to reflect this policy change rests with you, with para 5.36 of the Cabinet Manual noting that Cabinet must not make, or appear to make, a decision that a statute requires a Minister to make. However, in light of Cabinet convention to keep colleagues informed, we propose you seek that Cabinet note your intent to undertake this process, in consultation with the Minister of Agriculture. You could offer to do an oral update to Cabinet before publishing the amended ERP2, if judged helpful.

Next steps

9. The next steps proposed are:

Timeframe	Action
2 October	Cabinet paper lodged with ERM response appended
8 October	ECO consideration
9 October	Draft ERP2 amendment consultation document provided to you for approval, in consultation with Minister McClay
13 October	Cabinet consideration
By 15 October	Statutory deadline ¹ to present the ERM response to the House of Representatives
Mid-October – early November	3 week consultation period on proposed amendments to ERP2 (via MfE website)
27 November	Draft ERP2 amendment and associated advice provided to you for approval, in consultation with Minister McClay.
11 December	Final ERP2 amendment provided to you for approval
16 December	Publish the ERP2 amendment, including tabling in Parliament

10. If ECO raises concerns about consultation on the ERP2 amendment this year, we recommend seeking Cabinet agreement on the rest of the Cabinet paper and returning to ECO on the ERP2 amendment via an oral item at a later date. This would ensure the Government Response to the ERM Report is able to be tabled by its statutory deadline.

¹ As required under the Climate Change Response Act 2002 section 5ZK(4)

11. No proactive press release is planned for when the Government Response is tabled in the House. Ahead of the Response being considered by Cabinet on 13 October, officials will provide your office with a formatted version of the response for tabling and publishing, and key messages, questions and answers to support any reactive communication support required.

Recommendations

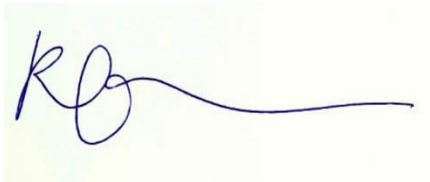
We recommend that you:

- a. **agree** to lodge the attached Cabinet paper and Government Response to the Climate Change Commission's emissions reduction monitoring report with Cabinet Office for the Cabinet Economic Policy Committee (ECO) to consider on 8 October (see Appendix 1)

Yes | No

- b. **note** the inclusion of content in the Cabinet Paper and next steps regarding amending ERP2 to reflect Cabinet's recent decision on agricultural pricing.
- c. **note** the proposed talking points support the presentation of the papers at ECO (see Appendix 4)
- d. **note** the next available Cabinet date is 13 October, with the Government Response to the ERM required to be tabled in the House of Representatives by 15 October.

Signatures



Kirsty Flannagan
Executive Director
**Climate Change
Interdepartmental Executive
Board Unit**
29 September 2024

Hon Simon WATTS
Minister of Climate Change

Date

Appendix 3: Table of consultation feedback received

You undertook Ministerial consultation and agency consultation in parallel from September 10 to September 23. The following table outlines key feedback and changes made to the Cabinet paper and Government Response. Editorial and formatting changes have also been made in the documents. The tracked versions of these documents provided with this briefing detail the changes made.

Cabinet paper	
Feedback	Changes
DPMC suggested some editorial changes for clarity and advised us to shorten the paper and cut out some of the detail. This was also required to keep the paper under 10 pages with the addition of the ERP2 amendment section.	Unnecessary content and repetition was removed throughout the paper.
MFE provided feedback following the finalisation of projections for publication that the central estimate will be published with a high and low estimate derived from a sensitivity analysis rather than an analysis of uncertainty (which will not be published).	The uncertainty range given for EB2 was replaced with the high and low sensitivity analysis values for consistency with the published 2025 projections.
MFE provided some wording changes to ETS related content. 9(2)(g)(i) [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] Other more minor edits (additions and deletions) were suggested to small pieces of text.	The ETS content was edited to make the 9(2)(g)(i) [REDACTED] [REDACTED] [REDACTED] The suggested additions and deletions were actioned.
Government response	
Feedback	Changes
DPMC suggested reducing repetition in the paper and advised shortening it by cutting some of the detail. They noted duplications in the positioning of ETS content, repetition on how emissions reductions plans and budgets were discussed and a lack of clarity of the key messages. DPMC also suggested strengthening how the 2025 projections were positioned given the buffer for EB1 and EB2 had improved.	Unnecessary content and repetition was removed throughout the paper. Ordering of content was also amended to limit repetition, this included consolidating ETS content, updating the approach to the ERP implementation sections and amendments to how much detail was included on the Commission’s findings. An executive summary was also added to aid in the communication of key messages. To strengthen how the 2025 projections were positioned we amended the data and modelling section to include more detail on the projections.

<p>MfE provided feedback on the ETS content including how the ETS caps and recent settings decisions were discussed.</p> <p>It also suggested some wording changes to the ETS content in table 3 to clarify what the Government is doing in relation to industrial allocation settings.</p>	<p>The ETS section was edited to include clearer wording on EB2 and EB3 caps being set and that 5 years of settings decisions have been made.</p> <p>Table three was edited to include content that clarified what the Government intends to do in industrial allocation.</p>
<p>MPI provided some wording changes throughout focusing on the sections relating to Agriculture and Forestry.</p> <p>For the Agriculture sector in the Government response section (table 3) this included clarifying that the Government prioritised risk management over speed.</p> <p>For the Forestry sector in the Government response section (table 3) MPI suggested adding some text about the 2025 projections and the CCRA (ETS Forestry Conversions) Amendment Bill.</p>	<p>Additional content was added about the Government’s intention to amend ERP2 to reflect the removal of agricultural pricing.</p> <p>The feedback on the Agriculture sector (table 3) was actioned by adding the following suggested text: “manage long-term risks”.</p> <p>The feedback on the Forestry sector was actioned by adding the following suggested text: “The use of 2025 projections in the Government’s response has increased the certainty of forestry removals for EB2. The Government acknowledges there are delivery risks to the scale of forestry needed in EB3 due to uncertainty around registering exotic forests in the NZ ETS. Although this is likely be mitigated in part by the implementation of the CCRA (ETS Forestry Conversions) Amendment Bill.”</p>
<p>MBIE provided some wording as evidence to the actions being taken by the Government to improve energy infrastructure.</p>	<p>Edits to Table 3 included adding text about the “fast track” initiative.</p>

In Confidence

Office of the Minister of Climate Change

Cabinet Economic Policy Committee

2025 adaptative management assessment of progress towards the second emissions budget and Government Response to Climate Change Commission's Emissions Monitoring Report

Proposal

- 1 This paper seeks agreement to the 2025 adaptive management assessment of progress towards New Zealand's second emissions budget and the Government Response to the Climate Change Commission's 2025 *Monitoring report: Emissions reduction*. In addition, it asks Cabinet to note my intent to amend ERP2 to reflect the recent Cabinet decision to not progress a pricing system for on-farm emissions.

Relation to Government priorities

- 2 This paper supports the achievement of Government Target 9, which is to be on track to meet New Zealand's 2050 net zero climate change targets, with total net emissions of no more than 290 Mt from 2022 to 2025 and 305 Mt from 2026 to 2030 (corresponding to the first and second emissions budgets). It also supports statutory obligations under the Climate Change Response Act 2002 (the Act) to ensure net emissions do not exceed the relevant emissions budget. The response to the ERM Report is also a statutory obligation under the Act with a statutory deadline of 15 October 2025.

Executive summary

- 3 New Zealand's second emissions reduction plan (ERP2) includes an adaptive management approach, requiring annual Cabinet report backs on whether New Zealand remains on track to meet its second emissions budget (EB2) and, if necessary, agreement of further actions to get back on track.
- 4 The recently finalised 2025 emissions projections suggest our market-led and cost-effective approach to reducing emissions is working. New Zealand remains on track to meet its first emissions budget (EB1) and EB2, and Government Target 9, with increased surpluses (or 'buffers') for both EB1 and EB2 compared to 2024 projections.
- 5 After considering updated emissions projections and reviewing potential risks to EB2, I am confident New Zealand remains on track to meet EB2 and no corrective action is required for this year's adaptive management decision.
- 6 This paper also seeks approval of the Government Response to the Climate Change Commission's (Commission's) 2025 Emissions Reduction Monitoring (ERM) Report. The Commission found New Zealand is likely to meet EB1 and can meet EB2 but

recommended the Government act ahead of the third emissions reduction plan, to reduce risks to EB2 and get on track for the third emission budget (EB3).

7 In my view, New Zealand's net-based climate strategy is already advancing work in areas aligned with this recommendation and given the EB2 period has not yet commenced, I do not consider immediate action ahead of EB3 necessary at this stage.

8 As part of 2050 target decisions, Cabinet recently agreed not to progress a pricing system for on-farm emissions [CAB-25-MIN-0329 refers]. I remain confident that we remain on track for EB2, but this change requires ERP2 be amended to present an accurate record of our current plan to meet EB2. I propose to publicly consult on the amendment shortly, allowing the amendment to ERP2 to be published as soon as possible.

Background

9 In December 2024, the Government published its second emissions reduction plan, outlining the Government's approach to achieve EB2 [ECO-24-MIN-0243]. ERP2 includes an adaptive management approach, to ensure the Government stays on track to meet EB2.¹ In approving ERP2, Cabinet agreed to annual report backs, as part of the Government Response to the Commission's ERM Report, to:

9.1 confirm whether the Government remains on track to meet the second emissions budget; and, if not

9.2 recommend further actions that might be necessary to get back on track, as outlined in the adaptive management approach for ERP2.

10 The Act requires the Commission to independently monitor and report annually on progress towards the 2050 target and emissions budgets, and implementation of emissions reductions plans. I received the Commission's 2025 ERM Report on 15 July 2025 and must respond to this report within 3 months of receiving it.²

Part I: Progress towards meeting emissions budgets and targets

11 Emissions projections out to 2050 are produced annually to give an updated picture of progress towards emissions budgets. Projections can change year on year due to external factors like private sector responses, policy changes, and implementation progress, and modelling improvements.

12 New Zealand's 2025 Greenhouse Gas Emissions Projections have recently been finalised. Key drivers of change in the 2025 projections compared to 2024 projections include on the upside, increased forestry removals, changes to waste emissions methodology³, and increased expectations for agricultural mitigation technology uptake over the EB2 period; offset by increased expectations for agricultural livestock numbers and production. Updated estimates of gas reserves in New Zealand also

¹ The Act includes a statutory duty on the Minister of Climate Change to ensure net emissions do not exceed the emissions budget for the relevant emissions budget period (section 5X(4)).

² Section 5ZK of the Act

³ Noting I have work underway to understand how the impact of methodological changes is managed within the Act's fixed emissions budgets.

contribute to the upside change, though this situation has also resulted in abatement from the CCUS policy being removed from projections.⁴

- 13 2025 projections show that New Zealand remains on track to meet EB1 and EB2, and Government Target 9, with increased surpluses (or ‘buffers’) for both EB1 and EB2 compared to 2024 projections (based on the central estimate of projections).
- 14 New Zealand can meet both the 2050 biogenic methane and 2050 net zero targets but is off-track for EB3 and the 2030 biogenic methane target (based on the central scenarios of projections, although achieving the 2030 biogenic methane target is within the projected uncertainty range). Cabinet has recently agreed to change the 2050 methane target and retain the 2050 net zero target. These projections are based on the currently legislated target, but we can also meet the revised 2050 methane target.

Part II: Adaptive management assessment for EB2 2026-2030

New Zealand remains on track for EB2

- 15 New Zealand remains on track to meet EB2 with a buffer of 4.5 Mt (an increase from 1.9 Mt in 2024 projections). However, and as to be expected when forecasting five years into the future, there is a reasonable level of uncertainty in the projected level of total emissions over the EB2 period as reflected by the sensitivity range. Although the 325.8 Mt high estimate of the sensitivity range sits above the EB2 limit of 305 Mt it is just as possible that the low estimate of the range (285.4 Mt) is realised. The central estimate of 300.5 Mt is judged as the scenario that is most likely to eventuate and is the basis for the adaptive management assessment.
- 16 Projections also indicate New Zealand will achieve EB1 with a buffer of 7.8 Mt, an increase from 5.9 Mt in 2024 projections. Any surplus reductions from EB1 could be counted towards meeting EB2 under the “banking” provisions in the Act.⁵

There are some risks to EB2 that could arise

- 17 To support the adaptive management assessment, the Climate Change Chief Executives Board convened a cross-agency review of possible risks to EB2. Most were assessed as low likelihood or consequence and do not warrant escalation or further action at this stage.
- 18 There are some risks that could arise and adversely impact emissions during the EB2 period, which I suggest Cabinet note. These risks primarily relate to farmer uptake of mitigation technologies potentially being lower than the 1.9 Mt of abatement across the EB2 period that was modelled in the 2025 projections. Uptake is influenced by

⁴ The Todd group have publicly expressed they do not intend on pursuing Carbon Capture and Storage (CCUS) at Kapuni, citing gas scarcity and the NZ ETS price. As a result, 2025 projections no longer assume abatement from CCUS (an ERP2 policy).

⁵ Section 5ZF of the Act provides that if total emissions in an EB period are lower than the relevant EB, the excess reduction may be carried forward (or banked) to the next EB period, with the EB for the next EB period increased by the amount carried forward. The Minister must have regard to relevant advice from the Climate Change Commission in its end of EB report, before making a decision in 2028 to bank any excess reduction.

numerous factors including market demand and support, policy interventions, technology availability, and individual farm business circumstances.

- 19 This Government is committed to growing the economy while meeting our climate goals. While continued economic growth is positive and necessary, I am mindful that increased production without corresponding efficiency gains can result in increased emissions for sectors outside of the NZ ETS. This is why we are committed to our market and technology-led approach to managing agricultural emissions.
- 20 The NZ ETS remains New Zealand’s primary tool for reducing emissions, with any risks within NZ ETS-sectors managed within the NZ ETS cap. Cabinet recently agreed the NZ ETS cap for the next five years as part of its annual ETS Settings decisions [ECO-25-MIN-0120]. 2025 projections reflect these decisions and indicate ETS-covered sectors are on track or over-performing in relation to the ETS cap - suggesting our market-led and cost-effective approach to reducing emissions is working.
- 21 In agreeing to these settings, Cabinet noted the NZ ETS accordance assessment advised that the surplus stockpile of units undermines certainty in the timing of abatement, meaning emissions could exceed EB2. This risk is being actively managed through the 2025 NZ ETS settings update, which is following a consistent policy of drawing down the surplus stockpile by 2030.

22 9(2)(f)(iv) [Redacted]

No adaptive management corrective action or response is required

- 23 I judge these risks are too uncertain to warrant action now. This, combined with confidence in our ability to meet EB2 from the 2025 projections supports the view that no corrective action is required this year to ensure New Zealand stays on track to meet EB2. These risks will be reassessed through the 2026 adaptive management process, in light of updated projections in 2026.

Part III: Government Response to the Commission’s ERM Report

- 24 The proposed Government Response is attached at Appendix 1. The Response must:
- 24.1 set out the response to the Commission’s ERM Report;
 - 24.2 describe the progress made in implementing the current ERP; and
 - 24.3 note any amendments to the current ERP.

High level assessment and response

- 25 I agree with the Commission’s key findings that New Zealand is on track to meet EB1, and EB2 can be met.

- 26 The Commission has highlighted several delivery risks across ERP2 sectors. The Government Response outlines how the Government is addressing key risks identified by the Commission.
- 27 The Commission sets out an overarching recommendation that the Government should act ahead of the third emissions reduction plan (ERP3) to get on track to meet EB3, the period from 2031 - 2035. This recommendation aligns well with the Government's existing climate strategy, which includes strengthening the NZ ETS and complementary measures such as supporting the development, commercialisation and adoption of agricultural technology. ERP3 will set out how New Zealand intends to meet EB3. Exploring opportunities ahead of ERP3 may support policy development and provide useful lead-in time, and I am interested in considering this as part of future planning for ERP3.
- 28 However, given that the EB2 period has not yet commenced, I do not consider immediate action necessary at this stage. I am confident that the adaptive management process provides a sufficient framework to manage any emerging risks to EB2.
- 29 The NZ ETS remains an important tool in New Zealand's climate strategy, with a number of initiatives underway to strengthen the NZ ETS.⁶ NZ ETS policy and settings will need to evolve to reflect changing circumstances and ensure continued impact.9(2)(f)(iv)

Implementation progress and amendments to the first emissions reduction plan

- 30 The Government Response outlines the following:
- 30.1 The ERP1 amendment was published in December 2024, formally removing 41 actions from the Plan and aligning it with the Climate Strategy.
- 30.2 The amended ERP1 continues to be implemented ahead of EB1 and ERP1 concluding at the end of this year. As at December 2024, over half of remaining ERP1 actions were expected to achieve their outcomes by the end of 2025, with work established by many of these likely to continue beyond EB1. However, many actions are unlikely to achieve their intended outcomes during the ERP1 period with 19 actions discontinued, 46 actions on hold, 5 actions yet to begin and 15 actions delayed or uncertain. The Response cites the 2025 projections as indicating New Zealand remains on track to meet EB1.
- 30.3 While ERP2 formally begins when EB2 commences on 1 January 2026, implementation of nearly all ERP2 policies is underway.

⁶ Such as reviewing the NZ ETS settings decision-making frameworks and tools, jointly with the Climate Change Commission 9(2)(f)(iv)

and strengthening market governance through the CCRA amendments.

Part IV: ERP2 amendment to remove agricultural pricing commitment

- 31 On 22 September, Cabinet agreed to not progress a pricing system for on-farm emissions as part of the 2050 methane target decisions [CAB-25-MIN-0329 refers]. That paper also outlined that the Minister of Agriculture and I:
- 31.1 intend to engage with industry leaders to maintain momentum and update ERP2 accordingly; and
 - 31.2 will report back to Cabinet in May next year to provide an update on progress towards agricultural emissions reduction.
- 32 I am confident that this change will not impact on our ability to meet EB2, noting that in ERP2 agricultural pricing was expected to contribute abatement primarily in EB3. In its place we intend to support and leverage growing industry, market, and technology-led activity to enable farms to accelerate the uptake of new technology to reduce methane, without adding significant costs to production.
- 33 The Act provides a mechanism for amending emissions reduction plans to maintain their currency and requires public consultation on amendments unless the amendment is minor or technical. I propose to undertake consultation on the removal of the agricultural pricing policy from ERP2 shortly, so an amendment to ERP2 can be published as quickly as possible.
- 34 I have the statutory responsibility under the Act to prepare and amend ERPs. In line with this, and to amend ERP2 as quickly as possible, I propose to
- consult on the Government’s revised approach to meeting EB2 that reflects the removal of agricultural pricing. Given our intention to engage with industry and report back to Cabinet in May, and that we are still on track for EB2 even accounting for the removal of this policy, I anticipate this public consultation will not focus on firm alternative policies to pricing. Rather, it will be an opportunity to gain useful insights to inform the May report back process.
 - confirm a short discussion document, in consultation with the Minister of Agriculture, for consultation for 3 weeks.
 - confirm, without returning to Cabinet but in consultation with the Minister of Agriculture, the final amendment to ERP2 for tabling.

9(2)(h) [REDACTED]

[REDACTED]

9(2)(h) [Redacted]
[Redacted]

[Redacted]
[Redacted]
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Cost of living implications

38 The proposals in this paper do not have any direct cost of living implications.

Financial implications

39 The proposals in this paper do not have any direct financial implications.

Legislative implications

40 The proposals in this paper do not have any direct legislative implications.

Climate Implications of Policy Assessment

41 No Climate Implications of Policy Assessment is required as no policy changes are recommended.

Population implications

42 The proposals in this paper do not have any direct population implications.

Human rights

43 The proposals in this paper do not have any inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of external resources

44 Deloitte was contracted to review the process used to develop adaptive management advice, including its underlying analysis and risk assessment approach.

Consultation

- 45 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 & Employment, Ministry of Transport, The Treasury, and Ministry of Foreign Affairs and Trade.
- 46 The Department of the Prime Minister and Cabinet has been informed.

Communications

- 47 The Government Response (Appendix 1) will be presented to the House of Representatives by 15 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.
- 48 The discussion document on the proposed amendments to ERP2 to reflect the revised approach to meeting EB2 is planned to be published on the Ministry for the Environment's website for a 3-week public consultation. A final amendment to ERP2 is planned for publication on the Ministry for the Environment website.

Proactive release

- 49 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** that in December 2024, Cabinet agreed to an adaptive management approach outlined in the second emissions reduction plan (ERP2), including an annual Cabinet report back on whether New Zealand is on track for the second emissions budget or if further action is needed to get back on track [ECO-24-MIN-0243].
- 2 **Note** the central estimates of the 2025 emissions projections indicate New Zealand remains on track to meet the first and second emissions budgets, and Government Target 9.

Adaptive management assessment

- 3 **Note** the projected surplus for the second emissions budget and the cross-agency process of assessing risks did not identify any risks that require action this year.
- 4 **Agree** the 2025 adaptive management assessment is that New Zealand remains on track to achieve the second emissions budget and no further action is required.

Government Response to the Climate Change Commission ERM Report

- 5 **Note** on 15 July 2025 I received the Climate Change Commission’s annual Emissions Reduction Monitoring Report (ERM report) and must respond to this report within 3 months.
- 6 **Approve** the public-facing Government Response to the ERM Report, attached as Appendix 1.
- 7 **Agree** that I present the Government Response to the House of Representatives by 15 October, at which point it will be made publicly available on the Ministry for the Environment’s website.
- 8 **Agree** that I can make minor and technical changes to the Government Response, if required between now and publication.

ERP2 Amendment to remove agricultural pricing commitment

- 9 **Note** that in light of Cabinet’s recent decision to not progress a pricing system for on-farm emissions, the Minister of Climate Change has a statutory duty to amend ERP2 to present an accurate record of our current plan to meet EB2.
- 10 **Agree** the Minister of Climate Change, in consultation with the Minister of Agriculture, will
 - 10.1 approve a discussion document for public consultation shortly on an amendment to ERP2 reflecting this change, and
 - 10.2 finalise an amendment to ERP2 for publication as soon as possible.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change



Cabinet Economic Policy 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.

Progress Towards Second Emissions Budget and Government Response to Climate Change Commission's Emissions Monitoring Report

Portfolio Climate Change

On 8 October 2025, the Cabinet Economic Policy Committee (ECO):

Background

- 1 **noted** that in December 2024, ECO agreed to an adaptive management approach outlined in the second emissions reduction plan (ERP2), including an annual Cabinet report back on whether New Zealand is on track for the second emissions budget or if further action is needed to get back on track [ECO-24-MIN-0243];
- 2 **noted** that the central estimates of the 2025 emissions projections indicate New Zealand remains on track to meet the first and second emissions budgets, and Government Target 9;

Adaptive management assessment

- 3 **noted** that the projected surplus for the second emissions budget and the cross-agency process of assessing risks did not identify any risks that require action in 2025;
- 4 **agreed** that the 2025 adaptive management assessment be that New Zealand remains on track to achieve the second emissions budget and no further action is required;

Government Response to the Climate Change Commission ERM Report

- 5 **noted** that on 15 July 2025, the Minister of Climate Change (the Minister) received the Climate Change Commission's annual Emissions Reduction Monitoring Report (ERM Report) and must respond to this Report within 3 months;
- 6 **approved** the Government Response to the ERM Report, attached as Appendix 1 under ECO-25-SUB-0155;
- 7 **agreed** that the Minister present the Government Response to the House of Representatives by 15 October 2025, at which point it will be made publicly available on the Ministry for the Environment's website;
- 8 **authorised** the Minister to make minor and technical changes to the Government Response, if required, between now and publication;

ERP2 amendment to remove agricultural pricing commitment

- 9 **noted** that in light of Cabinet's recent decision to not progress a pricing system for on-farm emissions [CAB-25-MIN-0329], the Minister has a statutory duty to amend ERP2 to present an accurate record of the current plan to meet the second emissions budget;
- 10 **authorised** the Minister, in consultation with the Minister of Agriculture, to:
- 10.1 approve a discussion document for public consultation shortly on an amendment to ERP2 reflecting this change; and
- 10.2 finalise an amendment to ERP2 for publication as soon as possible.

Rachel Clarke
Committee Secretary

Present:

Hon David Seymour
Rt Hon Winston Peters
Hon Nicola Willis
Hon Brooke van Velden
Hon Erica Stanford
Hon Louise Upston
Hon Dr Shane Reti
Hon Tama Potaka
Hon Simon Watts
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:

Office of Hon Scott Simpson
Officials Committee for ECO



Cabinet

Minute of Decision

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Report of the Cabinet Economic Policy Committee: Period Ended 10 October 2025

On 13 October 2025, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 10 October 2025:

ECO-25-MIN-0155 **Progress Towards Second Emissions Budget and Government Response to Climate Change Commission's Emissions Monitoring Report** CONFIRMED
Portfolio: Climate Change

This information is not included in this proactive release

Rachel Hayward
Secretary of the Cabinet

Aide Memoire

To Hon Simon Watts, Minister of Climate Change

From Kirsty Flannagan, Executive Director, Climate Change Chief Executives Board Unit

Date 13 October 2025

Subject BRF-6936: Aide memoire: Next steps for the release of the 2025 response to the Climate Change Commission's emissions reduction monitoring report

Purpose

1. To provide you with the final formatted version of the Government response to the Climate Change Commission's (the Commission) 2025 emissions reduction monitoring report (ERM report) for tabling in the House of Representatives (attached in Appendix 1).

Discussion

2. You received the ERM report from the Commission on 15 July. A Government response is required to be tabled in the House of Representatives by 15 October 2025 and made publicly available.¹
3. Cabinet is due to consider the Government response and its release on Monday 13 October, following ECO Committee approval on 8 October [ECO-MIN-25-0155].
4. If the release of the Government response is approved, Cabinet will authorise you to make minor and technical changes, if required, between decisions and publication.
5. Attached is the final formatted response (see Appendix 1) that, following direction from your office, includes the following revisions:
 - i Following recent announcements, the place holder text on the revised biogenic methane component of the 2050 target and the removal of agricultural pricing from ERP2 have been included but we have not included the reference to a potential ERP2 amendment.
 - ii Applied minor editorial and formatting revisions to remove duplicated information and tidy in document references.

¹ Climate Change Response Act 2002, section 5ZK(4)

Next steps

6. If Cabinet approves the document and its release, you are required to table the Government response to the ERM report in the House by Wednesday 15 October 2025.
7. The Government response is a Parliamentary paper and as such the Office of the House needs two hard copies and a PDF copy by the morning of the day you wish to table the response. We will work with your office to support this process
8. Once tabled, the Government response will be made publicly available on the Ministry for the Environment's (MfE) website along with an accompanying news story. No proactive press release is planned, and a reactive approach is being taken for media and stakeholder queries.
9. If any media enquiries are received, the MfE communications team will support you. A set of key messages and reactive Q&As were provided to you separately via the Press Secretary on 10 October 2025.

Appendix 1: Government response to 2025 Climate Change Commission Emissions Reduction Monitoring Report

[see attached report]

Appendix 1 available at: <https://environment.govt.nz/publications/government-response-to-the-climate-change-commission/>