



PROACTIVE RELEASE COVERSHEET

Minister	Hon James Shaw, Hon Simon Watts	Portfolio	Climate Change
Name of package	Briefings for ERP1, ERP2	Date to be published	21-10-2025

List of documents that have been proactively released

Date	Title	Author
28 February 2023	BRF-2754 Climate Response Ministerial Group First six-monthly progress report on the Government's emissions reduction plan	Ministry for the Environment
15 December 2023	BRF-3978 Progressing amendments to the CCRA to repeal NZ ETS obligations for agriculture	Ministry for the Environment
26 January 2023	BRF-4088 Cover Brief Cabinet Paper Amending the CCRA to repeal NZ ETS Agricultural Obligations	Ministry for the Environment
1 February 2024	BRF-4109 - Climate change legislation programme bids 2024	Ministry for the Environment
20 March 2024	BRF-4189 Policy options for provision of household kerbside recycling and food scraps services	Ministry for the Environment
19 February 2024	BRF-4249 Climate Change Response Act 2002 Amendments New Zealand Emissions Trading Scheme obligations for agriculture	Ministry for the Environment
19 February 2024	BRF-4289 Potential timeframes for Reducing Agricultural Emissions Actions	Ministry for the Environment
15 February 2024	BRF-4292 Climate Change legislation programme bids 2024 - final approval	Ministry for the Environment
29 February 2024	BRF-4311 Draft Cabinet paper – New Zealand's Climate Goals and Obligations	Climate IEB Unit
28 February 2024	BRF-4354 Meeting legal requirements for mitigating distributional impacts in ERP2	Ministry for the Environment
8 March 2024	BRF-4368 Cover briefing Cabinet paper on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme	Ministry for the Environment
21 March 2024	BRF-4464 Approval to lodge Amending the Climate Change Response Act 2002 to repeal agricultural obligations in the NZ ETS	Ministry for the Environment
9 May 2024	BRF-4613 Cover Briefing Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill	Ministry for the Environment

14 June 2024	BRF-4840 Status of the first emissions reduction plan and emissions budget 1	Ministry for the Environment
4 July 2024	BRF-4870 Proposed approach for Government responses to the Climate Change Commission's monitoring reports on emissions reduction and adaptation progress	Climate IEB Unit
26 June 2024	BRF-4946 ERP2 - Cabinet paper and discussion document - summary of feedback and approval to lodge	Ministry for the Environment
19 July 2024	BRF-4996 Climate Change Commission ERM report	Climate IEB Unit
2 October 2024	BRF-5025 Amending the first emissions reduction plan	Climate IEB Unit
15 August 2024	BRF-5187 Attendance at the Primary Production Committee on the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – 22 August 2024	Ministry for the Environment
6 September 2024	BRF-5217 Response to the Climate Change Commission's Emissions Reduction Monitoring Report	Climate IEB Unit
25 September 2024	BRF-5342 Final Cabinet paper and response to the Commission's emissions reduction monitoring report	Climate IEB Unit
10 October 2024	BRF-5452 Communications support for the release of the response to the Climate Change Commission's emissions reduction monitoring report	Climate IEB Unit
10 October 2024	BRF-5456 ERP2 - first drafts of your plan and Cabinet paper	Ministry for the Environment
31 October 2024	BRF-5476 Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Material to support the Second Reading	Ministry for the Environment
30 October 2024	BRF-5538 Approval to lodge the second emissions reduction plan	Ministry for the Environment
11 November 2024	BRF-5589 Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Material to support the Third Reading	Ministry for the Environment
4 December 2024	BRF-5615 ERP2 – finalising the plan	Ministry for the Environment
9 December 2024	BRF-5690 Environment Committee inquiry into the Government's response to the CCC emissions monitoring 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

Some information has been withheld from *[Document title]* under Section [section] of the Official Information Act [reason].

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CLIMATE CHANGE CHIEF EXECUTIVES BOARD

Briefing Note: Climate Response Ministerial Group: First six-monthly progress report on the Government's emissions reduction plan

Date Submitted:	28 February 2023	Tracking #: BRF-2754	
Security Level	Policy and Privacy CLASSIFICATION	Priority:	Not Urgent

	Action sought:	Response by:
Rt Hon Chris HIPKINS, PRIME MINISTER, Chair of the Climate Response Ministerial Group	Forward this briefing note to the Climate Response Ministerial Group	10 March 2023
CC Hon James SHAW, Minister of Climate Change	For information and feedback	N/A

Actions for Minister's Office Staff	If agreed, forward this briefing note and Appendix 1 to: Climate Response Ministerial Group Ministers Return the signed report to the Climate Change Interdepartmental Executive Board
Number of appendices and attachments # 1	Appendix 1: Six-monthly progress report on the first emissions reduction plan coordination

Key contacts

Position	Name	Cell phone	1st contact
Principal Author	Sylvia Frean		
Deputy Executive Director	Chris Nees	9(2)(a)	✓
Executive Director	Lisa Daniell	9(2)(a)	

Six-monthly progress report on the first emissions reduction plan

Key Messages

1. Attached to this briefing note (**Appendix 1**) is the first six-monthly progress report (the Report) on the Government's first emissions reduction plan (ERP1). The Report has been prepared by the Climate Change Chief Executives Board (the Board) for the Climate Response Ministerial Group (CRMG) and covers the period July 2022 to 31 December 2022.
2. Since the information in the Report was finalised, the context of the ERP1 work programme has changed significantly:
 - a. The Government is focused on reducing cost of living pressures, increasing the challenge of delivering emissions abatement where those policies create costs for households and businesses.
 - b. The Auckland floods and Cyclone Gabrielle have increased the priority of climate adaptation policies which means a need to focus attention on the delivery of the most critical actions for emissions reductions given capacity pressures across government.
3. One of the Board's core roles is to advise CRMG on how to adjust policy settings to manage emerging risks and variance in the emissions reductions plans. This briefing therefore provides advice on possible options to mitigate the impacts of removing the Sustainable Biofuels Obligation (SBO).

ERP1: progress at a glance

4. Six months into the implementation of ERP1, agencies are making progress across a large work programme. Out of 301 actions, 221 x actions were ranked green or 'on-track', 64 x actions were ranked amber or have 'some delays', and 1 x action was ranked red or 'at risk' (the SBO). 15 x actions are not progressing as they are unfunded (but are not predicted to have a high abatement impact in the short term).
5. There have been early successes across the work programme. For example, the clean car discount is having more impact than anticipated, the Government issued \$3 billion of Sovereign Green Bonds through its inaugural issuance, and there has been a significant increase to the Waste Minimisation Fund.

Strategic challenges

6. We highlight three key challenges to achieving progress on emissions budgets that need reconciling:

- a. **Delivering ambitious emissions budgets**, with national level projections showing achieving EB1 and EB2 is finely balanced and any reductions in scope or delays in delivery of ERP1 will make achieving emissions budgets even more challenging. We are currently not on track to meeting EB3.
- b. **Agencies working at capacity** with early indications of risks to delivery (e.g., slow CERF spending rate, 11 critical actions experiencing some delays).
- c. **The loss of abatement opportunities given the focus on managing cost of living impacts.** For example, recent decisions on the Sustainable Biofuels Obligation (SBO) and ETS price paths show a need for a clearer strategy to manage the impacts of abatement policies on vulnerable sectors of society. The SBO would have contributed around 1 megatonne of CO₂ abatement in the first emissions budget (around 10% of all abatement expected) and more in subsequent budgets. There are no straightforward options to offset this loss.

9(2)(h)

8. The Board's advice on these impacts is set out in paragraphs 12-18. Advice on additional abatement options is included as **Appendix 2** for your consideration but these come with their own set of trade-offs.

Priorities

9. As outlined in our BIM, the Board's initial view is that the following are the most critical areas for focus in terms of delivering the ERP and setting the direction for future policy:
 - a. The review of the New Zealand Emissions Trading Scheme (including emissions leakage and forestry incentives), as the key pillar of our domestic response.
 - b. Transport mode-shift.
 - c. He Waka Eke Noa and making progress in reducing agricultural greenhouse gas emissions.
 - d. The Energy Strategy, including early decisions to help provide investment certainty, enhancing the resilience of the energy sector, and supporting access to affordable energy.
 - e. Developing ERP2 (2026 to 2030) as this will set the direction for our domestic response out to 2050.
10. The Board also considers that managing the distributional impacts of climate change policy is a further priority given the current economic context. Subject to the Board also reviewing other critical actions and views from CRMG, it proposes to highlight reporting on these priorities in its next six-monthly report (August 2023). The Board

also proposes to end quarterly reporting on PM Ardern's priority areas given that the quarterly report would be otherwise due around a month after this report.

Programme-level risks to manage

11. We note several challenges within the ERP work programme to meeting the emissions budgets, and that the Board and Ministers can mitigate:
 - a. Delays to the implementation of some actions may result in slower than expected abatement. Indicators of these implementation delays come from:
 - i. A slow spending run-rate for CERF initiatives, with spending at the end of Q1 averaging 6.8% of the baseline and 16.5% at the end of Q2, due to skills shortages, supply chain constraints, and as agencies move from policy design to implementation.
 - ii. Changes in scope, accountability, or timeline of deliverables to 122 out of 301 actions. Agencies report that most will not impact on delivery dates, but 11 will: five critical actions will be delayed by up to six months, and six actions will be delayed by more than six months.
 - b. Capacity pressures, due to the size and scale of ERP1, challenge implementation:
 - i. Significant bottlenecks are being experienced across the system. For example, 45 Cabinet papers for ERP1 actions are due in the first six months of 2023, 12 of which include planned public engagement.
 - ii. Tight timelines to land significant actions, such as He Waka Eke Noa and the review of the Emissions Trading Scheme (ETS), are putting pressure on agencies and may create business and public uncertainty if not landed.
 - iii. Limited understanding of the dependencies of actions across the programme are constraining decision-making and policy coherence. For example, the decisions on ETS settings appear constrained in the absence of options to manage impacts on vulnerable households and a wider transitions strategy.
 - c. Limits to our data and modelling tools and this, together with insufficient information, is preventing accurate assessment of the impact of existing and future actions.
12. The Board is acting on the work programme risks that it can resolve, focussing on 'critical actions' with material abatement impacts. This work includes ensuring that 'at risk' actions have robust delivery plans, monitoring spending, and improving data.
13. The Board's next six-monthly report (August 2023) will provide a more detailed assessment about whether the recommended actions in this briefing note have been sufficient to address the emerging risks, or whether further corrective action is needed.

Recommendations

14. We recommend that you:

- a) **Agree** to discuss with CRMG the need to reconcile the following strategic challenges for achieving emissions budgets:
- i. **Delivering ambitious emissions budgets**, which projections show are finely balanced to achieve.
 - ii. **Agencies working at capacity** with some early indications of risks to delivery.
 - iii. **The loss of emissions abatement opportunities** given the focus on managing cost-of-living impacts.

Agreed

Responding to the loss of abatement opportunities

- b) **Note** that agencies and the Board have not identified abatement options that would easily offset the gap in emissions budgets created by the removal of the SBO, but discussion of additional abatement options is annexed to this briefing.

Noted

- c) **Indicate** your interest in receiving advice on any of the options to achieve additional abatement in Appendix 2, by ticking the relevant column in the tables.

Yes/No

Responding to the challenge of agency capacity constraints

- d) **Note** that the Board has identified a need to focus delivery on the most critical actions for emissions reductions out of the 301 in the ERP.
- e) **Agree**, subject to CRMG discussion, to the following five priority actions to focus delivery and reporting on, in six monthly reports (next report is due in August 2023):
- i. The review of the New Zealand Emissions Trading Scheme
 - ii. Transport mode-shift
 - iii. He Waka Eke Noa
 - iv. The Energy Strategy
 - v. Developing ERP2

Yes/No

- f) **Note** that the Board originally prioritised 62 'critical actions' (out of the 301) for delivering abatement (see Appendix B of the attached Six-Monthly Report), and it will now assess which of these should be prioritised for delivery and reporting, for discussion at CRMG.

Noted

- g) **Agree** that the six-monthly report and revised priorities in e) above will take the place of quarterly reporting on Prime Minister Ardern's priority areas.

Agreed

Managing risks across the ERP programme identified in the Six-Monthly Report

- h) **Note** that to manage risks across the ERP work programme the Climate Change Chief Executives Board will:

- i. Ensure that for the next six-monthly report agencies have robust delivery plans in place for 'critical actions' that are behind schedule.

Noted

- ii. Undertake an 'interdependency mapping' exercise to better understand links between actions and strategies within the plan and opportunities for agency work programmes to better sequence and align.

Noted

- iii. Advise on options for prioritising the number of Cabinet papers over the next six months, for discussion at CRMG.

Noted

- iv. Develop a framework for assessing cost of living/distributional impacts of different climate abatement policies and explore options for addressing these impacts, such as through climate dividends or other policies.

Noted

- v. Investigate options to improve data, modelling, and reporting, to improve the timeliness of emissions reporting and to understand abatement impacts of actions.

Noted

- vi. Continue to monitor overall progress of CERF spending and recommend options to reprioritise funding where possible, including to support unfunded or partially funded initiatives.

Noted


- vii. Develop a strategic process and investment plan for Budget '24 for the Climate Emergency Response Fund (CERF), where top-down funding priorities are recommended by the Board to Ministers, with initiatives then developed to follow.

Noted

- i) **Forward** this briefing note to members of the Climate Response Ministerial Group.

Agreed

Signature

<p>Lisa Daniell Executive Director, the Climate Change Chief Executives Board</p>	
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<p>Rt Hon Chris HIPKINS Chair of the Climate Response Ministerial Group</p>	
<p>[Date]</p>	

Purpose

1. To provide you with the first six-monthly progress report (the Report) on the first emissions reduction plan (ERP1). The Report is attached at **Appendix 1**.
2. This briefing provides a high-level summary for the six-month period, July 2022-December 2022, and recommends actions to respond to the emerging risks to the work programme identified by the Climate Change Chief Executives Board (the Board).

Context

3. The Government published Aotearoa New Zealand's first emissions reduction plan (ERP1), in May 2022. The plan details the actions that need to be implemented, across every part of the government and every sector of the economy, over the next three and a half years, to meet the first emissions budget and set New Zealand on a pathway to achieving future emissions budgets.
4. There are 301 actions in ERP1. Sixteen agencies are implementing these actions, which range from the development of strategies, drafting policy and legislation, introducing funding, pricing/financing tools, investment mechanisms, and new procurement models, through to stakeholder consultation and engagement.

High-level summary from the first six-monthly report

5. Six months into the implementation of ERP1, agencies report implementation of actions are mostly 'on-track' and there have been some early successes. However, emerging risks reflect the size and scale of the challenge to deliver what is an ambitious programme of work.
6. In addition, domestic and global trends and events are influencing progress. Cabinet decisions to address rising costs of living and inflationary pressures, currently being experienced across the globe, have reduced the scope of abatement that could be achieved.

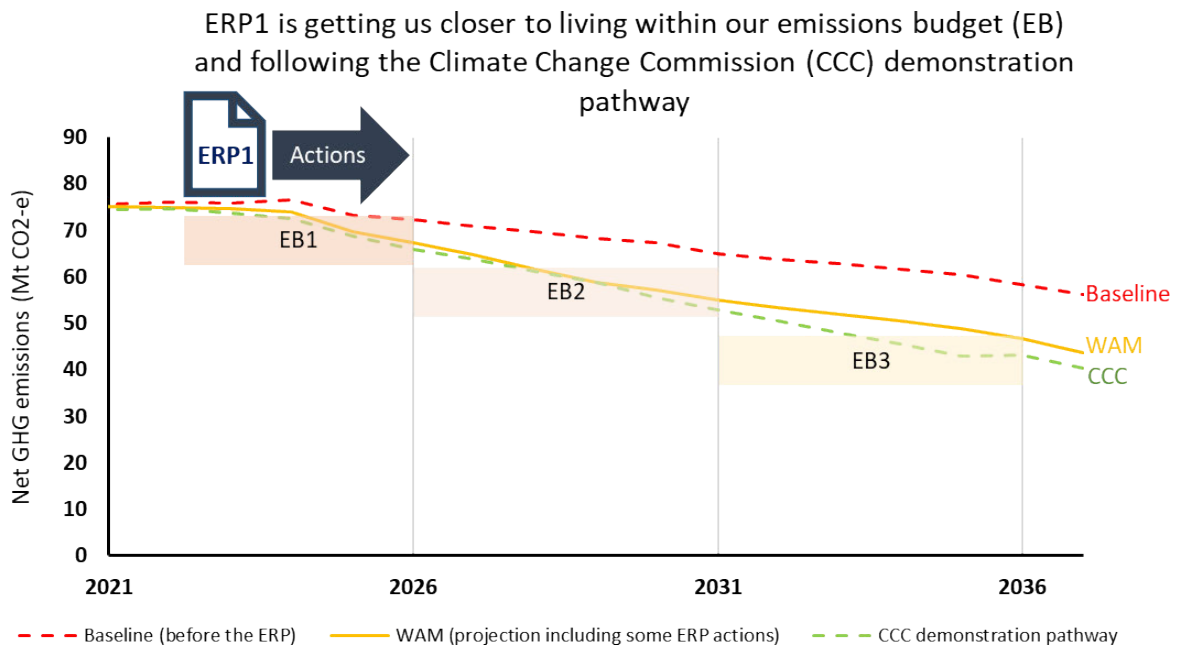
Overall progress towards our emissions budgets (page 9 of the Report)

7. The most recent national level projections (Graph 1) show achieving EB1 and EB2 is finely balanced and any reductions in scope or delays in delivery of the ERP will make achieving emissions budgets even more challenging. We are currently not on track to meeting EB3.
8. ERP1 provides the foundations upon which future mitigation actions will build. Any under-delivery in ERP1 will almost certainly require more ambition in ERP2 and ERP3¹. Successful delivery of further ERP1 actions should bring the orange line even closer to

¹ This "With Additional Measures" (WAM) projection does not include all ERP actions.

the green Climate Change Commission’s demonstration pathway, but slow or ineffective delivery of ERP1 will create risks to delivering our emissions budgets – particularly EB3.

Graph 1: Net GHG emissions: Baseline, latest projection considering some ERP measures, and demonstration pathway



Overall progress against implementing actions (page 11 of the Report)

9. Using a simple traffic light dashboard (Red, Amber, Green), aggregated information from agencies shows that:
 - a) 221 (73%) actions are green.
 - b) 64 (21%) actions are amber.
 - c) 1 action is red.
 - d) 15 actions are grey and not progressing as they are unfunded, but not predicted to have high abatement impact in the short term.

10. Early successes include:
 - a) **The clean car discount is having more impact than anticipated:** a 235 percent increase in Battery Electric Vehicle sales in 2022, compared to 2021.
 - b) **The Government issued \$3 billion of Sovereign Green Bonds** through its inaugural issuance.
 - c) **A significant increase of the Waste Minimisation Fund** (\$75m over two years in addition to approximately \$45m in waste levy funds) when it reopened in

October 2022, with investment signals focused on reducing emissions from waste, targeted towards organic waste diversion and resource recovery infrastructure.

- d) **The Centre for Climate Action on Agricultural Emissions was stood-up**, with active engagement from seven companies in standing up the Joint Venture component of the Centre, and approximately \$16m in early investments agreed.
- e) **Climate outcomes are being embedded into the new resource management system**, e.g., the Natural and Built Environment Bill (NBE Bill) and Spatial Planning Bill (SP Bill) that were introduced to Parliament in November 2022.

Risks across the programme (page 13 of the Report)

11. Across the ERP1 work programme, the Board identifies the following risks that have potential for the programme to fall short of meeting the emissions budget:
 - a. **Implementation of some actions in ERP1 have been delayed, which may result in slower than expected abatement. Indicators of these delays are:**
 - i. A slow spending run-rate for CERF initiatives, with spending at the end of Q1 averaging 6.8% of the baseline and 16.5% at the end of Q2. While spending can take time to ramp up, this pace is an indicator of risks to delivery of actions. At the same time some actions are unfunded, with potential opportunities for reprioritisation.
 - ii. Changes in scope, accountability, or timeline of deliverables to 122 out of 301 actions. Not all these appear material but there are five critical actions that will be delayed up to six months, and six critical actions that will be delayed by more than six months. For example, the expected abatement in EB1 from waste infrastructure will be impacted due to delays between funding approvals and commissioning of plant.
 - b. **Capacity pressures due to the size and scale of ERP1 resulting in implementation issues.** These include:
 - i. Significant bottlenecks including around 45 Cabinet papers for ERP1 actions are due in the first six months (to June 2023), 12 policy proposals require significant public engagement, and challenges with sufficient cross-agency coordination and engagement on actions. Examples include engaging on the Equitable Transitions Strategy and aligning biodiversity and climate actions.
 - ii. Tight delivery timelines - there is significant work to land proposals over the coming six months. Examples include delivering a proposal for an enduring Māori Climate Platform with significant iwi engagement, delivery of the Emissions Trading Scheme (ETS) review, and finalising He Waka Eke Noa proposals.
 - iii. Limited understanding of the dependencies of actions across the work programme which are constraining decision-making and policy cohesion. For

example, levers to deliver an Equitable Transitions Strategy sit across government, so success is contingent on agency engagement and a good understanding of impacts from abatement on communities. ETS settings (among other policies) will need to have ‘social licence’ to manage impacts on vulnerable households. Prioritising aspects of the Equitable Transitions Strategy will assist this process, for example if agencies can have early access to a framework and principles for thinking about managing the impact of mitigation policies.

- c. **Limits to data, information, and modelling tools.** As a result, it is difficult to accurately assess both the impact of existing work and model future impacts. The Climate Change Chief Executives Board Unit (the Unit), the Ministry for the Environment, and delivery agencies, are working together to improve this and anticipate ongoing refinements and improvements in data, modelling, and analysis with each report.

9(2)(h)

9(2)(h)

13. While outside the period of the Report, the removal of the Sustainable Biofuels Obligation will leave gaps in our emissions budgets. Without the SBO, less abatement will be delivered, meaning we have less confidence of meeting the first emissions budget. Of the total abatement from transport, the Sustainable Biofuels Obligation was modelled to account for to 7.1 to 9.9 Mt CO₂-e across the three emissions budgets. This represents around half of the total transport abatement across each emissions budget.
14. The Obligation would have played an increasing role in displacing fossil fuel use and was highly significant as one of few options for harder-to-abate heavy transport sectors. Internal combustion engine vehicles are expected to remain a significant component of vehicle fleets for the next 20-30 years, meaning biofuels can play an important transitional role in reducing emissions from these vehicles.
15. The Board has provided options for Ministers to consider addressing this gap in Appendix 2. Some of these are being considered as Budget 2023 initiatives; others have previously been considered and rejected by Ministers. Options include alternative ways to incentivise use of low emissions fuels, alternative options in the transport sector and abatement opportunities elsewhere in the economy.
16. Immediate alternatives are limited: most have been considered through development of the first ERP. The most appropriate focus for providing greater confidence of meeting

the first emissions budget probably rests in improvements in the delivery and impact of existing ERP actions, not new ones.

17. In particular, the Transport part of the ERP is already highly ambitious and most potential options to cut emissions have been explored in its development. Without the Obligation and with no new actions it is not likely transport will meet its sub-sector target for EB1 or achieve the target to 'Reduce the emissions intensity of transport fuel by 10 per cent by 2035'.
18. More widely, the focus on managing cost of living impacts has highlighted the urgency and importance of having a need for a clearer strategy to manage the impacts of abatement policies on vulnerable sectors of society. The Board has agreed to explore options to ensure the cost-of-living impacts from climate policies are given more focus through the use of a consistent framework and principles for analysing these impacts.

Focus for the next six months – out to June 2023

19. At this early stage of implementation, we suggest CRMG and the Board focus on continued delivery of actions, especially critical actions material to delivering sub-sector abatement targets and managing the programme-level risks outlined in the Report, that are firmly within the Board's remit.
20. In particular, we propose to focus future reporting to you on the five priority areas identified in our BIM as being critical for delivering abatement and supporting EB2:
 - the review of the New Zealand Emissions Trading Scheme (including emissions leakage and forestry incentives), as the key pillar of our domestic response.
 - Transport mode-shift.
 - He Waka Eke Noa and making progress in reducing agricultural greenhouse gas emissions.
 - The Energy Strategy, including early decisions to help provide investment certainty, enhancing the resilience of the energy sector, and supporting access to affordable energy.
 - Developing ERP2 (2026 to 2030) as this will set the direction for our domestic response out to 2050.
21. Over the short-to-medium term, our attention will turn to developing adaptive management options, to be able to respond to programme risks (and external economy-wide challenges) and capitalise on emerging opportunities.

Next steps

22. Subject to your agreement, your office will forward this briefing note and the Report to CRMG members for discussion at the next meeting of this group.
23. The Board proposes to end quarterly reporting on PM Ardern's priority areas and deliver its next six-monthly report in August 2023.



Appendix 1: Six-monthly report on the first emissions reduction plan (ERP1)

- See attached –



CLIMATE CHANGE CHIEF EXECUTIVES BOARD

Appendix 2: Options to mitigate the impacts of withdrawing the Sustainable Biofuels Obligation

Context:

1. There are challenging factors to reconcile to offset the loss of the Sustainable Biofuels Obligation (SBO) from the emissions reduction plans - and the Board has had limited opportunity to consider all the regulatory, pricing or investment options currently available.
2. However, the Board has made a first attempt at updating the list of additional abatement options (**Table 1**) which was first presented to CRMG in February 2022. At the time these options were committed to the ERP, rejected, or undeveloped.
3. There are potentially new abatement options that we incorporate in the table.
4. We have not been able to re-test harder regulatory measures, e.g., to reduce vehicle use (limiting when and where vehicles can travel), 9(2)(g)(i) or reducing industrial energy use, but note that these remain options technically available to government if there is urgent pressure to reduce emissions in the short term, with high trade-offs.
5. We provide a column for you to indicate your preference for an option to be developed further.

TABLE 1 - Initiatives provided to CRMG on 16 February 2022 that were recommended – includes updates from the IEB Unit, MPI and MfE

Initiative	Description	Implications	Assessment and recommendation	Further advice?
Expansion of Government Investment in Decarbonising Industry (GIDI) fund)	Early announcement of GIDI expansion pre-budget '22 announcements.	Enables the first GIDI funding round to open 2-3 months earlier Maintains & builds project proposal pipeline without delay Brings forward \$25m of planned expenditure into 2022/2023, increasing expenditure in the first year from \$75m to \$100m.	Agreed to progress in 2022 – additional funding provided Currently underspent, additional funding not recommended	
PĀMU	9(2)(g)(i)	Livestock represents 92% of PAMU’s \$250m per annum revenue stream. 9(2)(g)(i)	9(2)(g)(i)	
Behavioural outcomes	Include behavioural outcomes within the design of climate change policies and programmes, implement education campaigns, coordinate behavioural initiatives across government and fund community-based initiatives to reduce emissions.		May support emissions reductions for agriculture, energy and waste in particular. Agreed in 2022 to investigate further	
EcoPond	Fund new technology adoption to reduce emissions from dairy effluent ponds. EcoPond is the only existing technology that could affect emissions during EB1.	Maximum theoretical reduction is 1.3Mt of 50% of the Ag. EB1 gap. Unclear how fast EcoPond production could be scaled-up, limited incentive for farmers to adopt without emissions pricing	9(2)(g)(i)	
Increased funding to fast-track research for landfill gas capture	Research is required to determine the classes of landfill producing landfill gas (methane) to inform feasibility and viability of requiring gas capture systems. This could be extended to investigating policy and investment for landfill gas capture from closed landfills.	Better data sooner would enable decisions on how best to expand landfill gas capture and achieve further emission reductions from waste.	Requires additional evidence, resourcing and funding. Not yet modelled, resulting policy or gas capture infrastructure unable to be implemented in EB1. Unlikely to provide viable short-term abatement for EB1. Agree to investigate further (dependent on funding available in B23).	

Initiatives provided to CRMG on 16 February 2022 that were not recommended – includes updates from the IEB Unit, MfE, MPI, MoT, and HUD

Initiative	Description	Implications	Assessment and recommendation	Further ad
Speed up transport mode shift	Could encourage mode shift through central and local government funding. Relies on substantial investment in infrastructure and/or services - National Land Transport Fund is oversubscribed and CERF insufficient	May not have capacity to do it and may not have high impact.	Not recommended for implementation in 2022	
Building and Construction	Abatement via regulation is planned but needs support for already struggling sector to implement the changes – currently unfunded Kainga Ora has significant CERF proposals to deliver abatement, including via accelerated adoption of new proposed regulatory standards in the ERP, and via a low emissions neighbourhood demonstration project that could provide important learnings to roll out via the planning, infrastructure, and housing systems	Government will need to support the building and construction sector to reduce emissions to ensure policy changes do not dampen building and construction activity and the delivery of housing, as this would have significant impacts on the cost of living.	Being considered for Budget 2023 – CIPA shows 153,098 tonnes abatement in EB1	
Increase cost of car use	The cost of car use could be increased via fuel excise duty and road user charges.	Raises concerns about distributional impacts, particularly for rural areas.	Was considered high risk in 2022 – cost of living concern would still apply.	
Increase investment in charging infrastructure		Marginal impact is unlikely to be significant.	Not recommended for implementation in 2022. Being considered for Budget 2023.	

CLASSIFICATION

Initiative	Description	Implications	Assessment and recommendation	Further ad
Consider support for farmers and growers to transition to alternative land uses	We may consider supporting farming and growing operations impacted by recent weather events to recover in a way with more business and environmental resilience.	Although there is little information about the impacts on production operations, what we know so far is that horticulture has been the most affected which is already a lower emissions land use.	As more information about impacts is compiled, we could consider a support option further (potentially financial and through advisory services) however indication is there is unlikely to be much abatement potential.	
Limits on synthetic nitrogen			From 1 July 2021 a cap on the use of synthetic nitrogen came into force under freshwater regulations.	
Minimum energy performance standards for residential lighting	Updated standards for adoption of energy efficient residential lighting, in effect banning incandescent lightbulbs.	Further work is needed to determine the abatement potential.	Note Budget'22 bid on subsidising energy efficient lighting for low-income households was not funded.	
Treated timber (only) recovery	Timber waste includes both treated and untreated materials – the disposal emissions profile varies (untreated wood creates more emissions in landfill than treated).	Relates to broader C&D resource recovery objectives – treated timber processing solutions are currently very limited (technical barriers exist).	Investment in timber recovery solutions is in scope of the Waste Minimisation Fund, implementation of ERP action 15.3.2.	
Limit organic waste to landfill	Limits or bans are planned for an EB2/2030-time horizon. This policy proposal requires alternative disposal options and infrastructure investment to enable it (investment planned in EB1	Earlier limits may create a market investment signal however, it may result in market and public backlash, stockpiled material or illegal dumping if recovery options are not available for organic materials. Current legislation requires alternatives to be available prior to bans.	Assess the need for limits and bans during EB2 and beyond. No update provided	

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Initiative	Description	Implications	Assessment and recommendation	Further ad
	and EB2 – subject to budget 22)			

9(2)(g)(i)

Regulate organic waste disposal on farm	While there is high data uncertainty, farm fills are considered as a source of waste emissions in the inventory.	Insufficient data and policy development, requires evidence and prioritisation.	Requires further investigation. Do not implement at this point.	
Reduce emissions from wastewater treatment	Biosolids from wastewater treatment are considered as a source of waste emissions in the inventory.	Insufficient policy development, requires evidence and prioritisation.	Requires further investigation. Still not recommended	

Additional abatement options identified by the Board as at 24 February 2023: input provided by MoT, MfE (Waste), DOC, MBIE

Initiative	Description	Implications	Further advice?
<p>Transport policies already accounted for in ERP1 could be built on to encourage fleet transition and mode shift.</p>	<p>Transport officials are providing Ministers with advice on how to build on the successful Clean Car Discount policy. Transport officials have recommended funding the Transport Choices 2.0 and Clean Truck Discount programmes through Budget 23. Transport officials also support reconsideration of maritime and aviation decarbonisation initiatives (both sub-sectors are very dependent on liquid fuels) – that were not invited to submit to the CERF process.</p>	<p>Transport officials are investigating the abatement effect of the higher-than-expected increase in electric vehicles.</p> <p>A simple Clean Truck Discount scheme would reduce the purchase price of zero emissions heavy vehicles to incentivise their uptake. This could be built on by extending exemptions from Road User Charges for electric and hydrogen heavy vehicles which would reduce operating costs and incentivise operators to maximise use of the zero emissions trucks in their fleet. In the Board’s CERF advice, the Clean Tuck discount initiative was included in the longlist – with deliverability concerns holding it back from the shortlist.</p> <p>The CERF 2023 Transport Mode Shift 2.0 initiative also has the potential to reduce demand for transport liquid fuels long-term. However, this programme is currently underspent and there may be limited capacity to go faster.</p>	
<p>In the Energy and Resources portfolio there is a range of work programmes in development that create optionality for reducing emissions in the second and third emissions budget period.</p>	<p>This includes the energy strategy, the electricity market measures work, the gas transition plan, and the hydrogen road map.</p>	<p>Addressing the EB2 and 3 deficits may be a case of acting on options/opportunities as they emerge from these work-programmes.</p>	
<p>Increased anaerobic digestion capacity to reduce emissions from organic waste</p>	<p>Increased policy, investment, or alternative funding mechanisms for anaerobic digestion facilities As part of the Waste Minimisation Fund (waste levy/CERF funding) early-stage discussions are underway to explore two opportunities to establish new anaerobic digestion facilities to process organic waste.</p>	<p>Further investment may increase the number of facilities available however due to construction timeframes new infrastructure is unlikely to be available to receive organic waste until EB2. We do not have information on the potential scale, speed of implementation, cost, or abatement potential of these initiatives. Many are at an early stage of development and would need much more work before being considered formally. We note that some have the potential to supply replacements for fossil fuels and increase local resilience.</p>	

CLASSIFICATION

Initiative	Description	Implications	Further advice?
Wetland restoration/Nature based solutions	Opportunities to improve sequestration from wetland restoration	Needs to significant work to consider impacts of both sequestering and emitting wetlands, and ability to account for in the GHG inventory and ETS.	



Briefing: Progressing amendments to the CCRA to repeal NZ ETS obligations for agriculture

Date submitted: 15 December 2023

Tracking number: BRF-3978

Security level: Policy and Privacy

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Feedback on recommendations	21 December 2023

Actions for Minister's office staff
Forward this briefing to: Associate Minister of Climate Change. Forward this briefing to: Minister of Agriculture. Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices
1. Draft timeframe to amend CCRA

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Angela Christensen		
Responsible Manager	Kara Lok	9(2)(a)	✓
Deputy Secretary	Sam Buckle	022 034 0311	

Minister's comments

Progressing amendments to the CCRA to repeal NZ ETS obligations for agriculture

Key messages

1. The National Party's manifesto and the Government's coalition agreements commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas." This briefing focuses on the part of the commitment that relates to the New Zealand Emissions Trading Scheme (NZ ETS).
2. Under current legislative settings, NZ ETS surrender obligations for agriculture will commence on 1 January 2025. Fertiliser and animal processors (e.g. Fonterra and Silver Fern Farms) will face surrender obligations for agricultural emissions associated with their products (e.g. milk and meat) from that date.
3. The Climate Change Response Act 2002 (CCRA) must be amended prior to 1 January 2025 if these surrender obligations are to be avoided. Therefore, Cabinet needs to make policy decisions in the first quarter of 2024.
4. We understand that progressing this repeal is only a part of your overall plan to support farmers to reduce their emissions. We recommend that you have a discussion with the Minister of Agriculture in the new year on the approach to reducing agricultural emissions. Engagement with stakeholders on this plan could be via either the emission reduction plan process or as part of delivering the Government's plan to reduce agricultural emissions as outlined in the manifesto and coalition agreements.
5. If the repeal process is delayed, the bill is likely to require being progressed under urgency to be passed prior to 1 January 2025.
6. You will also need to consider some specific risks in the context of emissions budgets and the emissions reduction plan. The impact of the repeal of NZ ETS obligations for agriculture activities on emissions budgets will need to be considered as part of the repeal process as pricing agriculture emissions from 2025 is one of the key actions in the current emissions reduction plan.

Recommendations

We recommend that you:

- a. **Agree** to progress amending the Climate Change Response Act 2002 (CCRA) to repeal all New Zealand Emissions Trading Scheme (NZ ETS) obligations for agriculture activities as listed in Part 5 of Schedule 3, including surrender and reporting obligations and associated sector-specific provisions.

Yes | No

- b. **Agree** to progress minor updates to the CCRA where there is confidence those changes will not impact timelines for the repeal of the agricultural emissions obligations.

Yes | No

- c. **Direct** officials to draft a Cabinet paper seeking approval of policy decisions and authorisation to issue drafting instructions. Note, to meet the draft timeframe and mitigate the risk of the CCRA amendments not occurring prior to 1 January 2025, Cabinet decisions are required during the first quarter of 2024.

Yes | No

- d. **Agree** to discuss priority for this bill with the Leader of the House in January 2024 ahead of the legislative bid process.

Yes | No

- e. **Note** officials consider the bill is likely to require being progressed under urgency to be passed prior to 1 January 2025 if the repeal process is delayed.

- f. **Agree** to forward this briefing to the Associate Minister of Climate Change.

Yes | No

- g. **Agree** to forward this briefing to the Minister of Agriculture.

Yes | No

Signatures



Hamish Slack
Acting Manager, Market Development
Climate Change Mitigation and Resource Efficiency
15/12/2023

Hon Simon WATTS
Minister of Climate Change
/12/2023

Progressing amendments to the CCRA to repeal NZ ETS obligations for agriculture

Purpose

7. The National Party's manifesto and the Government's coalition agreements commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."
8. We understand this to mean that all NZ ETS obligations for agriculture activities at both processor and farm-level, including reporting emissions and surrendering units, must be removed from the CCRA. We consider that the amendments should include repealing the current processor-level reporting as MPI compile the inventory using different data.
9. If our understanding is correct, the CCRA must be amended to repeal all NZ ETS obligations for agriculture activities as listed in Part 5 of Schedule 3, including reporting emissions and surrendering units, and associated sector-specific provisions, prior to surrender obligations commencing.
10. This briefing seeks your agreement to progress work to repeal the agriculture obligations in the NZ ETS.

Existing NZ ETS backstop

11. To help New Zealand meet its domestic targets, emissions budgets, and international obligations, the CCRA requires reporting and surrendering of units for emissions from specified activities through the NZ ETS. At present, all sectors in the NZ ETS apart from agriculture have surrender obligations.
12. Pricing agricultural emissions through the NZ ETS was set up as a backstop option to create a clear timeline for when agricultural emissions would be priced and to ensure progress towards reducing agricultural emissions.
13. Since 2011, the CCRA has required fertiliser and animal processors to monitor and report their agricultural emissions under the NZ ETS. In 2020, the CCRA was amended to require fertiliser and animal processors to pay for these emissions through the NZ ETS from 2025.
14. In October 2023, the Minister of Climate Change deferred NZ ETS obligations for animal farmers from 1 January 2024 to 1 January 2026 via an Order in Council [CAB-23-MIN-0457 refers]. This means that from 1 January 2026, the CCRA (as affected by the Climate Change (Animals–Farmer Activities) Order 2023) requires animal farmers to report their emissions, with surrender obligations

commencing on 1 January 2027. At this point surrender obligations for animal processors would cease.

Analysis and advice

Timeframes for amending the CCRA

15. The NZ ETS backstop consists of two parts:
 - processor-level pricing; and
 - farm-level pricing for animal-farmers activities.
16. To remove these obligations, a bill is required to amend the CCRA. The bill must be passed prior to 1 January 2025 if surrender obligations are to be avoided.
17. We anticipate that amending the CCRA in line with the recommendations in this paper will be relatively simple. However, should the complexity of the bill increase, there is a risk the timeframe will be delayed due to, for example:
 - additional time being required for drafting;
 - Select Committee requiring more time to consider submissions and prepare revisions to the bill; and
 - MfE requiring more time to advise on submissions and potentially seek further Cabinet decisions.
18. To meet the proposed draft timeframe included in Appendix 1, Cabinet decisions will be needed in the first quarter of 2024. Any slippage from the timeframe increases the risk of the bill needing to progress under urgency to pass prior to 1 January 2025.

Scope of the amendments

19. There is an opportunity to use the bill to progress other amendments unrelated to the repeal of the backstop. Officials recommend taking this opportunity to progress urgent and focussed updates, including relating to the operation of the NZ ETS. For example, technical improvements such as the following could be included as part of this bill:
 - Add importing CO₂ to the list of activities in CCRA Schedule 3. This will require importers (above a threshold) to become mandatory NZ ETS participants and incur emission costs. There is currently a competitive disadvantage between domestic producers of CO₂ and importers because of emissions pricing.
20. Larger and more contentious changes that expand the scope of the bill will delay us from introducing legislation to the House by the end of May 2024 and may impact the quality of the bill. They will also divert official and Ministerial time and focus away from other priorities. Given the tight timeframes to repeal the NZ ETS agriculture obligations, it would be very challenging to include matters that

require significant policy work and/or drafting, significant decisions, or that may be contentious and require a longer consultation and Select Committee process.

Engagement

21. There is no statutory obligation to consult to amend the CCRA in respect to these proposals.
22. Public consultation was undertaken in September 2023 on deferring NZ ETS obligations for animal farmers. We expect that many of the same themes heard during that consultation would be similar to any consultation undertaken on amending the CCRA to repeal NZ ETS agriculture obligations, given the context similarity. In addition, the Select Committee process of the bill will be an opportunity for the public to submit on these changes.
23. Engagement, however, will be important on your wider strategy for supporting farmers to reduce their emissions. Māori, the agricultural sector, and ENGOs have interests in this. There are options on how you could engage with these groups and the wider public going forward.
24. Option 1: You could tie engagement on reducing agricultural emissions to the Emissions Reduction Plan 2 (ERP2) process. This could be an appropriate vehicle for undertaking engagement with stakeholders and the public as it provides an avenue for Government to detail its plan to reduce agricultural emissions, coupled with New Zealand's emissions budgets and targets.
25. Option 2: You could undertake engagement as part of delivering the Government's plan to reduce agricultural emissions as outlined in the manifesto and coalition agreements.
26. You may also wish to engage with the sector and Māori at an earlier stage to set the foundation for future dialogue and partnership opportunities.

Sector engagement

27. Engagement with the sector is an opportunity to discuss in further detail the Government's plan to reduce agricultural emissions.
28. Farmers are directly affected by policy decisions on agricultural emissions and have engaged and submitted on policies related to this topic in previous consultations. Additionally, there are varying views across the sector (e.g. dairy, sheep and beef, processors and representative organisations) on how to reduce agricultural emissions. Engaging with the sector could help provide them certainty around any future obligations and presents an opportunity to discuss working in partnership moving forward.

Māori engagement

29. Engaging with Māori could help them to understand Government's plan to reduce agricultural emissions and presents an opportunity to gain an understanding of

Māori views, interests and concerns on the topic and on meeting New Zealand's emissions budgets and targets.

Legal issues

9(2)(h)

Next steps

33. If you agree to progressing amendments to the CCRA, officials will draft a Cabinet paper to obtain policy decisions and will provide this to you for your consideration in February 2024.
34. Officials will meet with you in the new year to discuss delivering your wider commitments related to agricultural emissions including farm-level emissions measurement system, sequestration and biogenic methane targets. We plan to shortly provide you a briefing on farm-level emissions measurement system to support these discussions.
35. We propose that you have a discussion with the Minister of Agriculture in the new year on the approach to reducing agricultural emissions. Engagement on this plan could be via either the ERP2 process or as part of delivering the Government's plan to reduce agricultural emissions as outlined in the manifesto and coalition agreements.
36. A separate Cabinet paper will be provided to you for your consideration on additional amendments as part of the bill in February 2024.

Appendix 1: Draft timeframe

Table 1- Draft timeframe to amend CCRA

January – mid-February 2024	5 weeks	Prepare policy decision Cabinet paper. Cabinet consideration of policy decision and authorisation to issue drafting instructions.
March – mid-May 2024	10 weeks	Preparing drafting instructions, PCO drafts bill to repeal agriculture from the NZ ETS. Prepare Cabinet paper. Risk: this is a short period for drafting, any complexity beyond complete repeal will likely require additional drafting time
End of May 2024	-	Cabinet approves draft bill, introduction of bill to the House
June 2024	5 months	1 st reading, Select Committee Note- any Select Committee period of less than 4 months will require an unlimited debate in the House.
November 2024	1 month	2 nd reading, committee of the whole House, and 3 rd reading
December 2024	-	Royal Assent of Bill
1 January 2025		Processor-level surrender obligations commence unless repealed



Cover Brief: Cabinet Paper Amending the CCRA to repeal NZ ETS Agricultural Obligations

Date submitted: 26 January 2023

Tracking number: BRF-4088

Security level: Policy and Privacy

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	Feedback on the draft Cabinet paper	31 January 2024

Actions for Minister's office staff

Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments

- Appendix One: Cabinet Paper Amending the CCRA to Repeal the NZ ETS Agricultural Obligations
- Appendix Two: Options for repeal and/or amendment to NZ ETS agricultural emissions obligations in the CCRA

Key contacts at Ministry for the Environment

<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Sarah Croxford		
Responsible Manager	Rachel Cooper	9(2)(a)	✓
General Manager	Melody Guy		

Minister's comments

Cover Brief: Cabinet Paper Amending the CCRA to repeal NZ ETS Agricultural Obligations

Key messages

1. Officials have drafted a Cabinet paper seeking final decisions on amending the Climate Change Response Act 2002 (CCRA) to repeal New Zealand Emissions Trading Scheme (NZ ETS) agricultural obligations.
 2. The Cabinet paper is based on the National Party's Election Manifesto and the Government's coalition agreements that commit to "Keep agriculture out of the Emissions Trading Scheme ..." and your previous decisions [BRF-3978 refers].
 3. To support legislative timeframes, a Bill is required to be introduced by or before the end of June 2024.
 4. Feedback to officials on the draft Cabinet paper is required by 31 January 2024.
-

Cover Brief: Cabinet Paper Amending the CCRA to repeal NZ ETS Agricultural Obligations

Purpose

1. To provide a draft Cabinet paper to support decisions on agricultural emissions obligations in the NZ ETS.

Background

2. The CCRA currently requires agricultural processors to pay for their emissions (via surrender obligations) and farm level reporting in the NZ ETS by 1 January 2025. The NZ ETS provisions require legislative changes in 2024, to ensure agricultural emissions do not get included in the NZ ETS.
3. Officials have drafted a Cabinet paper (see Appendix One) seeking final decisions on amending the CCRA to repeal NZ ETS agricultural obligations based on your previous decisions [BRF-3978 refers] and the National party's election Manifesto.
4. Following additional feedback, you advised officials that you will also review advice on possible alternative options to current farm level and processor level obligations in the CCRA.
5. While the draft Cabinet paper supports keeping NZ ETS obligations out of the NZ ETS, officials will amend the Cabinet paper should you prefer to undertake an alternative option.

Analysis and Advice

Overview

6. Currently, agriculture is included in the NZ ETS via three avenues:
 - a. Processor-level (animals and fertiliser) – surrender obligations commence 1 January 2025 (processor level monitoring and reporting has been required in the NZ ETS since 2012);

- b. Farm-level (animals) - monitoring for reporting purposes in the NZ ETS commence 1 January 2026 (deferred from 1 January 2024 via Order in Council) with surrender obligations starting from 1 January 2027; and
 - c. Farm-level (fertiliser) – obligations must be commenced through an Order in Council.
7. The draft Cabinet paper provides for a full repeal of all NZ ETS obligations for agriculture activities based on your previous decisions [BRF-3978 refers]. In addition, two possible alternative options for legislative changes are also outlined for your consideration with implications analysis in Appendix Two.

Legislative considerations and options

8. Three options have been identified to defer and/or repeal agriculture's NZ ETS legislative obligations for consideration:
- Option A. Repeal of all agricultural reporting and surrender obligations in the CCRA (as proposed in the draft Cabinet paper in Appendix One);
 - Option B. Repeal all farm-level obligations with processor-level reporting and surrender obligations remaining in the CCRA; or
 - Option C. Repeal all farm-level obligations, with processor-level reporting obligations remaining and the surrender obligations timeframe extended.
9. Option A continues to progress removal of all NZ ETS agricultural obligations in the CCRA, supporting the Government's intention to keep agriculture out of the NZ ETS. It is important to note the risks here, being possible opposition to a full legislative repeal without an alternative mechanism being in place to support emissions reductions in agriculture.
10. Option B removes all farm-level obligations while maintaining current legislative requirements for processor-level reporting and surrender obligations. Under this option processor-level surrender obligations come into effect on 1 January 2025. It would be difficult to support this option within the timeframe available as there are no implementation structures in place or under development.
11. Option C removes all farm-level NZ ETS agricultural obligations in the CCRA, while maintaining processor-level reporting and extending the timeframe for surrender obligations. This option would move the commencement date for surrender obligations out to accommodate the development of an agricultural emissions measurement system. Surrender obligations can be removed if no

longer required with legislative changes to the CCRA with the introduction of a measurement system.

12. All three options require legislative changes in the CCRA to enable outcomes.
13. The Regulatory Impact Statement provides further substantial advice on the range of options for agricultural emissions in the NZ ETS. Note these are not included in this cover briefing. Based on your direction to officials that you will also review advice on possible alternative options to processor and farm level obligation options, officials' recommendation is Option C out of this subset of options. This supports no added requirements to current farm and processor-level requirements while maintaining a mechanism to enable emissions reductions in the future. In addition, this option signals that agricultural emissions reductions are important to the Government.
14. Option C also aligns with feedback from the Environmental Protection Authority, as they use the current processor reporting information to satisfy their publication requirements under section 89A of the CCRA, as well as to validate the greenhouse gas inventory.

Proposed timelines and process for progressing decisions to Cabinet

15. To obtain Cabinet's agreement on the draft Cabinet paper (Appendix Two, Option A) the following timeline will need to be met:

Action	Date
Cabinet paper (Appendix One) is reviewed, finalised, and sent to Ministers	26 January 2024
Ministerial consultation	2 – 16 February 2024
Lodge papers	22 February 2024
DEV	26 February 2024
Cabinet approval	5 March 2024

16. Communications around this will need to be carefully considered since the proposed Bill is just a straight repeal. It would be ideal to sequence policy decisions (such as the Agricultural Emissions Pricing Board as in the National Party Election Manifesto) alongside this repeal to provide a framework on what this repeal is being replaced with.

9(2)(h)

[Redacted text block]

18. 9(2)(h) [Redacted]

[Redacted]

[Redacted]

Next steps

21. Officials require your feedback on the Cover Brief and appended Cabinet paper by 31 January 2024.

Recommendations

We recommend that you:

- a. **agree** to provide feedback on the draft Cabinet paper to officials by 31 January 2024

Yes | No

¹ 9(2)(h) [Redacted]

b. **agree** to the preferred option for legislative changes:

Option A – Remove all agricultural obligations, as in draft Cabinet Paper

Yes | No

Option B – Remove all farm level but maintain processor level obligations

Yes | No

Option C – Remove all farm level, extend processor surrender timeframe

Yes | No

c. **note** that MfE officials recommend Option C

If Option A is **agreed**, we recommend the following:

d. **agree** to initiate Ministerial consultation

Yes | No

e. **agree** to lodge the appended paper for Cabinet's consideration on 22 February 2024

Yes | No

e. **note** that if Option B or C are **preferred**, officials will provide a revised Cabinet paper and timelines at an agreed date.

Signatures



Melody Guy

**General Manager – Climate Change
Mitigation and Resource Efficiency**

26 January 2024

Hon Simon WATTS
Minister of Climate Change

Date

Appendices

Appendix One – Cabinet Paper Amending the CCRA to Repeal NZ ETS Agricultural Obligations

Cabinet Paper Sign Out Sheet

	<i>Who</i>	<i>Date</i>
Title and Tracking number:	CAB-378	
Date Due for Lodging:		22 February 2024
Analyst/Drafter(s):	Angela Christensen Sarah Croxford	
Legal review: <i>(If applicable)</i>	Fran Williams	18 January 2024
Peer review:	Hamish Slack	17 January 2024
Proof read completed:		
Manager sign out:	Rachel Cooper	23 January 2024
General Manager sign out:	Melody Guy	24 January 2024
Deputy Secretary sign out:	Sam Buckle	25 January 2024

Policy and Privacy

CLASSIFICATION

Office of the Minister of Climate Change

CAB - Cabinet Committee

Final policy decisions on amending the CCRA to repeal NZ ETS agricultural obligations

Proposal

- 1 This paper seeks Cabinet's agreement on final policy decisions to draft primary legislation to repeal the agricultural obligations in the New Zealand Emissions Trading Scheme (NZ ETS) under the Climate Change Response Act 2002 (CCRA).
- 2 This paper also seeks Cabinet's agreement to progress a minor NZ ETS related update to the CCRA as a part of the same bill.

Relation to government priorities

- 3 The coalition agreements and the National Party's Manifesto commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."
- 4 This paper is specific to the part of the commitment that relates to the NZ ETS.

Executive Summary

- 5 This paper seeks Cabinet's agreement to amend the CCRA to remove biogenic emissions from the agricultural sector from entering the NZ ETS at both processor and farm level. The intention being to establish a separate pricing system to reduce agricultural emissions. This is reflected in the coalition agreements and the National Party Manifesto.
- 6 The key decision required is to draft primary legislation for this repeal. NZ ETS agricultural surrender obligations at the processor level commence on 1 January 2025. A bill to amend the CCRA to remove these obligations should be introduced to the House no later than the end of June 2024. The bill must be passed prior to 1 January 2025 if surrender obligations are to be avoided.

Background

Existing NZ ETS backstop

- 7 To help New Zealand meet its domestic targets, emissions budgets, and international obligations, the CCRA requires reporting and surrendering of units for emissions from specified activities through the NZ ETS. At present, all sectors in the NZ ETS apart from agriculture have surrender obligations.

- 8 Since 2011, the CCRA has required fertiliser and animal processors to monitor and report their agricultural emissions under the NZ ETS. In 2020, the CCRA was amended to require fertiliser and animal processors to pay for these emissions through the NZ ETS from 2025.
- 9 In October 2023, the Minister of Climate Change deferred NZ ETS obligations for animal farmers from 1 January 2024 to 1 January 2026 via an Order in Council [CAB-23-MIN-0457 refers]. This means that from 1 January 2026, the CCRA (as affected by the Climate Change (Animals–Farmer Activities) Order 2023) requires animal farmers to report their emissions, with surrender obligations commencing on 1 January 2027. At this point surrender obligations for animal processors would cease.

Pricing agricultural emissions outside of the NZ ETS

- 10 The coalition agreements and the National Party Manifesto commits to “introduce an agricultural emissions price at the farm level no later than 2030”. Repealing agricultural obligations in the NZ ETS is the first step in a sequenced process to progress the pricing of agricultural emissions outside of the NZ ETS.
- 11 Other elements of the broader plan for reducing agricultural emissions as committed to in the National Party Manifesto includes:
 - Establish the Agricultural Emissions Pricing Board in 2024;
 - Farm-level measurement to be in place in 2025;
 - New gene technology rules and streamlined biotechnology trials;
 - Expanded on-farm sequestration recognition; and
 - Agricultural emissions pricing no later than 2030.

Analysis

Timeframes for amending the CCRA

- 12 The NZ ETS backstop consists of two parts:
 - Processor-level pricing (fertiliser and animals); and
 - Farm-level pricing for animal-farmers activities.
- 13 To remove these obligations, a bill is required to amend the CCRA. The bill must be passed prior to 1 January 2025 if pricing surrender obligations are to be avoided.
- 14 This means that the Bill should be introduced to the House by the end of June 2024 to allow enough time for the Select Committee process and the subsequent readings to take place prior to the end of the year.

Scope of the amendments

- 15 Removing agriculture from the NZ ETS will necessitate amending the CCRA to remove all agricultural obligations at both processor and farm level. This includes the current processor level reporting obligations. This would not affect the Ministry for Primary Industries as they compile the Greenhouse Gas Inventory using different data. Current methodology for calculating emissions returns at the processor level is set out in secondary legislation (Climate Change (Agriculture Sector) Regulations 2010). The methodology has not been updated since that time and therefore, does not provide an

accurate accounting of emissions. Updates to the methodology would be needed for the emissions returns to reflect updated science and for the data to be relevant and useful.

- 16 Amendments to the CCRA include the repeal of all NZ ETS obligations for agricultural activities by repealing Part 5 of Schedule 3 to remove surrender and reporting obligations for those activities and repealing associated NZ ETS sector-specific provisions. The associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS as discussed above will also need to be repealed.

Emissions Reduction Plans and Emissions Budgets

- 17 Agricultural emissions make up 49 per cent of New Zealand's gross emissions, including most of our emissions of nitrous oxide and biogenic methane, 93 per cent and 89 per cent respectively. New Zealand's first emissions reduction plan (ERP1) sets out a plan to contribute to global efforts to limit temperature rise to 1.5°C. A key action in ERP1 includes introducing an agricultural emissions pricing mechanism by 2025. ERP1 covers the period 2022-2025; therefore, not pricing agricultural emissions by 2025 does not significantly impact emissions budget one for that same period.
- 18 Sector sub-targets within the emissions budgets help track progress across key sectors over each emissions budget period. As sector sub-targets do not lock New Zealand into a single pathway to meeting emissions budgets, there is an opportunity to consider how the agriculture sector can reduce emissions as part of an integrated plan.
- 19 Given the coalition agreements to pursue agricultural pricing, it will be important that work with the sector to continue towards delivering on that commitment. Additionally, this work should also support processor market assurance programmes required by international and domestic markets for New Zealand's agricultural products.
- 20 The second emissions reduction plan (ERP2) provides an important opportunity to set out a plan for how agriculture sits within the wider context of reducing emissions to meet New Zealand's domestic budgets and targets.

Treaty of Waitangi Analysis

- 21 The Crown and Māori/iwi/hapu have obligations through legislation, case law, and settlement agreements. As a partner to the Treaty of Waitangi, the Crown is required to adhere to principles of partnership, participation, and protection throughout the transition to a low-emissions, climate-resilient economy.
- 22 Māori and/or iwi/hapu have significant interests in agribusiness and forestry, through both investment and settlement assets. It will be important for the Government to engage with Māori and/or iwi/hapu on any future policy decisions regarding agricultural emissions policy that could impact Māori and/or iwi/hapu interests and assets. There is an opportunity to engage further on the wider agricultural emissions policy later this year through either the ERP2 consultation process or as part of delivering the Government's plan to reduce agricultural emissions as outlined in the coalition agreements and the National Party's Manifesto.

Cost-of-living Implications

- 23 Removing agricultural obligations from the NZ ETS does not create any direct cost of living implications.

Financial Implications

24 There are no financial implications with this proposal.

Legislative Implications

Bid for legislation

- 25 The proposals in this paper will be given effect through a bill to amend the Climate Change Response Act 2002 (the Bill).
- 26 The bid would enable the Government to meet its coalition agreements and the National Party's Manifesto commitments to 'keep agriculture out of the ETS'.
- 27 The Bill will amend the CCRA to repeal all NZ ETS obligations for agricultural activities by repealing Part 5 of Schedule 3 to remove surrender and reporting obligations for those activities and repealing associated sector-specific provisions. The associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS will also need to be repealed.
- 28 To support the timeframes to repeal agricultural obligations prior to 1 January 2025 when surrender obligations will commence, the Bill will need to be prioritised. I suggest the Bill is given a place on the Legislation Programme with a priority category of 2, must be passed in 2024, if surrender obligations are to be avoided for fertiliser and animal processors.
- 29 The Bill is expected to be a medium bill with low complexity given it is primarily focused on repealing agricultural obligations in the NZ ETS.
- 30 The Bill is expected to comply with the following:
- a. the principles of the Treaty of Waitangi;
 - b. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - c. the relevant international standards and obligations; and
 - d. the Legislation Guidelines (2021 edition).

Progressing legislation

- 31 I will instruct Parliamentary Counsel Office to begin drafting following Cabinet decisions on the proposals outlined in this paper.
- 32 I expect the Bill to be introduced in late June 2024 and will need to progress through all stages by December 2024. Given the short timeframe, the Select Committee process will be four months.
- 33 As the Bill is amending the existing CCRA, I propose that the Bill is binding on the Crown.

Impact Analysis

Regulatory Impact Statement

- 34 A Regulatory Impact Statement (RIS) was prepared for the proposed repeal of agricultural obligations under the NZ ETS (see Appendix 1). The Quality Assurance Panel provided a

statement indicating that the RIS [TBC: 'partially meets/meets'] the standards for regulatory impact assessment.

35 The Quality Assurance Panel's statement is as follows:

[TBC]

Climate Implications of Policy Assessment

36 The Ministry for the Environment has been consulted and confirms that the CIPA requirements do not apply to these changes as the threshold for significance is met. Their statement is as follows:

“The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal.

This paper requests Cabinet’s approval for the final policy decisions to draft legislation aimed at repealing agricultural obligations within the New Zealand Emissions Trading Scheme (NZ ETS), as outlined in the Climate Change Response Act 2002 (CCRA). The Government has expressed their intention for a fair and sustainable pricing system for on-farm agricultural emissions by 2030, at the latest, that reduces emissions without sending production overseas.

If Cabinet repeals these obligations, it is anticipated to lead to a cumulative increase in expected emissions of around 24Mt CO₂e for the 30-year period from 2020 to 2050.

This equates to approximately 157kt CO₂e within the first emissions budget period (2022-2025), 2Mt CO₂e within the second emissions budget period (2026-2030), and 5Mt CO₂e within the third emissions budget period (2030-2035).

Repealing these obligations is expected to lead to an increase in emissions because pricing serves as an incentive for emission reduction efforts. Associating a cost with emitting greenhouse gas emissions encourages the adoption of practices and technologies that lower emissions.

The CIPA team has conducted a high-level review of the modelling and deems it reasonable in reflecting the impact of this proposed change.”

Population Implications

37 The proposal to remove agricultural obligations from the NZ ETS is not expected to have population implications in terms of direct costs. There may be wider implications with removing agricultural obligations from the NZ ETS without an alternative system in place to reduce agricultural emissions. The coalition agreements and the National Party’s Manifesto commit that “Pricing will begin no later than 2030” however this policy is yet to be developed and therefore it is difficult to determine the effects it would have the sector. Impacts are summarised below in Table 1.

Table 1- Potential impact of the proposed amendments on population groups

Population group	How the proposal may affect this group
Farmers	The NZ ETS backstop requires animal farmers to monitor and report on their agricultural emissions from 1 January 2026 with surrender obligations for those emissions commencing from 1

	January 2027. Repealing these obligations will remove the requirement for animal farmers to report and surrender units for their emissions under the NZ ETS.
Māori and/or iwi/hapu	Repealing the NZ ETS backstop will remove the requirement for animal farmers to report and surrender units for their emissions from 1 January 2026. Māori and/or iwi/hapu have significant interests in agribusiness and forestry, through both investment and settlement assets.
Households and wider population	The effectiveness of reducing agricultural emissions has flow-on effects for the wider population of New Zealand. Agriculture is a large proportion of New Zealand's emissions and decisions to reduce agricultural emissions have flow-on considerations regarding impacts on the level of effort that may be required elsewhere and equity. The extent to which agricultural emissions reduce outside of the NZ ETS will determine what is required from other sectors and/or the quantum of offshore emissions reductions needed, which could impact optionality regarding 'who pays' for offshore mitigation.

Human Rights

38 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.¹

9(2)(h)

[Redacted text block]

[Redacted text block]

[Redacted text block]

¹ Noting that the Ministry of Justice is responsible for scrutinising proposed legislation and advising the Attorney-General on whether it meets Bill of Rights Act requirements.

Consultation

Departmental consultation

- 42 MPI, Treasury, Te Puni Kōkiri (TPK), Te Arawhiti, and the Environmental Protection Authority (EPA) were consulted on this paper. The Department of the Prime Minister and Cabinet has been informed.
- 43 Officials have consulted the Leader of the House and the Parliamentary Counsel Office on this proposal to add a bill to the Legislation Programme.
- 44 [MPI to add feedback following 31 Jan Bilateral meeting]
- 45 Treasury's feedback noted concerns on the removal of the backstop, expressing that alternative options should be considered by Cabinet, as well as further context on next steps regarding reducing agricultural emissions.
- 46 Te Arawhiti's feedback stated that it is unclear how the Treaty has been considered, nor how Māori will be impacted. Te Arawhiti agrees that engagement with Māori on future policy development in this space will be important. Te Arawhiti is showing a strong interest in future policy development in reducing agricultural emissions.
- 47 TPK noted the risk of removing agricultural obligations without a clear plan for emissions reduction and that Māori have significant interests in agriculture and emissions-reducing technology, therefore engagement will be critical in future policy development in reducing agricultural emissions.
- 48 The EPA's feedback noted that the reporting information provided by processor level participants is used to satisfy the EPA's publication requirements under section 89A of the CCRA, as well as to validate the greenhouse gas inventory. They recommend further considering the impacts of removing processor reporting obligations which would affect 130 participants. Following Cabinet decisions, the EPA will need to have discussions on the implementation of this Bill.

Communications

- 49 The decisions will be announced via a press release, email communications to sector stakeholders, and publication on the Ministry for the Environment's website.

Proactive Release

- 50 Following Cabinet consideration, I will consider the release of this paper and attachments on the Ministry for Environment website in whole or in part, subject to appropriate redactions.

Recommendations

The Minister of Climate Change recommends that Cabinet:

- 1 **note** that the coalition agreements and the National Party's Manifesto commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."

- 2 **agree** to amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities by:
 - 2.1 repealing Part 5 of Schedule 3 which lists agriculture activities as mandatory NZ ETS participants, to remove surrender and reporting obligations for those activities;
 - 2.2 repealing associated sector-specific provisions, including provisions relating to the commencement of NZ ETS obligations for agriculture activities, allocation of units to agricultural activities, and transitional provisions for agriculture activities entering the NZ ETS;
 - 2.3 consequential amendments related to cross-references to the above provisions; and
 - 2.4 revoking related secondary legislation.
- 3 **authorise** the Minister of Climate Change to issue drafting instructions to prepare an amendment to the Climate Change Response Act 2002 based on the decisions presented in this paper;
- 4 **authorise** the Minister of Climate Change to further establish policy decisions relating to the amendments proposed in this paper, in a way consistent with Cabinet's decisions;
- 5 **agree** that the Bill will bind the Crown;

Bid for legislation

- 6 **note** that the Bill will amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities.
- 7 **note** the proposal for the Bill to be given a category 1 ranking;
- 8 **approve** the Bill in the 2024 Legislation Programme, with a priority 2 (must be passed in 2024);
- 9 **note** that drafting instructions will be provided to the Parliamentary Counsel Office by March 2024;
- 10 **note** that the Bill should be introduced no later than the end of June 2024;
- 11 **note** that the Bill should be passed no later than December 2024.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

Appendix 1: Regulatory Impact Statement

[Final to be added on 16 February 2024]

Appendix Two: Options for repeal and/or amendment to the NZ ETS agricultural emissions obligations in the CCRA

Potential Implications	Options		
	Option A: Repeal all NZ ETS agricultural emissions obligations in CCRA	Option B: Repeal NZ ETS agricultural emissions farm-level obligations with processor-level reporting and surrender obligations remaining in the CCRA	Option C: Repeal NZ ETS agricultural emissions farm-level obligations with processor-level reporting remaining and the surrender obligation timeframe extended
Government commitments	✔ Supports Government's commitment to removing agriculture from the NZ ETS	✘ Does not support Government's commitment to removing agriculture from the NZ ETS	✘ Does not support Government's commitment to removing agriculture from the NZ ETS
Climate targets and emissions budgets	✘ Does not support national emissions targets and budgets. Potential to require additional reductions from other sectors.	✔ Supports national emissions targets and budgets.	✔ Supports national emissions targets and budgets. Potential to require additional reductions from other sectors until surrender obligations enabled.
Sector partners and stakeholders	✔ Ag sector noted in previous consultation that they support removing agriculture's reporting and surrender obligations in the NZ ETS	✘ Ag sector noted in previous consultation that they will not support surrender obligations from 1 January 2025	- Ag sector noted in previous consultation that they may support if there is certainty that an alternative reporting and pricing system is being developed before surrender obligations are enabled.
Iwi/Māori partners & stakeholders	- Iwi/Māori partners noted in previous consultation that they may support this as it gives more time to explore a reporting and pricing system. Potential concern will be for lack of impact on national emissions reductions in the short term.	✘ Iwi/Māori partners noted in previous consultation that they will not support surrender obligations from 1 January 2025 due to the impact on the agricultural sector.	- Iwi/Māori partners noted in previous consultation that they may support this option as it gives more time to explore a reporting and pricing system. Potential concern for lack of impact on short term emission reductions.
Legislation able to be passed by 31 December 2024	✔	✔	- Timeframes will have to be reviewed in consideration of drafting a new Cabinet paper with the additional options.



Briefing: Climate change legislation programme bids 2024

Date submitted: 1 February

Tracking number: BRF- 4109

Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Approve the three bids and their proposed priority categories. Provide feedback on the content, timelines and priority of the proposed draft legislation bids.	12 February
CC Hon Nicola WILLIS Associate Minister of Climate Change	N/A	N/A

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz). Consult with the Leader of the House Office prior to the submission of bids.

Appendices and attachments
1. Draft Cover Letter: Climate Change Portfolio Legislation Bids 2024
2. Draft Cabinet Paper: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Request for priority in the 2024 Legislation Programme
3. [REDACTED] Out of scope
4. [REDACTED] Out of scope

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Elliot Dunn		
Responsible Manager	Rachel Cooper	9(2)(a)	✓
General Manager	Melody Guy		

Minister's comments

Climate change legislation program bids

Key messages

1. This briefing requests your approval of the three draft legislation bids under the Climate Change Portfolio. Your feedback is sought on the proposed scope of each bid as well as the proposed priority categories. Officials recommend that you request that these bids, are included on the Legislation Programme for the 54th Parliament. This briefing also provides general information on the process and timelines for legislation bids.
2. A summary of the bids has been provided below and the content included is subject to further conversations with you.

Bid 1: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill

- **Category: 2** – Must be passed before the end of 2024
- **Expected Scope:**
 - Repeal obligations for agriculture activities in the Climate Change Response Act including the backstop that will bring surrender obligations for agricultural emissions into the New Zealand Emissions Trading Scheme (NZ ETS) from 1 January 2025.
- **Risks:**
 - Tight timeframes are required to ensure the Bill is enacted prior to 1 January 2025. Final policy decisions will be sought in February 2024 to ensure this timeframe is achievable.
 - Removal of agriculture from the NZ ETS is expected to be a contentious issue among environmental non-governmental organisations (NGOs)

Out of scope

■

[Redacted]

■

[Redacted]

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[Redacted]

■

[Redacted]

Out of scope

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3. A select committee process of 5 months is required to repeal agricultural surrender obligations before 1 January 2025. The Cabinet Office requires that “All bids proposing to refer a bill to select committee for less than six months must be discussed with the office of the Leader of the House first, and the outcomes of that discussion recorded in the bid”¹.

¹ Paragraph 23 of CO (23) 13

4. [REDACTED] 9(2)(h) [REDACTED]
5. [REDACTED] Out of scope [REDACTED]
6. You are required to submit the bids to the Legislation Coordinator in the Cabinet Office by 12:00pm on Monday, 19 February 2024 (as requested in Cabinet Office Circular CO (23) 13). A cover letter prepared for this purpose is attached.

Recommendations

We recommend that you:

- a. **approve** the proposed priority categories for the following the three Climate Change Portfolio bids to be submitted for inclusion in the Legislation Programme:
- i **bid one:** Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Category 2 (must be passed before the end of 2024)
- [REDACTED] Out of scope [REDACTED]
- [REDACTED]
- [REDACTED]
- b. **note** that we require your feedback on the draft bids by 12 February, to make any changes before you are required to submit the bids to the Cabinet Office on 19 February 2024.
- c. **note** that we will provide final versions of the bids along with the letter for transmission to the Cabinet Office to your office on 15 February, reflecting any feedback you provide.
- d. **note** that submission of these legislative bids does not prevent new bills being added to the Legislation Programme in future.

OR

Out of scope

- f. **note** officials will discuss the legislative bids with you at the officials meeting on 5 February.

Signatures



Melody Guy
General Manager – Markets
**Climate Change Mitigation and
Resource Efficiency**
1 February



Katherine Wilson
General Manager - Adaptation
**Environmental Management and
Adaptation**
1 February

Hon Simon WATTS
Minister of Climate Change

Date

Climate change legislation program bids

Purpose

7. This briefing requests your approval of the three draft legislation bids under the Climate Change Portfolio. Your feedback is sought on the proposed scope of each bid as well as the proposed priority categories. Officials recommend that you request that these bids, are included on the Legislation Programme for the 54th Parliament. This briefing also provides general information on the process and timelines for legislation bids.

Background

8. Ministers and agencies have been asked by the Cabinet Office to consider foreseeable legislative priorities for the full term of the 54th Parliament from 2024 to 2026.
9. Officials have identified key policy areas that require amendments to support the Government in delivering on its commitments to addressing climate change. Three legislation bids have been proposed for Bills that will serve as the vehicles to deliver the necessary amendments.
10. The Cabinet Office has asked Ministers to deliver bids for the 2024 Legislation Programme by 12:00pm on Monday, 19 February 2024 [CO (23) 13 refers].

Analysis and advice

11. Officials propose that you request that three bids, focused on the government's legislative priorities for addressing climate change, are included on the Legislation Programme for the 54th Parliament. The content of the bids is subject to further conversations with you.
12. The bids and their proposed categories are:
 - **Bid one:** Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Priority category 2
 - [REDACTED] Out of scope
 - [REDACTED] Out of scope
13. New Bills can be added to the Legislation Programme during the year to address any unforeseen need for legislation. However, it is preferable to include Bills in

the Legislation Programme at the beginning of the year to assist in planning the timing in the House and the allocation of drafting resources.

14. Out of scope

15. You are required to submit bids to the Legislation Coordinator in the Cabinet Office by 12:00pm on Monday, 19 February 2024 (as requested in Cabinet Office Circular CO (23) 13). The bids must be proposed in order of priority.

Bid one: Climate Change Response (NZ ETS Obligations for Agricultural Activities) Amendment Bill

16. The Climate Change Response (NZ ETS Obligations for Agricultural Activities) Amendment Bill is ranked as first priority of three for this portfolio and is proposed to be priority category 2 (to be passed before the end of 2024).

17. This Bill is specific to the New Zealand Emissions Trading Scheme (NZ ETS) component of the National Party's and the Government's commitment to "keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."

18. The Climate Change Response Act 2002 (the Act) includes an NZ ETS backstop that would introduce farm-level and/or processor-level surrender obligations from 1 January 2025. If surrender obligations are to be avoided, an amendment to the Act is required and must be passed prior to 1 January 2025.

19. The Bill will repeal sections 2A, 2B, and Part 5 of Schedule 3 of the Act to remove reporting and surrender obligations for both process and farm-level agricultural activities. It will also repeal associated sector-specific provisions for agriculture to enter the NZ ETS that are present throughout the Act, including sections related to reporting, agricultural free allocation, etc.

20. To ensure the Government remains on track to implement these changes before 01 January 2025 a select committee process of 5 months is required. Paragraph 23 of the Cabinet Office circular states that "All bids proposing to refer a bill to select committee for less than six months must be discussed with the office of the Leader of the House first, and the outcomes of that discussion recorded in the bid" [CO (23) 13 refers].

21. 9(2)(h)

Out of scope

[Redacted]

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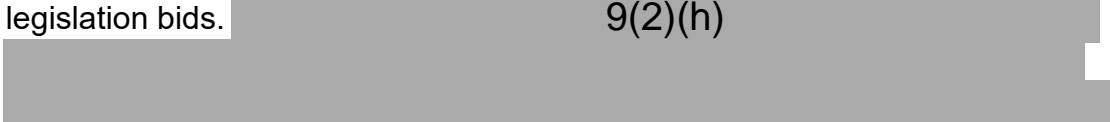
Te Tiriti analysis

51. No Tiriti issues are associated with making the legislation bids proposed in this briefing.

Other considerations

Consultation and engagement

52. The Parliamentary Counsel Office (PCO) has been consulted on the draft legislation bids. 9(2)(h)



9(2)(h)

Risks and mitigations

53. There are tight timeframes required to ensure that the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill is enacted prior to January 2025. Policy decisions will be sought in February to ensure that this timeframe remains achievable.

Out of scope

Legal issues

56. No legal issues are associated with making the legislation bids proposed in this briefing.

Financial, regulatory and legislative implications

57. No financial, regulatory, or legislative implications are associated with making the legislation bids proposed in this briefing.

Next steps

58. Officials will be available to discuss the draft legislation bids at the officials meeting on 5 February
59. We are seeking your feedback on the draft bids by 12 February. Following this we will incorporate any changes into the draft bids.
60. Final draft bids will be sent to your office on 15 February along with an accompanying letter.

61. Your office arranges for the signed letter and final bids to be delivered to the Legislation Coordinator in the Cabinet Office on 19 February.
62. Below is a timeline of key dates:

Timeline of key dates

Step	Date
Officials to discuss leg bids with Minister	5 Feb
Feedback received from Minister	12 Feb
Incorporate feedback and send final drafts to PCO	12-14 Feb
Final bids and bid letter sent to Minister	15 Feb
Minister's office delivers letter and final bids to the Legislation Coordinator in the Cabinet Office.	19 Feb

Appendices

Appendix one: Draft Cover Letter - Climate Change Portfolio Legislation Bids 2024

Appendix two: Draft Cabinet Paper - Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Request for priority in the 2024 Legislation Programme

Appendix three: [REDACTED] Out of scope [REDACTED]
[REDACTED]

Appendix four: [REDACTED] Out of scope [REDACTED]
[REDACTED]

19 February 2024

Cabinet Office
Level 10
Executive Wing
PARLIAMENT BUILDINGS

Attention: Legislation Coordinator

2024 to 2026 54th Parliamentary Term Legislation Programme: Submission of Bids for the Climate Portfolio

As requested in the Cabinet Office Circular CO (23) 13, I wish to submit the following bids, in order of rank within the Climate portfolio, for consideration for inclusion in the 2024 to 2026/54th Parliamentary Term Legislation Programme:

1. Climate Change Response (NZ ETS Obligations for Agricultural Activities) Amendment Bill (Category 2 – must be passed before the 2023 general election);

Out of scope

Yours sincerely,

Hon. Simon Watts
Minister of Climate Change

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Office of the Minister of Climate Change

Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Request for priority in the 2024 Legislation Programme

Summary information

1 The summary information for this Bill is:

Portfolio of sponsoring Minister:	Climate Change
Department responsible:	Ministry for the Environment Rachel Cooper Acting Manager, Markets Development 9(2)(a)
Title of the proposed Bill:	Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill
Proposed ranking of Bill within the bids from this portfolio:	1
Estimated size:	Medium
Estimated complexity:	Low
Proposed priority:	2 (must be passed before the end of 2024 if surrender obligations are to be avoided for fertiliser and animal processors).

Policy

- 2 The Government’s coalition agreements and the National Party’s Election Manifesto commit to “Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas.”
- 3 The bill is specific to the part to the commitment that relates to the New Zealand Emissions Trading Scheme (NZ ETS).

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- 4 The Climate Change Response Act 2002 (CCRA) has reporting obligations for both processor and farm level activities. Currently, processor level reporting obligations are in effect, and farm level reporting obligations commence on 1 January 2025.
- 5 The NZ ETS backstop currently in the CCRA consists of two parts:
 - NZ ETS surrender obligations for processor-level agriculture activities, commencing from 1 January 2025; and
 - NZ ETS surrender obligations for animal-farmers activities.
- 6 To remove these obligations, a bill is required to amend the CCRA. The bill must be passed prior to 1 January 2025 if surrender obligations are to be avoided.
- 7 The bill will amend the CCRA to repeal all NZ ETS obligations for agricultural activities by repealing Part 5 of Schedule 3 to remove surrender and reporting obligations for those activities and repealing associated sector-specific provisions. The associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS will also need to be revoked.
- 8 To support the timeframes to repeal agricultural obligations prior to 1 January 2025 when surrender obligations will commence, the Bill will need to be prioritised with a priority category of 2, must be passed in 2024, if surrender obligations are to be avoided for fertiliser and animal processors.
- 9 This is the first step in a sequenced process to price agricultural emissions no later than 2030 outside of the NZ ETS.
- 10 The removal of agriculture from the NZ ETS is expected to be contentious with environmental non-governmental organisations who, in previous consultations related to agriculture and the NZ ETS, have expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.
- 11 The Minister of Climate Change will lodge a Cabinet paper in February 2024 seeking final policy decisions to inform the drafting of this legislation.

Need for legislation

- 12 The Climate Change Response Act 2002 establishes, among other things, key policies to enable New Zealand to meet its climate change commitments. One of these policies is that agricultural emissions will be included in the NZ ETS from 1 January 2025. This is frequently referred to as the NZ ETS backstop. The CCRA also currently requires agricultural processors to report on their emissions in line with NZ ETS reporting requirements, in anticipation of surrender obligations commencing.
- 13 The National Party's Election Manifesto and the Government's coalition agreements commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."

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- 14 To remove agricultural obligations from the NZ ETS, the CCRA will necessitate amending the CCRA to remove all agricultural obligations by:
- repealing Part 5 of Schedule 3 to remove surrender and reporting obligations for those agriculture activities;
 - repealing associated sector-specific provisions; and
 - revoking associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS.
- 15 I propose this Bill be assigned priority of category 2 (must be passed in 2024) if surrender obligations are to be avoided for fertiliser and animal processors. The National Party's Election Manifesto and the Government's coalition agreements commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."
- 16 If this Bill is not passed in 2024, surrender obligations will commence for agriculture processors on 1 January 2025.
- 17 The Climate Change Response Act has been amended in the last year. However, these amendments were not in relation to agriculture NZ ETS obligations. In October 2023, the Minister of Climate Change deferred NZ ETS obligations for animal farmers from 1 January 2024 to 1 January 2026 via an Order in Council [CAB-23-MIN-0457 refers]. This means that from 1 January 2026, the CCRA (as affected by the Climate Change (Animals–Farmer Activities) Order 2023) requires animal farmers to report their emissions, with surrender obligations commencing on 1 January 2027. At this point surrender obligations for animal processors would cease. There is no option to defer surrender obligations for processors in the interim.
- 18 I also do not propose broadening the scope of this Bill to include amendments that could impact timelines for the repeal of the agricultural emissions obligations.
- 19 A bid was made for the 2023 Legislation Programme for a Climate Change Response (Agricultural Emissions Pricing) Amendment Bill. The bid was for the repeal of NZ ETS obligations for agriculture activities and replacement with an alternative pricing system. Policy work progressed but a bill for this bid was not introduced in 2023. This Bill would progress the repeal of NZ ETS obligations whilst work continues on an alternative system for managing emissions from agriculture activities.

Compliance

- 20 This Bill is likely to comply with each of the following:
- 18.1 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 18.2 the principles and guidelines set out in the Privacy Act 2020;
 - 18.3 the principles of the Treaty of Waitangi;

- 18.4 the relevant international standards and obligations; and
- 18.5 the [Legislation Guidelines \(2021 edition\)](#), which are maintained by the Legislation Design and Advisory Committee.

Binding on the Crown

- 21 The resulting Act will be binding on the Crown.

Consultation

Relevant government departments

- 22 The Department of the Prime Minister and Cabinet, Ministry for Primary Industries, Treasury, Te Puni Kōkiri, and the Environmental Protection Authority were consulted on this paper.

Public Consultation

- 23 In November 2022, the Government consulted on the design for an alternative agricultural emissions pricing system. As part of this consultation submissions were invited on an interim processor level levy system, with a similar architecture to the processor-level backstop in the NZ ETS.
- 24 Most Māori submitters did not support an interim processor-level levy, likewise, the sector's submitters were also opposed to the interim processor-level levy citing the blunt nature of such a levy, the uncertainty it would create for farmers, and the equity implications of putting the levy burden on farmers who use processors. Ministers made public a report under section 215 of the CCRA, outlining details of a farm-level pricing system as an alternative to pricing agricultural emissions in the NZ ETS.
- 25 The Government consulted on deferring NZ ETS reporting obligations for animal farmers in August 2023. Through this consultation, most sector submitters continued to support an agricultural emissions pricing system outside of the NZ ETS as they considered it would provide greater opportunities to develop a more effective solution.
- 26 Māori submitters considered that there would be increased administrative costs as a result of animal farmers' obligations under the NZ ETS. The majority of submissions received who opposed the deferral expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.
- 27 In summary, while the sector is generally accepting of a pricing system for agricultural emissions to serve as an incentive to drive emissions reductions, they were in favour of a system that did so outside the NZ ETS due to its complexity and cost.

Legislation Design and Advice Committee

- 28 This Bill will not be referred to the Legislation Design and Advice Committee as it is primarily a repeal bill rather than creating new legislation provisions.

Government caucus and other parties in Parliament

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29 I will consult with the Government caucus and other parties in Parliament as necessary to support the introduction of this Bill.

Secondary legislation

30 Secondary legislation is not anticipated to be required to give effect to the provisions of the Bill. The Bill will revoke sector-specific secondary legislation used for the calculation of emissions under the NZ ETS for these activities.

Timeline

31 The Bill must come into force prior to 1 January 2025, as set out in paragraph 10.

32 The proposed timing for the bill is set out in the table below.

33 **9(2)(h)**

<i>Step</i>	<i>Proposed date</i>	<i>Consistency assurance</i>
Date on which final policy approvals were, or will be, obtained from Cabinet	February 2024	Consultation undertaken in 2022 and 2023 as summarised above
Date on which complete drafting instructions were or will be sent to PCO	March 2024	
Date by which the Bill will be released for exposure draft (if an exposure draft is planned)	Not applicable	
Date by which the Bill will go to the Ministry of Justice (or Crown Law if applicable) for an assessment of consistency with the New Zealand Bill of Rights Act 1990	May 2024	
Dates on which the Bill will be before LEG and Cabinet for approval for introduction	May 2024	

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Date by which any policy decisions for associated secondary legislation will be before Cabinet		Not applicable, no associated secondary legislation is anticipated.
Date requested for introduction of the Bill	End of May 2024	
Date of report back from select committee	October 2024	5 month Select Committee process. A period shorter than 6 months is required to enable the Bill to be passed in 2024, which is necessary to avoid surrender obligations commencing from 1 January 2025.
Date on which final policy approvals will be obtained from Cabinet for any substantive Amendment Paper (AP) to Bill (if already introduced)		No substantive Amendment Paper is anticipated.
Date on which final drafting instructions were or will be sent to PCO for any substantive AP to Bill (if already introduced)		Not applicable, as no substantive Amendment Paper is anticipated.
Date by which final drafting instructions for any associated secondary legislation will be sent to PCO		Not applicable.
Date of enactment	November 2024	
Date of commencement	The day after Royal assent.	

Recommendations

The Minister Climate Change recommends that the Committee:

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- 1 note that the Bill will amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities
- 2 note that the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill ranks 2 within the bids from my Climate Change portfolio;
- 3 approve the inclusion of the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill in the 2024 Legislation Programme, with a priority of category 2 (must be passed in 2024);
- 4 note that priority of category 2 is sought to avoid surrender obligations for fertiliser and animal processors and to meet the National Party's manifesto and the Government's coalition agreements that commit 'to keep agriculture out of the ETS';
- 5 note that drafting instructions will be provided to the Parliamentary Counsel Office by March 2024;
- 6 note that the Bill should be introduced no later than the end of May 2024;
- 7 note that the Bill should be passed no later than December 2024.

Authorised for lodgement

Hon Simon Watts
Minister of Climate Change



Briefing: Policy options for provision of household kerbside recycling and food scraps services

Date submitted: 20 March 2024

Tracking number: BRF-4189

Security level: Policy and Privacy

MfE priority: Not urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Penny SIMMONDS Minister for the Environment	Read and discuss with officials before indicating your preferred choice.	3 April 2024

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
<ol style="list-style-type: none">Appendix 1: Policy initiatives to improve kerbside recyclingAppendix 2: Food scrap collections timeline considerationsAppendix 3: Options for kerbside food scraps servicesAppendix 4: Options for kerbside recycling services.

Key contacts at Ministry for the Environment			
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Minister's comments

Policy options for provision of household kerbside recycling and food scraps services

Key messages

1. In November 2022, a set of five policies to improve household recycling were agreed by Cabinet [CAB-22-MIN-0539]. To date, only one of these policies (the standard materials policy) has come into effect.
1. Two of the four policies that have not been drafted into regulations are requirements for the provision of kerbside recycling and food scrap services. If progressed, these two policies would direct all Territorial Authorities (TAs) to insert kerbside service provision clauses into their Waste Management and Minimisation Plans (WMMPs) and offer kerbside recycling and food scraps collections, in all urban areas, by either 2027 or 2030.
2. This briefing presents options to either progress the policies (with or without amendments), use a different policy tool or rescind the policies. Options are summarised in table 1 below.

	Food scraps	Recycling
Option 1: Progress/adapt planned policy	<u>Option 1a (no change)</u> All urban areas >1,000, TAs with an organic material processing facility nearby by 2027, all TAs by 2030	<u>Option 1a (no change)</u> All urban areas >1,000 by 2027
	<u>Option 1b</u> All urban areas >1,000 by 2030	<u>Option 1b</u> All urban areas >1,000 by 2028
	<u>Option 1c</u> All major and large urban areas (>30,000 population) by 2030	N/A – Change to urban threshold not presented for recycling as the policy objective is consistent access across the country. This consistency is eroded if the policy applies to only a subset of the six TAs affected
	<u>Option 1d</u> All major urban areas (>100,000 population) by 2030	
Option 2: Set a performance standard instead	<u>Option 2</u> Develop a performance standard to include food waste diversion targets	<u>Option 2</u> Develop a performance standard to include recycling diversion targets
Option 3: Rescind proposed policy and pursue non-regulatory options	<u>Option 3a</u> Rely on investment to incentivise voluntary kerbside service adoption	<u>Option 3a</u> Rely on investment to incentivise voluntary kerbside service adoption
	<u>Option 3b</u> Discard the policy	<u>Option 3b</u> Discard the policy.

3. Altering the timeframe and urban threshold would offer a high level of waste minimisation and emissions abatement benefits but still presents a financial cost to impacted TAs. Alternatively, taking a performance standard or investment led approach may allow for greater local autonomy but would offer reduced environmental benefits.
4. We seek your direction on a preferred option(s). You may wish to meet with officials to discuss before indicating your choice. Further decisions will be required by Cabinet regardless of the direction you choose.
5. We also intend to work with your office to agree on key messages to update TAs who are seeking certainty to inform their long-term planning processes.

Recommendations

We recommend that you:

- a. **note** in November 2022, Cabinet approved policies to require all TAs to offer kerbside recycling and food scrap collections in urban areas by 2027 or 2030.
- b. **note** these two kerbside service provision policies would direct TAs to insert service provision clauses into their WMMPs under section 48 of the WMA. These policies have not been drafted into regulation and your direction is sought regarding their progression.
- c. **meet** with officials to discuss policy options and agree on next steps. You may wish to do so ahead of signing this briefing.

Yes | No

- d. **indicate** your preferred policy direction for kerbside food scraps by ticking one option from table 2 below.

Table 2: Food scraps policy options for decision		
Policy option	Option description	Minister decision
Progress/adapt planned policy and direct TAs to provide kerbside services	Option 1a. Progress the policy as planned (no changes)	
	Option 1b. Extend implementation to 2030 for all TAs	
	Option 1c. Major and large urban areas only and extend implementation to 2030	
	Option 1d. Major urban areas only and extend implementation to 2030	
Rescind planned policy and set a performance standard instead	Option 2. Develop a performance standard and set food waste diversion targets	
Rescind planned policy and pursue non-regulatory options	Option 3a. Rely on an investment led approach only <i>If you select from options 1-2 as a preferred approach this does not prevent you from continuing to invest in establishment of food scrap services.</i>	
	Option 3b. Rescind policy	

e. **indicate** your preferred policy direction for kerbside recycling by ticking one option from table 3 below.

Table 3: Kerbside Recycling policy options for decision		
Policy options	Option description	Minister decision
Progress/adapt planned policy and direct TAs to provide kerbside recycling services	Option 1a. Progress the policy as planned (no changes)	
	Option 1b. Extend implementation to 2028 for all TAs	
Rescind planned policy and set a performance standard instead	Option 2. Develop a performance standard and set targets for recycling	
Rescind proposed policy and pursue non-regulatory options	Option 3a. Rely on an investment led approach only <i>If you select from options 1-2 as a preferred approach this does not prevent you from continuing to invest in establishment of new recycling services</i>	
	Option 3b. Rescind policy.	

- f. **note** that once preferred options have been determined for both the kerbside service provision policies, officials will work with your office to prepare a policy update for TAs.
- g. **note** officials will provide you with further advice on your preferred option(s) and begin preparing a Cabinet paper on the option(s) you wish to put forward for Cabinet approval.

Signatures

Shaun Lewis
 General Manager – Waste Systems
**Climate Change Mitigation and
 Resource Efficiency**
20 March 2024

Hon Penny SIMMONDS
Minister for the Environment

[Date]

Policy options for provision of household kerbside recycling and food scraps services

Purpose

6. To seek your direction on policy options to improve waste minimisation outcomes related to kerbside recycling and household food scraps.

Background

New Zealand is underperforming in waste reduction and management

7. New Zealand is behind many countries when it comes to reducing and managing household waste. In 2021, an average of 700 kilograms of waste per person was sent to landfill, making New Zealand one of the highest generators of waste per person in the OECD.
8. In 2021, waste also contributed 4 per cent of New Zealand's total greenhouse gas emissions and 9 per cent of its total methane emissions. In landfills, organic materials like food scraps, plant matter and paper or cardboard decompose anaerobically and release methane, a powerful greenhouse gas. Food scraps generate six times more methane than general waste. They also break down quickly, releasing much of their methane before it can be captured by landfill gas systems.
9. In urban areas, kerbside collections are the main way households divert waste from landfill. However, New Zealand kerbside systems are also underperforming. On average only one-third of our kerbside collected materials are placed in a recycling or food scraps bin, with the rest sent to landfill.¹ High performing countries collect two-thirds of household materials in kerbside recycling or food scraps and only send one-third to landfill.²

A comprehensive package of recycling policies is planned to improve performance

10. A kerbside policy package of five separate but interconnected policies was agreed by Cabinet in November 2022 [CAB-22-MIN-0539] and announced in March 2023. This package of policies (see Appendix 1) followed public consultation in 2022 and aims to lift our overall performance on managing household recycling. Kerbside standardisation, which came into effect on 1 February 2024, was the first step towards a higher performing recycling system [BRF-3936 refers].
11. Collectively, these policies aim to reduce household waste and emissions by making it easier for households to recycle and divert food waste from landfill, improving the information we have available to monitor and track progress, and encouraging TAs to improve their waste minimisation performance.
12. This briefing seeks your direction in relation to two policies within the broader package as outlined in table 4 below. We will provide you with advice in the coming weeks on the remaining two policies (see Appendix 1).

¹ Yates, S. 2019. [Rethinking Rubbish and Recycling – Contamination and Missed Capture Report](#).

² Ministry for the Environment. 2022. [Transforming recycling: Consultation document](#).

WMF funding is available to support new collections but will not cover all costs

13. Current Waste Minimisation Fund (WMF) investment signals are designed to encourage the

Table 4: Announced kerbside food scraps and recycling policies		
Policy	Description of policy announced in 2023	Implementation timeline
Food scraps policy	Direct all TAs to provide kerbside food scraps in urban areas with more than 1,000 people	2027 for TAs within 150 kilometres of an existing organic materials processing facility. 2030 for all other TAs (see Appendix 2)
Recycling policy	Direct all TAs to provide kerbside recycling in urban areas with more than 1,000 people ³	2027 for all TAs
Both policies propose to use section 48 of the WMA to direct TAs to insert provisions for recycling and/or food scraps collections into their WMMPs.		

establishment of new TA managed kerbside collections.

14. The WMF has applications totalling \$23 million to support TAs to plan and implement food scrap collections. An estimated additional \$11.3 million of WMF investment would be needed to fund all the TAs that are not yet in the funding pipeline. Table 5 shows the status of TA food scrap collections as they relate to the WMF investment pipeline.

Table 5: Current TA status for establishing food scrap collections	
Operating: Food scrap collections operating (one launching July 2024)	18 TAs
In development: Advanced planning stages, but final decisions on implementation may await Government direction	23 TAs
Initial scoping: Invited to apply to the WMF fund for scoping activities	15 TAs
Initial scoping not started: No formal plans discussed with the Ministry	11 TAs

15. The 18 TAs that already offer kerbside food scrap collections include all major urban areas except Wellington and Hutt City. Urban residents of the 18 TAs with operating food scrap collections represent 54 per cent of New Zealand’s population.

16. Establishing a new food scraps collection is a significant cost for TAs, particularly for small and rural TAs. In recent months, several TAs have indicated that without a regulatory requirement they will halt plans to introduce new services. This is due to cost-of-living impacts and trying to keep rate increases to a manageable level.

17. For the recycling policy, the associated costs are more moderate. The WMF has set aside up to \$14 million to support TAs with the planning and implementation of new recycling collections. No new recycling processing facilities are required to implement the kerbside recycling service provision requirement.

³ ‘Urban areas’ in relation to original policy proposals follow the Statistics New Zealand definition of urban areas: Major >100,000 population, Large >30,000, Medium >10,000, Small >1,000.

18. Currently, 60 out of 67 TAs already offer kerbside recycling services.⁴ Of the six TAs responsible for urban areas that do not offer a kerbside recycling service, three have applied to the WMF for funding. The other three have made enquiries but are yet to apply.

The recycling policy aims to increase access and builds on standardisation

19. Private waste companies offer kerbside recycling services in most of the areas without TA managed services. Analysis completed by officials on the effectiveness of these private collections suggest that they are more costly and less effective at diverting waste than TA managed collections. Additionally, households must opt-in to receive a private collection. This creates a barrier to access and relies on the individual household having the financial means to sign-up to a private service and being motivated to do so.

20. Directing TAs to offer kerbside recycling services will ensure that the standard materials are collected consistently across the country. The standard materials requirement does not apply to private collections,⁵ meaning nationally consistent collection of the standard materials cannot be ensured under the status quo.

Analysis and advice

You have choices about how to move forward with the kerbside policies

21. You have options to progress, adapt or rescind the two kerbside service provision policies. Options are outlined in table 6 below and discussed in this section. Additionally, Appendices 3 and 4 outline the differences in waste diversion, emissions abatement, impacted population and expected costs for each option.

Table 6: Food scraps and recycling options at a glance		
	Food scraps	Recycling
Progress/adapt planned policy and direct TAs to provide kerbside services	<i>Option 1a (no change)</i> All urban areas >1,000, TAs with an organic material processing facility nearby by 2027, all TAs by 2030	<i>Option 1a (no change)</i> All urban areas >1,000 by 2027
	<i>Option 1b</i> All urban areas >1,000 by 2030	<i>Option 1b</i> All urban areas >1,000 by 2028
	<i>Option 1c</i> All major and large urban areas (>30,000 population) by 2030 <i>Option 1d</i> All major urban areas (>100,000 population) by 2030	N/A Not presented for recycling as the policy objective is consistent access across the country. This consistency is eroded if the policy applies to only a subset of the six TAs affected.

⁴ TAs that do not provide a kerbside recycling service are Far North District Council (DC), Whanganui DC, Rangitikei DC, Kāpiti Coast DC, Upper Hutt City Council (CC), and Waimate DC. Chatham Islands Council would not require a kerbside recycling service as it has no urban areas with >1,000 people.

⁵ The standard materials policy uses section 49 of the WMA, which only applies to TA managed collections. No policy tool currently allows standard materials to be set nationally for private collections.

Table 6 continued	Food scraps	Recycling
Rescind policy and rely on a performance standard instead	<i>Option 2</i> Develop a performance standard to include food waste related diversion targets	<i>Option 2</i> Develop a performance standard to include recycling related diversion targets
Rescind proposed policy and pursue non-regulatory options	<i>Option 3a</i> Rely on investment to incentivise voluntary kerbside service adoption	<i>Option 3a</i> Rely on investment to incentivise voluntary kerbside service adoption
	<i>Option 3b</i> Discard the policy	<i>Option 3b</i> Discard the policy.

Timeline adjustment considerations

22. Due to delays in drafting the policies into regulation, TAs have lacked certainty on the status of the kerbside service provision policies. Consequently, some TAs have not made the necessary preparations to meet the 2027 service provision timelines. This is particularly notable for the food scraps collection 2027 timeline (see Appendix 2).
23. For food scraps services, removing the earlier 2027 deadline and shifting all TAs to provide food scraps services by 2030 would be a pragmatic adjustment that would allow TAs time to plan and consult on the changes.
24. For recycling services, the Ministry has been in contact with most of the impacted TAs and understands that a shorter extension is achievable. Extending the timeframe to 2028 would allow the policy to remain ambitious yet pragmatic for the six affected TAs. Further extensions would delay consistent and equitable access to recycling services.

Lifting the urban threshold would reduce both costs and benefits for food scraps

25. The current urban threshold captures small urban areas defined as having a population greater than 1,000 (all urban areas). Raising the urban threshold decreases the total number of households serviced, reducing costs and benefits concurrently (see table 7).

Table 7: Impact of applying different urban thresholds for food scraps					
<i>Urban threshold</i>	<i>TAs to establish new collections</i>	<i>Population within urban threshold</i>	<i>Total expected access*</i>	<i>Annual waste diversion</i>	<i>Emissions abatement (tCO2e in 2030)</i>
<i>Options 1a and 1b. All urban areas (>1,000)</i>	48 TAs	84% of population	84% of population	55,000 extra tonnes	13,000 to 25,000
<i>Option 1c. Large and major urban areas only (>30,000)</i>	13 TAs ⁶	65% of population	72% of population	30,000 extra tonnes	7,000 to 13,000
<i>Option 1d. Major urban areas only (>100,000)</i>	2 TAs (Wellington and Hutt CC)	51% of population	60% of population	12,000 extra tonnes	3,000 to 7,000

*Total expected access includes existing services in urban areas below the stated urban threshold.

⁶Wellington CC, Hutt CC, Whangarei DC, Rotorua DC, Gisborne DC, Hastings DC, Napier CC, Whanganui DC, Palmerston North CC, Porirua CC, Upper Hutt CC, Nelson CC and Invercargill CC.

26. As discussed in paragraph 9, WMF funding is available to support TAs with the planning and roll out of new food scrap collections. WMF funding is also being considered for the establishment of new organic material processing facilities. The infrastructure gap for processing kerbside food scraps for all large and major urban areas is estimated to require \$100 million in investment, with the WMF potentially investing up to \$50 million to trigger matching private investment.⁷
27. A national network of food scraps processing facilities would reduce the cost of future organic material diversion and emissions abatement. To establish a food scraps processing network with meaningful national reach, the urban threshold would need to be set to include major and large urban areas (food scraps option 1c).⁸
28. As an indicative range, operational costs of TA managed food scrap services can range from \$30 to \$100 per household per year, though most are between \$40 to \$60.⁹ Some savings may be possible if weekly rubbish collections are shifted to fortnightly.¹⁰ These annual costs are commonly covered fully or partially by rates funding.
29. Due to economies of scale, it is often more cost effective to deliver food scraps services in densely populated urban areas. Lacking urban density, small and rural TAs can face a greater cost burden for implementing new food scraps collections. Alternative food waste diversion options, like home composting, may also be more common in less populated areas.

Recycling in all urban areas supports consistent service access

30. Options to lift the urban threshold for the recycling policy have not been presented. Kerbside recycling is now near ubiquitous and is an expected service in most of the country. Maintaining the urban recycling threshold at >1,000 population supports a consistent and accessible recycling system nationwide.
31. As discussed in paragraph 12, WMF funding is available to support impacted TAs with the planning and implementation of new kerbside recycling collections. Ongoing operational costs for recycling services are typically between \$50 to \$100 per household per year.¹¹ For households with existing private recycling services, a cost transfer (from a private company to a TA managed service) rather than a new cost is likely.

Setting targets through a performance standard might not be feasible for improving kerbside diversion in the near term

32. A performance standard is an outcomes-based measure to incentivise results without prescribing the exact services to be delivered. This alternative policy tool uses section 49 of the WMA. A diversion standard that considered overall waste diversion (food scraps and recycling) was part of the original package of policy initiatives announced in 2023.
33. Data on household waste disposal in New Zealand is limited, making the development of a meaningful performance standard difficult. Although TAs have choices around how to meet

⁷ Investment estimates provided are based on the current processing gaps for kerbside food scraps (does not account for commercial waste). Actual investment requirements will be confirmed on a project-by-project basis and any request for WMF investment will be assessed at the time of application.

⁸ Fifteen of New Zealand's sixteen regions would have collections. Only the West Coast would not.

⁹ This range is estimated based on publicly available rates information and from actual costs several TAs have shared with the Ministry in confidence.

¹⁰ 12 councils with food scraps collections have moved to fortnightly rubbish collections, a further six councils, including Auckland Council, have announced publicly that they are considering the switch.

¹¹ See footnote 9.

a standard, it is possible that a kerbside service would be the only practical way to achieve a performance standard that is set at a level to drive greater diversion.

34. Under the WMA, the Minister may retain waste levy payments if a section 49 performance standard is not met. TAs have expressed concern that a standard may not be achievable and that retaining payments reduces the resources available to improve performance. We will send you an additional briefing that covers further options on the use of a kerbside performance standard in the coming weeks.

Rescinding either policy would reduce benefits but may alleviate some cost pressures

35. Removing the need to provide new kerbside services would reduce cost pressures on local government and allow a greater degree of TA local autonomy. Some TAs that are under pressure to reduce rates increases may welcome such an approach.
36. However, rescinding either policy without introducing a performance standard risks a reduction in resource efficiency and emissions benefits. TAs may opt to halt current plans to introduce new kerbside services. It is also possible that some established kerbside services may be removed or downgraded.
37. Rescinding either policy but continuing to invest in kerbside services via the WMF would offer uncertain outcomes. It is likely that most TAs interested in starting new kerbside collections regardless of Government direction have already taken up the investment support on offer. Stimulating further uptake would require more generous investment or a new benefit (eg, operational funding to reduce the initial rates impact over several years).

Food scraps service option recommendation

38. Recognising the diminishing marginal benefits of food scrap services in small urban areas, the Ministry recommends lifting the urban threshold to cover only major and large urban areas (populations > 30,000), while also extending the implementation timeline to 2030 for all TAs (table 2, option 1c). This option retains enough scale to ensure organic processing facilities serve nearly all regions of New Zealand and creates potential for future diversion opportunities.
39. If you wish to maximise waste minimisation and emissions abatement benefits, the Ministry recommends keeping the food scraps policy urban threshold at 1,000 people but extending the implementation timeline to 2030 for all TAs (table 2, option 1b).

Food scraps service option recommendation

40. For the kerbside recycling policy, the Ministry recommends extending the timeframe to 2028 (table 3, option 1b). This approach would ensure a foundational resource recovery system is consistent and equally accessible across New Zealand.

Other considerations

Consultation and engagement

41. Ninety-seven per cent of submitters to the '*Transforming recycling*' consultation agreed that all TAs should offer household recycling services. Some submitters offered conditional support, or emphasised considerations for communities that do not meet the urban area threshold of more than 1,000 people.
42. Similarly, 89 per cent of submitters agreed that all TAs should offer a kerbside food scraps collection. Of the 39 TAs that responded to the consultation, 21 supported mandating food

scrap collections to some extent, while six did not support the policy and 12 did not provide a definitive reply. TA support was conditional primarily on Government funding and coordinating of infrastructure investment.

Risks and mitigations

43. A key risk relates to balancing the competing priorities of effective action on resource recovery and emissions versus household cost implications. The options presented provide a range of factors for your consideration.
44. Uncertainty about the Government's policy direction has led some TAs to include the requirements in their Long-Term Plans (LTPs) while others have not. For any policy option selected, some TAs' LTPs will be out of alignment. If either policy is rescinded, some TAs may complain of being overprepared (wasted effort) while TAs that desire cost savings or increased local autonomy may welcome such a change.
45. The outcome of budget decisions on the Ministry's baseline funding will determine to what extent we are able to implement the options outlined in this paper.

Legal issues

46. No legal issues are associated with the proposals in this briefing.

Financial, regulatory and legislative implications

47. Overall, the costs for the kerbside recycling policy are moderate and well supported by the WMF. While the financial costs for food scraps collections are higher, the policy offers strong environmental benefits. The food scraps policy is one of the few tools available to offer biogenic methane emissions abatement over a short period of time.
48. For any choice of options, a Cabinet paper will need to be drafted. Previous Cabinet decisions persist despite a change in Government but are not binding on the new Government. Cabinet will need to agree to either continue, amend or rescind the policies. If required, regulations would then be drafted by the Parliamentary Counsel Office before Cabinet approval is sought for the final regulations. Significant changes to the policies may require further consultation with affected parties.

Next steps

49. Officials recommend that we discuss with you at an upcoming policy meeting your preferred option and next steps.
50. In the coming weeks you will also receive a briefing outlining the final two policies in the kerbside policy package (further discussion of a kerbside diversion standard as a complementary policy tool and private collection data reporting requirements).
51. We note that you are meeting with the Mayor of Hamilton City Council in late May. Hamilton already has food scrap collections in place and we suggest using this meeting to hear about their experience ahead of taking any decision to Cabinet.

Appendices

Please see appendices as attached via email to the Minister's office.

Appendix 1: Policy initiatives to improve kerbside recycling

Appendix 2: Food scrap collections timeline considerations

Appendix 3: Options for kerbside food scraps services

Appendix 4: Options for kerbside recycling services

Appendix 1: Policy initiatives to improve kerbside recycling

Policy	Status
<p>Policy 1. A standard set of materials to be accepted in kerbside collections</p> <p>From 1 February 2024 all TAs will accept only the standard materials in their recycling, food scrap and FOGO collections.</p>	<p>Gazetted, came into effect on 1 February 2024.</p>
<p>Policy 2. Recycling collections for urban households</p> <p>By 2027 all TAs will provide recycling collections to households in urban areas of 1,000 people or more.</p>	<p>Regulations yet to be developed.</p> <p>Advice provided in this briefing.</p>
<p>Policy 3. Food scrap collections for urban households</p> <p>By 2030 all TAs will provide food scrap collections to households in urban areas of 1,000 people or more. TAs with an organics processing facility with spare capacity nearby will provide a food scrap collection service by 2027.</p>	<p>Regulations yet to be developed.</p> <p>Advice provided in this briefing.</p>
<p>Policy 4. Minimum kerbside diversion standard</p> <p>All TAs must meet a performance standard for the amount of household kerbside waste diverted from landfill. The performance standard will increase over time:</p> <ul style="list-style-type: none"> • 30% by July 2026 • 40% by July 2028 • 50% by July 2030. 	<p>Gazette notice yet to be developed.</p> <p>Advice to be provided in a future briefing.</p>
<p>Policy 5. Private collection reporting requirements</p> <p>All private waste companies providing regular household waste collections (eg, weekly or fortnightly) to record from July 2024 tonnes of rubbish, recycling, food and garden waste collected and contamination rates. From late 2025, they will report these figures to the Ministry.</p>	<p>Regulations yet to be developed.</p> <p>Advice to be provided in a future briefing.</p>

Appendix 2: Food scrap collections timeline considerations

The image below shows the TAs with main centres within 150 kilometres of an organics processing. Under the announced food scrap collection policy, the 28 TAs listed on this map would be expected to establish food scrap collections by 2027.

12 of these TAs already have established food scrap services and a further eight are in advanced planning and have WMF applications in for implementation funding. Three more have feasibility applications with the WMF, while the remaining five do not yet have WMF applications to investigate or implement food scraps collections.

Auckland

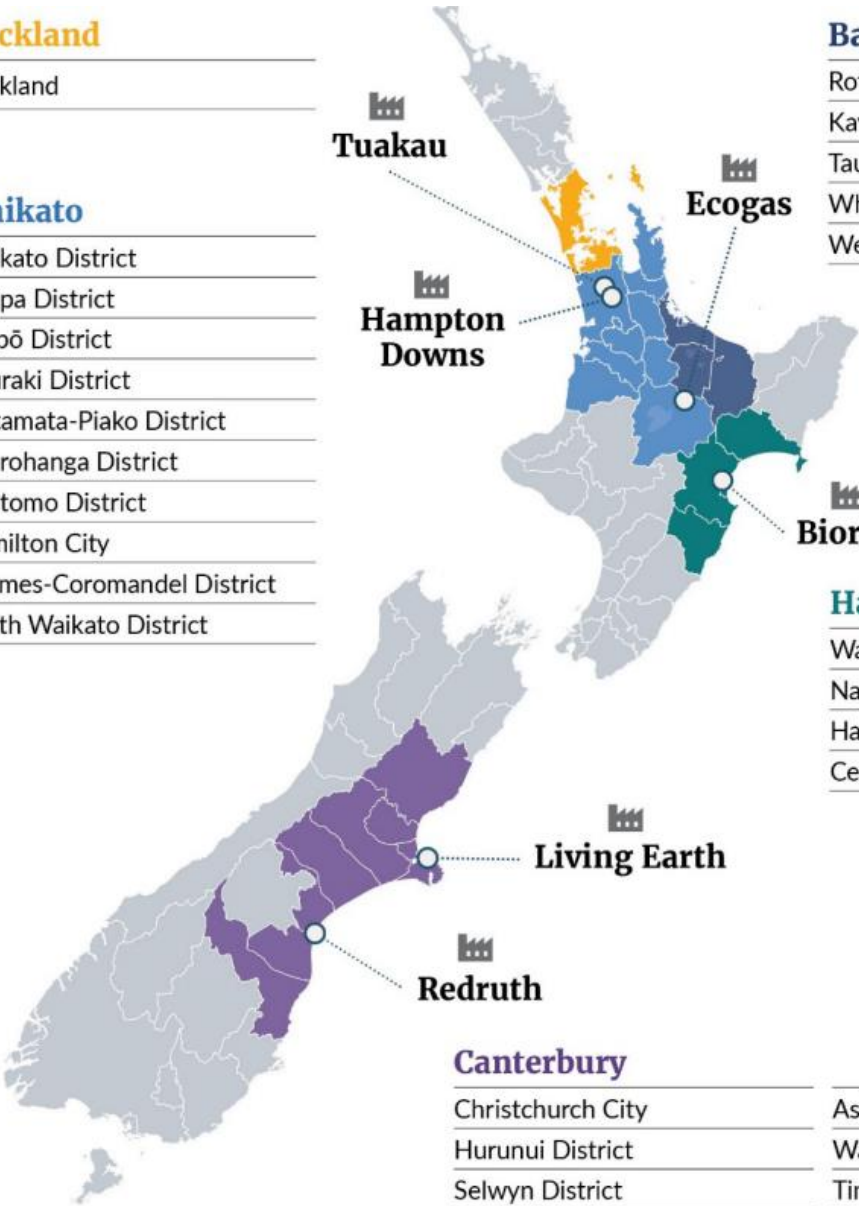
Auckland

Waikato

- Waikato District
- Waipa District
- Taupō District
- Hauraki District
- Matamata-Piako District
- Ōtorohanga District
- Waitomo District
- Hamilton City
- Thames-Coromandel District
- South Waikato District

Bay of Plenty

- Rotorua Lakes District
- Kawerau District
- Tauranga City
- Whakatāne District
- Western Bay of Plenty District



Hawke's Bay

- Wairoa District
- Napier City
- Hastings District
- Central Hawke's Bay District

Canterbury

- Christchurch City
- Hurunui District
- Selwyn District
- Waimakariri District
- Ashburton District
- Waitaki District
- Timaru District
- Waimate District

Appendix 3: Options for kerbside food scraps services

<p><i>Option 1a.</i> Progress the policy as planned (applies to all urban areas >1,000)</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • TAs have already started working towards this policy, supported by WMF investment • 55,000 extra tonnes of food scraps diverted annually by 2030 and expected access for 84% of population • 13-25 ktCO₂e emissions reduction annually in 2030
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • new cost for 1.6 million people to receive a new service, 48 TAs affected
<p><i>Option 1b.</i> Extend implementation to 2030 for all TAs</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • similar to option 1 but delay allows TAs more time to plan for services and costs
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • similar to option 1 but delayed access to services, food scraps diversion, and emissions reductions
<p><i>Option 1c.</i> Major and large urban areas only and extend implementation to 2030</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • 30,000 extra tonnes of food scraps diverted annually in 2030 and expected access for 74% of population • 7-13 ktCO₂e emissions reduction annually in 2030
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • new cost for 0.9 million people to receive a new service, 13 TAs affected
<p><i>Option 1d.</i> Major urban areas only and extend implementation to 2030</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • 12,000 extra tonnes of food scraps diverted annually in 2030 and expected access for 60% of population • 3-7 ktCO₂e emissions abatement annually in 2030
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • new cost for 0.3 million people to receive a new service, two TAs affected
<p><i>Option 2.</i> Rely on a performance standard instead</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • greater TAs choice for how to meet standard (eg, food waste avoidance, home composting)
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • challenging to set a food scraps-specific performance standard that is achievable and drives change • TA concern about the perverse outcome of retaining levy payments if the standard is not met
<p><i>Option 3a.</i> Rely on an investment led approach only (non-regulatory option)</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • reduced household and TA costs and greater TA autonomy
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • willing TAs already taken up WMF investment. Without requirement many TAs may halt plans • increased incentives to raise uptake would increase Government costs but decrease TA costs
<p><i>Option 3b.</i> Rescind policy</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • no additional costs – may be welcomed by TAs who are facing large rate increases
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • no additional waste minimisation, emissions reductions, or increase in access (54% status quo) • potential frustration for TAs who have already invested in work toward rolling out collections.

Appendix 4: Options for kerbside recycling services

<p><i>Option 1a.</i> Progress the policy as planned (applies to all urban areas >1,000)</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • strong support through public consultation (97%) • TAs working towards this policy, supported by WMF investment • additional 25,000 tonnes recycling from 2027 (6% increase) • builds on progress made already to standardise materials accepted across New Zealand • increase access from 80% to 84% of New Zealanders (+ 200,000 people) • reduced emissions from decreased use of virgin materials (unquantified)
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • new cost for households receiving kerbside recycling for the first time, 6 TAs affected • 2027 implementation not considered achievable for all affected TAs
<p><i>Option 1b.</i> Extend implementation to 2028 for all TAs</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • similar to option 1 but delayed by one year • delay provides more time for TAs to establish new services and plan for service costs
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • nationally consistent kerbside recycling system delayed to 2028
<p><i>Option 2.</i> Rely on a performance standard instead</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • greater flexibility for TAs to choose how to best meet the standard (eg, promoting reusable packaging, private collections, or providing drop-off services)
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • challenging to set a recycling-specific performance standard that is both achievable and drives ambition to lift kerbside recycling performance • TA concern about the perverse outcome of retaining levy payments if the standard is not met
<p><i>Option 3a.</i> Rely on an investment led approach only (non-regulatory option)</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • Reduced household and TA costs and greater TA autonomy
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • less effective – only one TA is likely to introduce a recycling service under an investment only option. Introduction of a service for the other five TAs is more uncertain without regulation
<p><i>Option 3b.</i> Rescind policy</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • no additional costs – may be welcomed by TAs who are facing large rate increases
	<p><i>Cons</i></p> <ul style="list-style-type: none"> • no increase in access, waste minimisation or emissions reductions • standard materials not uniformly accepted across the country.



To: Hon Todd McClay, Minister of Agriculture
Hon Simon Watts, Minister of Climate Change
From: Julie Collins, Deputy Director-General, Policy & Trade
Sam Buckle, Deputy Secretary, Climate Change Mitigation and Resource Efficiency

Climate Change Response Act 2002 Amendments: New Zealand Emissions Trading Scheme obligations for agriculture

Date	19 February 2024	Reference (MPI)	B24-0127
		Reference (MfE)	BRF-4249

Decision required	Date decision required by
YES <input checked="" type="checkbox"/> / NO <input type="checkbox"/>	23 February 2024

Other agencies/industries consulted on during the production of this briefing
Environmental Protection Authority <input checked="" type="checkbox"/>
The Treasury <input checked="" type="checkbox"/>

Purpose

This briefing seeks your direction on amendments to the Climate Change Response Act 2002 (CCRA), which are required by December 2024 to 'Keep agriculture out of the Emissions Trading Scheme'.

Key messages:

1. We seek your direction on amending the CCRA by December 2024, to support the National Party's Election Manifesto commitment to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 at the latest".
2. Making this amendment will present an opportunity for you to highlight your plans for reducing agricultural emissions, including milestones and high-level timeframes. This will help to set strategic direction for the sector and provide certainty, as well as mitigate stakeholder concerns about amending the backstop.

3. An amendment is required as the CCRA requires agricultural processors to pay for their emissions from 1 January 2025 via the New Zealand Emissions Trading Scheme (NZ ETS), and for farmers to report their emissions from 1 January 2026, and pay for them from January 2027.
4. Amendments to the CCRA are needed by December 2024 to stop these requirements. You have choices on how to amend the CCRA which will have implications on meeting manifesto commitments, signals sent to the sector, passing legislation this year, and progress towards reducing agricultural emissions.
5. To amend the CCRA by December 2024, the Bill needs to be prioritised, with introduction in May and with First Reading in June 2024. We recommend, following your direction, that you lodge a Cabinet paper by 21 March for consideration by the Economic Policy Committee on week of 25 March and Cabinet by 2 April 2024, with the intention that a Bill is introduced to the House as soon as possible thereafter.

Context

6. The National Party's Election Manifesto commits to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 at the latest".
7. In your bilateral meeting on 31 January, which was focussed on reducing agricultural emissions, you agreed to:
 - a) direct the Ministry for the Environment (MfE) and the Ministry for Primary Industries (MPI) officials to work jointly on the CCRA backstop amendments and provide advice on options for amending the backstop;
 - b) 9(2)(f)(iv)
 - c) publicly signal the high-level milestones and timeframes to deliver the reducing agricultural emission plan (the plan) before the CCRA backstop amendments are introduced. The intention of this is to place CCRA amendment decisions within the context of wider strategy for agricultural emissions, and decisions related to agriculture and climate change; and
 - d) use the final agriculture chapter in the upcoming emissions reduction plan (ERP 2) to outline further detail on this high-level plan.
8. The NZ ETS backstop was put in place in 2020 to support progress towards developing an alternative pricing system for agricultural emissions by 2025. It also sends a signal to incentivise actions to reduce agricultural emissions to support New Zealand's emissions reduction goals.
9. Currently, the NZ ETS backstops requires:
 - a) animal and fertiliser processors to pay for their emissions (via surrendering units in the NZ ETS) from 1 January 2025. Agricultural processors have been monitoring and reporting their emissions since 2011; and

- b) farmers to monitor and report their emissions in the NZ ETS from 1 January 2026 and pay for these emissions from 1 January 2027¹.

Analysis and advice

10. There are a range of options available to keep agriculture out of the NZ ETS. To inform analysis of the available options there are various criteria you could consider²:
- deliverable by December 2024 – ability of amendment to be delivered (through departmental, Cabinet, and parliamentary processes) by December 2024 to avoid processor level pricing by 1 January 2025;
 - manifesto and coalition agreements – amendments are consistent with the positions set out in manifesto or coalition documents;
 - signals future intentions – provides a signal that supports reducing emissions as well as to the path Government policy is expected to follow; and
 - emissions reduction – whether the amendment supports progress towards our international and domestic climate change targets and obligations.
11. The weighting you give these considerations will determine your preferred option.

There are different options for keeping agriculture out of the NZ ETS:

Option One: Full repeal and complete removal of NZ ETS obligations

12. This would completely remove agricultural activities from the NZ ETS³. As such, fertiliser and animal processors and animal-farmers will have no reporting or surrender obligations in the NZ ETS, for their associated methane and nitrous oxide emissions. Their carbon dioxide emissions, for example from on-farm transport, would still be priced in the NZ ETS.

Option Two: Minimal amendments to remove farm level reporting and surrender obligations and processor level surrender from the NZ ETS

13. This option ‘deactivates’ the NZ ETS agricultural provisions not already in effect (so agricultural processors would not be required to pay for their emissions from 1 January 2025, and farmers would not be required to report from 2026 and pay for their emissions from 2027).⁴ These provisions would remain in the CCRA, and the Minister would be able to ‘reactivate’ them in the future via Order in Council. This would mean that, in the future, the Minister could decide to introduce NZ ETS surrender obligations for agricultural processors and/or farm level reporting and surrender obligations.
14. Under this option, agricultural processors who are currently reporting their emissions would continue to do so.

¹ Definition of animals–farmer activity The Climate Change Response Act 2002 defines animals–farmer activity as: farming, raising, growing, or keeping ruminant animals, pigs, horses, or poultry for: a) reward; or b) the purpose of trade in those animals, animal material or animal products taken or derived from those animals.

² A broader range of criteria will be used in the Regulatory Impact Analysis for the CCRA Amendment.

³ By repealing part 5 of Schedule 3 of the CCRA and associated sector-specific provisions.

⁴ These are primarily located in sections 2A(5C) and (5D), and 219 of the CCRA.

15. Note that we anticipate that all NZ ETS agricultural provisions would be repealed through the legislation implementing the Government's new agricultural pricing system.

Option Three: Minimal amendments to retain a processor-level pricing backstop.

16. This option would amend the CCRA to delay processor-level surrender obligations. This will support action towards pricing by 2030 by keeping the lever of processor-level pricing, while allowing time to develop an alternative pricing system that keeps agriculture out of the NZ ETS.
17. This option would also amend the CCRA by removing all farm level reporting and surrender obligations.
18. In addition, as with Option Two we anticipate that all remaining NZ ETS agricultural provisions would be repealed through the legislation implementing the Government's new agricultural pricing.

Options considered but discarded.

19. Officials also gave consideration as to whether the CCRA amendment required to manage backstop obligations could be used as a vehicle to progress alternative legislatively backed action to support the reduction of agricultural emissions. One example of such an option would be to support the uptake of mitigations or implement an interim levy-based system of some kind.
20. However, Officials have determined that these options are not feasible within the required timeframes. Rather, consideration of such options will be included in scope of the advice being prepared on options to support the uptake of mitigations.

Analysis of options

21. Without an alternative mechanism in place, Options One to Three carry the risk to our domestic and international emissions target achievement. These risks can be mitigated by the Government setting out a clear alternative agricultural emissions plan by the time of the CCRA amendments are being progressed.
22. Previous modelling (see **Appendix One**) shows the impact of a processor levy on emissions reductions and the agricultural sector. The results showed substantial emissions reduction (16 percent). This emissions reduction is driven by land use change from the dairy, sheep, and beef sectors towards cropping and forestry production, and has results in decreases in milk and meat production. Contrary to recent work by processors to implement Scope three emissions reduction targets, the modelling processors were assumed to not be able to drive mitigation uptake on farm.
23. Removing the processor level surrender obligations would negatively impact progress towards emissions reduction targets if no other action were taken in its place.

24. Option One removes all NZ ETS agricultural obligations in the CCRA, supporting the Government's intention to keep agriculture out of the NZ ETS and send a clear signal to the sector of the Government's intentions. This option also removes the pricing signal from the NZ ETS completely which may disincentivise the agriculture sector to make changes to reduce agricultural emissions if they think that pricing is completely off the table.
25. Option Two deactivates the farm level reporting and surrender obligations and processor level surrender obligations. This keeps these obligations from starting, allowing time for the development of an alternative pricing system. However, if sufficient progress is not made, the Minister maintains the ability to reactivate them (or completely remove them later) via Order in Council, thereby mitigating some of the risks and negative signals that completely removing the backstop may send.
26. Option Three leaves in place the processor level surrender obligations but postpones the implementation date. This gives powers for Cabinet to impose surrender obligations on processors in the future should an alternative scheme not be agreed to and/or implemented in time. This option maintains the positive signal for pricing and mitigates some of the risk to New Zealand's domestic and international reputation. However, this option could be perceived to be inconsistent with the Government's intention to keep agriculture outside the NZ ETS.

Risks

27. The risks that accompany the proposed CCRA amendment are outlined below.

Timeframe risks

28. Timeframes are challenging for passing legislation this year. The challenges include time for policy development, drafting the bill with Parliamentary Counsel Office (this has been reduced from 44 days to 25 days), and reduced time for Ministerial consultation. One of the significant challenges is that the mid-recess means Cabinet Legislation Committee decisions need to be made in May to enable first reading in June and a four month select committee process.
29. If there are delays, there are potential options for further truncating process, for example going straight to Cabinet and bypassing Cabinet Committee, however this will save minimal time. If there are any delays preparing the Bill, the Government may need to consider truncating the Parliamentary process to meet the 31 December 2024 deadline. That process would likely require time-unlimited debateable motions such as considering the Bill under urgency or shortening the Select Committee to less than four months.

9(2)(h)

9(2)(h)

Consultation and stakeholder risks

33. Officials have not specifically consulted on amending the CCRA to 'keep agriculture out of the Emissions Trading Scheme'. The CCRA Amendment Bill will go through the Select Committee process where it will have public consultation and scrutiny from Parliament.
34. Last year, the Government consulted on deferring NZ ETS reporting obligations for animal farmers in August 2023. Public consultation on whether to defer NZ ETS obligations for animal farmers and progress the Order in Council ran from 18 August to 6 September with 1,225 submissions received. Through this consultation, most sector submitters continued to support an agricultural emissions pricing system outside of the NZ ETS as they considered it would provide greater opportunities to develop a more effective solution.
35. Māori submitters considered that there would be increased administrative costs as a result of animal farmers' obligations under the NZ ETS. The majority of submissions received who opposed the deferral expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.

Next steps

36. Officials request feedback on your preferred option by Thursday 23 February 2024.
37. Following your agreement on the preferred option, Officials will jointly provide a Cabinet paper seeking final decisions on amending the CCRA to repeal NZ ETS agricultural obligations to the Economic Policy Committee. A Regulatory Impact Statement will also be drafted by officials.
38. Officials will soon provide you with advice on the high-level timeframe to deliver reducing agricultural emission actions, which can be publicly signalled prior to the agricultural backstop repeal bill being introduced. Decisions made on that briefing will further inform the drafting of the Cabinet paper - and the public communication of the agreed approach will help to provide certainty, and signal intent, to the sector.

Proposed timelines and process for progressing decisions to Cabinet

39. To obtain Cabinet's agreement on the draft Cabinet paper and legislation by the end of the year, we recommend working to the timeframes set out in the table below.

Action	2024
Feedback provided on preferred option	By 23 February
Cabinet paper is reviewed, finalised, and sent to Ministers	8 March
Ministerial consultation	11 March to 19 March
Lodge papers	21 March
Economic Policy Committee (ECO)	Week of 25 March
Cabinet approval	2 April
Bill drafting and LEG Committee	May
Introduction of the Bill	May
First Reading	June
Select Committee (Four months)	July to the end of October
Second and Third reading and Committee of the Whole	November
Royal Assent	December

Recommendations

40. It is recommended that you:

- a) **Note** that a Bill needs to be passed this year to 'Keep agriculture out of the New Zealand Emissions Trading Scheme', ideally with introduction in May and with First Reading in June 2024.

NOTED

- b) **Agree** to indicate your preferred option to amend the CCRA to 'keep agriculture out of the ETS':

Option One: Full repeal and complete removal of NZ ETS obligations;

YES / NO

Option Two: Minimal amendments to 'disable' new reporting and pricing obligations in the NZ ETS; and

YES / NO

Option Three: Minimal amendments to retain a processor-level backstop.

YES / NO

- c) **Note** following your direction, Officials will draft a Cabinet paper that needs to be lodged by 21 March 2024 to be considered by the Economic Policy Committee on the week of 25 March 2024 and Cabinet on 2 April 2024.

NOTED



Julie Collins
Deputy Director-General
Policy & Trade

Hon Todd McClay
Minister of Agriculture

/ / 2024



Sam Buckle
Deputy Secretary
Change Mitigation and Resource Efficiency

Hon Simon Watts
Minister of Climate Change

/ / 2024

Appendix One: Impact of processor level pricing in the NZ ETS

The results in the table below show the estimated economic impact, and projected emissions reductions, of processor level pricing for the 2030 base year. The New Zealand Emissions Trading Scheme price is assumed to be \$110 per tonne CO₂^e in 2030 and 90 percent free allocation is applied. The modelling was done by Manaaki Whenua Landcare Research.

Outcomes	Impact of Processor level pricing in NZ ETS
All gases	-16 percent
Methane	-17 percent
Nitrous oxide	-13 percent
Commodity production	
Milk solids (t)	-8 percent
Lamb (t)	-19 percent
Beef (t)	-51 percent
Net revenue	
Dairy	-10 percent
Sheep & beef	-32 percent
Total agriculture and forestry sector	-6 percent
Land-use change	
Dairy	-4 percent
Sheep & beef	-16 percent
Indigenous forest / scrub	14 percent
Arable	7.8 percent



To: Hon Todd McClay, Minister of Agriculture
Hon Simon Watts, Minister of Climate Change
From: Julie Collins, Deputy Director-General Policy & Trade
Sam Buckle, Deputy Secretary, Climate Change Mitigation and Resource Efficiency

Potential timeframes for Reducing Agricultural Emissions Actions

Date	19 February 2024	MPI Reference	B24-0129
		MfE Reference	BRF-4289

Decision required	Date decision required by
YES <input checked="" type="checkbox"/> / NO <input type="checkbox"/>	23 February 2024

Purpose

This briefing provides you with information on high-level timeframes for reducing agricultural emission actions (the plan). Following your direction, these could be signalled to Cabinet as part of the process to 'get agriculture out of the Emissions Trading Scheme', and then signalled publicly.

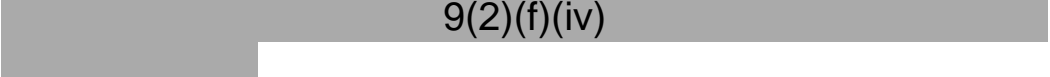
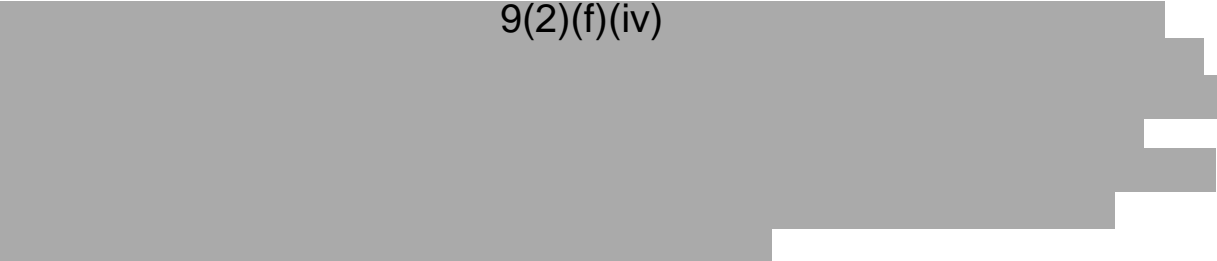
Background

- In your bilateral meeting on the 31 of January, you agreed to work jointly to introduce a discrete Climate Change Response Act 2002 (CCRA) amendment bill at the end of June 2024. You also agreed before the introduction of this bill to publicly signal the high-level milestones and timeframes to deliver the reducing agricultural emission actions (the plan), and advice to be provided on this in quarter one. This is in order to place CCRA amendment decisions within the context of wider strategy for agricultural emissions.

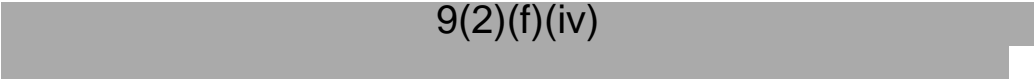
- 9(2)(f)(iv)

Agriculture climate change action plan timeframes

- Based on your manifesto commitments and outcomes of the bilateral meeting, we recommend you signal that you are progressing work towards fair and sustainable pricing of agricultural emissions no later than 2030, with the milestones of:

- a) reviewing the methane science in 2024 and targets in 2025;
 - b) establishing the agriculture emissions pricing board in 2024;
 - c) amending the CCRA to take agriculture out of the Emissions Trading Scheme in 2024;
 - d) publishing the standardised farm-level methodology in the first half of 2024;
 - e) commencing measurement of on-farm emissions in 2025, based on the published methodology;
 - f)  9(2)(f)(iv)
 - g) introducing fair and sustainable pricing of on-farm emissions no later than 2030.
4. In addition to the Government's review of methane science in 2024, the Climate Change Commission is also required to undertake a review of New Zealand's legislated greenhouse gas targets in 2024.
 5. You may also wish to signal there is work underway to investigate options to incentivise the uptake of mitigations, and that the intention is for to support the transition to pricing.
 6.  9(2)(f)(iv)

Next steps

7. Officials will draft the relevant sections of the joint cabinet paper on amending the CCRA, based on your direction from this briefing and based on decisions you jointly make in the briefing 'Climate Change Response Act Amendments: New Zealand Emissions Trading Scheme obligations' on which 'getting agriculture out of the Emissions Trading Scheme' option you pursue [B24-0127 refers].
8. Additionally, Officials will soon provide relevant Ministers with advice on:
 - a) incentivising the uptake of mitigations;
 - b) establishing the agricultural emissions pricing board; and
 - c)  9(2)(f)(iv)
9. We also expect to seek the Minister of Agriculture's approval in April to publish the first iteration of the farm-level emissions methodology. As part of this, we will work the Minister of Agriculture's office in consultation with the Minister of Climate Change's office to confirm the desired approach to its launch – including whether this is to have a narrow focus on only the methodology, or if there is interest in using this as a wider opportunity to make other relevant announcements related to agricultural emissions reduction.

Recommendations

10. It is recommended that you:

- a) **Note** that the Climate Change Commission is reviewing New Zealand's legislated greenhouse gas targets in 2024, including the methane targets;

NOTED

- b) **Agree** to include in the joint Climate Change Response Act Amendment cabinet paper seeking to remove agriculture from the Emissions Trading Scheme, and at an appropriate time signal publicly, the intention to meet the following timelines for key agricultural emissions actions:

- i. methane science and target reviews, beginning with an independent methane science review in 2024;

YES / NO

- ii. establish the Agriculture Emissions Pricing Board in 2024;

YES / NO

- iii. investigate options to incentivise the uptake of mitigation technologies;

YES / NO

- iv. publication of a standardised farm level methodology in the first half of 2024 and commence measurement of on-farm emissions in 2025, based on the standardised farm level methodology;

YES / NO

- v.  9(2)(f)(iv) 

- vi. introduce fair and sustainable pricing of on-farm emissions by no later than 2030.

YES / NO



Julie Collins
Deputy Director-General
Policy & Trade

Hon Todd McClay
Minister of Agriculture

/ / 2023



Sam Buckle
Deputy Secretary
Climate Change Mitigation and Resource
Efficiency

Hon Simon Watts
Minister of Climate Change

/ / 2024



Briefing: Climate Change legislation programme bids 2024 - final approval

Date submitted: 15th February 2024

Tracking number: BRF-4292

Security level: Policy and Privacy CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Approve the four bids and their proposed priority categories Review changes made to bids following feedback provided on 8 th February	16 th February
CC Hon Nicola WILLIS Associate Minister of Climate Change	N/A	N/A

Actions for Minister's office staff

Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments

Cover Letter: Climate Change Portfolio Legislation Bids 2024

Cabinet Paper: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Request for priority in the 2024 Legislation Programme

Out of scope

Out of scope

Out of scope

Key contacts at Ministry for the Environment

Position	Name	Cell phone	First contact
Principal Author	Stuart Malthus		
Responsible Manager	Rachel Cooper	9(2)(a)	✓
General Manager	Susan Baas		

Minister's comments

Climate Change legislation programme bids 2024 - final approval

Key messages

1. This briefing requests your approval of the four legislation bids under the Climate Change Portfolio. Your review of the updated bids is sought following the incorporation of your feedback provided on 8 February. A summary of changes to each bid has been provided below.
2. Out of scope
[Redacted]
3. Officials recommend that you request that these bids are included on the Legislation Programme for the 54th Parliament.
4. You are required to submit the bids to the Legislation Coordinator in the Cabinet Office by 12:00pm on Monday, 19 February 2024 (as requested in Cabinet Office Circular CO (23) 13). A cover letter prepared for this purpose is attached.

Summary of updates

Bid 1: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill

- Timeline section has been updated to match Cabinet dates.

Out of scope [Redacted]

- [Redacted]
- [Redacted]

Out of scope [Redacted]

- [Redacted]
- [Redacted]

- Out of scope [redacted]

- [redacted]

[redacted]

- [redacted]

- [redacted]

- [redacted]

Recommendations

We recommend that you:

- a. Out of scope [redacted]

[redacted]

- b. **note** the updates to the legislative bids following your feedback on 8 February

Yes | No

- c. **approve** the proposed priority categories for the following the four Climate Change Portfolio bids to be submitted for inclusion in the Legislation Programme:

- i **bid one:** Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Category 2 (must be passed before the end of 2024)


- ii Out of scope [redacted]

- iii Out of scope [redacted]

- [redacted]

Yes | No

Signatures

A handwritten signature in black ink, appearing to read 'Susan Baas', is centered on a light gray rectangular background.

Susan Baas

Acting General Manager- Markets

15/02/2024

Hon Simon WATTS
Minister of Climate Change


Date

Appendices


Appendix 1 - Draft Cover Letter - Climate Change Portfolio Legislation Bids 2024

Appendix 2- Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill (Category 2 – must be passed in 2024)


Appendix 3- Out of scope



Appendix 4- Out of scope



Appendix 5- Out of scope



19 February 2024

Cabinet Office
Level 10
Executive Wing
PARLIAMENT BUILDINGS

Attention: Legislation Coordinator

2024 to 2026 54th Parliamentary Term Legislation Programme: Submission of Bids for the Climate Portfolio

As requested in the Cabinet Office Circular CO (23) 13, I wish to submit the following bids, in order of rank within the Climate portfolio, for consideration for inclusion in the 2024 to 2026/54th Parliamentary Term Legislation Programme:

1. Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill (Category 2 – must be passed in 2024);
2. Out of scope [REDACTED]
3. Out of scope [REDACTED]
4. Out of scope [REDACTED]

Yours sincerely,

Hon. Simon Watts
Minister of Climate Change

CLASSIFICATION

CLASSIFICATION

Office of the Minister of Climate Change

Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Request for priority in the 2024 Legislation Programme

Summary information

1 The summary information for this Bill is:

Portfolio of sponsoring Minister:	Climate Change
Department responsible:	Ministry for the Environment Cheryl Moir Acting Manager, Markets Development 9(2)(a)
Title of the proposed Bill:	Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill
Proposed ranking of Bill within the bids from this portfolio:	1
Estimated size:	Medium
Estimated complexity:	Low
Proposed priority:	2 (must be passed before the end of 2024 if surrender obligations are to be avoided for fertiliser and animal processors).

Policy

- 2 The Government's coalition agreements and the National Party's Election Manifesto commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."
- 3 The bill is specific to the part to the commitment that relates to the New Zealand Emissions Trading Scheme (NZ ETS).

CLASSIFICATION

- 4 The Climate Change Response Act 2002 (CCRA) has reporting obligations for both processor and farm level activities. Currently, processor level reporting obligations are in effect, and farm level reporting obligations commence on 1 January 2025.
- 5 The NZ ETS backstop currently in the CCRA consists of two parts:
 - NZ ETS surrender obligations for processor-level agriculture activities, commencing from 1 January 2025; and
 - NZ ETS surrender obligations for animal-farmers activities.
- 6 To remove these obligations, a bill is required to amend the CCRA. The bill must be passed prior to 1 January 2025 if surrender obligations are to be avoided.
- 7 The bill will amend the CCRA to repeal all NZ ETS obligations for agricultural activities by repealing Part 5 of Schedule 3 to remove surrender and reporting obligations for those activities and repealing associated sector-specific provisions. The associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS will also need to be revoked.
- 8 To support the timeframes to repeal agricultural obligations prior to 1 January 2025 when surrender obligations will commence, the Bill will need to be prioritised with a priority category of 2, must be passed in 2024, if surrender obligations are to be avoided for fertiliser and animal processors.
- 9 This is the first step in a sequenced process to price agricultural emissions no later than 2030 outside of the NZ ETS.
- 10 The removal of agriculture from the NZ ETS is expected to be contentious with environmental non-governmental organisations who, in previous consultations related to agriculture and the NZ ETS, have expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.
- 11 The Minister of Climate Change will lodge a Cabinet paper in February 2024 seeking final policy decisions to inform the drafting of this legislation.

Need for legislation

- 12 The Climate Change Response Act 2002 establishes, among other things, key policies to enable New Zealand to meet its climate change commitments. One of these policies is that agricultural emissions will be included in the NZ ETS from 1 January 2025. This is frequently referred to as the NZ ETS backstop. The CCRA also currently requires agricultural processors to report on their emissions in line with NZ ETS reporting requirements, in anticipation of surrender obligations commencing.
- 13 The National Party's Election Manifesto and the Government's coalition agreements commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."

CLASSIFICATION

- 14 To remove agricultural obligations from the NZ ETS, the CCRA will necessitate amending the CCRA to remove all agricultural obligations by:
- repealing Part 5 of Schedule 3 to remove surrender and reporting obligations for those agriculture activities;
 - repealing associated sector-specific provisions; and
 - revoking associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS.
- 15 I propose this Bill be assigned priority of category 2 (must be passed in 2024) if surrender obligations are to be avoided for fertiliser and animal processors. The National Party's Election Manifesto and the Government's coalition agreements commit to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas."
- 16 If this Bill is not passed in 2024, surrender obligations will commence for agriculture processors on 1 January 2025.
- 17 The Climate Change Response Act has been amended in the last year. However, these amendments were not in relation to agriculture NZ ETS obligations. In October 2023, the Minister of Climate Change deferred NZ ETS obligations for animal farmers from 1 January 2024 to 1 January 2026 via an Order in Council [CAB-23-MIN-0457 refers]. This means that from 1 January 2026, the CCRA (as affected by the Climate Change (Animals–Farmer Activities) Order 2023) requires animal farmers to report their emissions, with surrender obligations commencing on 1 January 2027. At this point surrender obligations for animal processors would cease. There is no option to defer surrender obligations for processors in the interim.
- 18 I also do not propose broadening the scope of this Bill to include amendments that could impact timelines for the repeal of the agricultural emissions obligations.
- 19 A bid was made for the 2023 Legislation Programme for a Climate Change Response (Agricultural Emissions Pricing) Amendment Bill. The bid was for the repeal of NZ ETS obligations for agriculture activities and replacement with an alternative pricing system. Policy work progressed but a bill for this bid was not introduced in 2023. This Bill would progress the repeal of NZ ETS obligations whilst work continues on an alternative system for managing emissions from agriculture activities.

Compliance

- 20 This Bill is likely to comply with each of the following:
- 18.1 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 18.2 the principles and guidelines set out in the Privacy Act 2020;
 - 18.3 the principles of the Treaty of Waitangi;

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- 18.4 the relevant international standards and obligations; and
- 18.5 the [Legislation Guidelines \(2021 edition\)](#), which are maintained by the Legislation Design and Advisory Committee.

Binding on the Crown

- 21 The resulting Act will be binding on the Crown.

Consultation

Relevant government departments

- 22 The Department of the Prime Minister and Cabinet, Ministry for Primary Industries, Treasury, Te Puni Kōkiri, and the Environmental Protection Authority were consulted on this paper.

Public Consultation

- 23 In November 2022, the Government consulted on the design for an alternative agricultural emissions pricing system. As part of this consultation submissions were invited on an interim processor level levy system, with a similar architecture to the processor-level backstop in the NZ ETS.
- 24 Most Māori submitters did not support an interim processor-level levy, likewise, the sector's submitters were also opposed to the interim processor-level levy citing the blunt nature of such a levy, the uncertainty it would create for farmers, and the equity implications of putting the levy burden on farmers who use processors. Ministers made public a report under section 215 of the CCRA, outlining details of a farm-level pricing system as an alternative to pricing agricultural emissions in the NZ ETS.
- 25 The Government consulted on deferring NZ ETS reporting obligations for animal farmers in August 2023. Through this consultation, most sector submitters continued to support an agricultural emissions pricing system outside of the NZ ETS as they considered it would provide greater opportunities to develop a more effective solution.
- 26 Māori submitters considered that there would be increased administrative costs as a result of animal farmers' obligations under the NZ ETS. The majority of submissions received who opposed the deferral expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.
- 27 In summary, while the sector is generally accepting of a pricing system for agricultural emissions to serve as an incentive to drive emissions reductions, they were in favour of a system that did so outside the NZ ETS due to its complexity and cost.

Legislation Design and Advice Committee

- 28 This Bill will not be referred to the Legislation Design and Advice Committee as it is primarily a repeal bill rather than creating new legislation provisions.

Government caucus and other parties in Parliament

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29 I will consult with the Government caucus and other parties in Parliament as necessary to support the introduction of this Bill.

Secondary legislation

30 Secondary legislation is not anticipated to be required to give effect to the provisions of the Bill. The Bill will revoke sector-specific secondary legislation used for the calculation of emissions under the NZ ETS for these activities.

Timeline

31 The Bill must come into force prior to 1 January 2025, as set out in paragraph 10.

32 The proposed timing for the bill is set out in the table below.

33 Out of scope, 9(2)(h)

<i>Step</i>	<i>Proposed date</i>	<i>Consistency assurance</i>
Date on which final policy approvals were, or will be, obtained from Cabinet	March 2024	Consultation undertaken in 2022 and 2023 as summarised above
Date on which complete drafting instructions were or will be sent to PCO	April 2024	
Date by which the Bill will be released for exposure draft (if an exposure draft is planned)	Not applicable	
Date by which the Bill will go to the Ministry of Justice (or Crown Law if applicable) for an assessment of consistency with the New Zealand Bill of Rights Act 1990	May 2024	
Dates on which the Bill will be before LEG and Cabinet for approval for introduction	May 2024	

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Date by which any policy decisions for associated secondary legislation will be before Cabinet		Not applicable, no associated secondary legislation is anticipated.
Date requested for introduction of the Bill	June 2024	
Date of report back from select committee	November 2024	4 month Select Committee process. A period shorter than 6 months is required to enable the Bill to be passed in 2024, which is necessary to avoid surrender obligations commencing from 1 January 2025.
Date on which final policy approvals will be obtained from Cabinet for any substantive Amendment Paper (AP) to Bill (if already introduced)		No substantive Amendment Paper is anticipated.
Date on which final drafting instructions were or will be sent to PCO for any substantive AP to Bill (if already introduced)		Not applicable, as no substantive Amendment Paper is anticipated.
Date by which final drafting instructions for any associated secondary legislation will be sent to PCO		Not applicable.
Date of enactment	December 2024	
Date of commencement	The day after Royal assent.	

Recommendations

The Minister Climate Change recommends that the Committee:

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- 1 note that the Bill will amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities
- 2 note that the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill ranks 2 within the bids from my Climate Change portfolio;
- 3 approve the inclusion of the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill in the 2024 Legislation Programme, with a priority of category 2 (must be passed in 2024);
- 4 note that priority of category 2 is sought to avoid surrender obligations for fertiliser and animal processors and to meet the National Party's manifesto and the Government's coalition agreements that commit 'to keep agriculture out of the ETS';
- 5 note that drafting instructions will be provided to the Parliamentary Counsel Office by March 2024;
- 6 note that the Bill should be introduced no later than June 2024;
- 7 note that the Bill should be passed no later than December 2024.

Authorised for lodgement

Hon Simon Watts
Minister of Climate Change

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Draft Cabinet paper – *New Zealand’s Climate Goals and Obligations*

Date submitted: 29 February 2024

Tracking number: BRF-4311

Security level: CLASSIFICATION

Agency priority: Medium

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	1. Review and provide feedback on the attached draft Cabinet paper. 2. Agree to the timeframes outlined in this paper.	4 March 2024
CC Hon Nicola WILLIS Associate Minister of Climate Change		

Actions for Minister’s office staff
Return the signed briefing to the Climate Change IEB Unit (CCIEB@mfe.govt.nz)

Appendices and attachments
1. Draft Cabinet Paper: <i>New Zealand’s Climate goals and obligations</i>

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Lydia Marston	9(2)(a)	✓
Deputy Executive Director	Chris Nees	027 376 5086	

Minister’s comments

Draft Cabinet paper– *New Zealand’s Climate Goals and Obligations*

Purpose

1. This briefing provides you with a draft Cabinet paper outlining New Zealand’s climate goals, legal obligations and seeks formal Cabinet agreement to close ERP Out of scope actions that Ministers have agreed to stop. It also sets out the proposed timeframes to progress this Cabinet paper.

Context

2. At your bilateral meeting with the Minister of Finance you agreed to develop a Cabinet paper to ensure Ministers have a clear and consistent understanding of New Zealand’s climate commitments.
3. Attached to this briefing (at **Appendix 1**) is the first draft of this Cabinet paper, which addresses four key areas:
 - a. New Zealand’s domestic and international climate change targets, goals, and their associated legal obligations,
 - b. the context of increasing litigation and how best to manage this risk,
 - c. analysis on the impacts of stopping work on several actions in the first emissions reduction plan (ERP1) Out of scope
 - d. next steps you intend to take in the climate work programme, which will need Cabinet decisions.

Comment

4. Crown Law and the Ministry for Foreign Affairs and Trade have provided advice on key areas in the draft Cabinet paper, including on:
 - 9(2)(h) [redacted]
 - [redacted]
 - To note, we are awaiting a final review of language from Crown Law.
5. As discussed with you, it is timely for Cabinet to be briefed on the cumulative impact of stopping various ERP1 Out of scope actions, where Ministers have directed their agencies to do so. 9(2)(h) [redacted]

6. Paragraphs 66-67 and Appendix 4 of the Cabinet paper sets out these changes and their impacts. Our current assessment is that the actions being closed do not have a material or direct impact on emissions, but this is subject to final information from agencies. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
7. You are receiving separate advice about the Equitable Transitions Strategy and managing distributional impacts of climate policies. We will ensure your preferred approach is reflected in the Cabinet paper once you have determined the approach with the Ministers of Social and Economic Development.
8. We also attach a Climate Implications of Policy Assessment (CIPA) to the Cabinet paper at Appendix 6. The CIPA is not strictly required, because the changes are not currently expected to have an emissions impact. However, as this is still under development, because a number of actions remain under consideration for inclusion in the paper, officials will continue to evaluate the emissions impacts.

Consultation process

9. The following agencies have been consulted on this draft Cabinet paper: Department of Internal Affairs; Department of Conservation; Ministry of Housing and Urban Development; Ministry for the Environment; Ministry of Foreign Affairs and Trade; Ministry of Business, Innovation and Employment; Te Waihanga; Ministry of Transport, Ministry of Primary Industries; National Emergency Management Agency; the Treasury; Te Puni Kokiri; Ministry of Social Development; and the Department of Prime Minister and Cabinet.

Next steps

10. Following your review and any feedback, we will provide you with an updated paper so you can consult with your Ministerial colleagues.
11. As requested by your Office, we have extended the Ministerial consultation timeframe to around three weeks to reflect Ministerial interest in this Cabinet paper.
12. This extended timeframe will also support some Ministers to finalise discussions on which actions to discontinue. The Ministry of Business Innovation and Employment are seeking confirmation on 6 actions and Ministry of Transport on 4 from their respective Ministers, these are currently in the paper as placeholders. Subject to confirming these actions, we can include them within this Cabinet paper.

13. The full timeline to progress this Cabinet paper is provided below:

Minister provides feedback on draft Cabinet paper	Monday 4 March
Ministerial consultation	5-21 March
Incorporate Ministerial feedback	21 March – 27 March <i>Note Easter (Fri 29 March-1 April)</i>
Final Cabinet paper to Minister for review	Tuesday 2 April
Lodge paper	Thursday 4 April
Economic Policy Committee meeting	Wednesday 10 April
Cabinet meeting	Monday 15 April

Recommendations

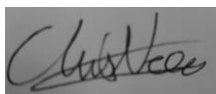
We recommend that you:

Review and provide feedback on the attached draft Cabinet paper Yes | No

Agree to consult with your Ministerial colleagues on the draft Cabinet paper between 4 and 21 March Yes | No

Agree the paper be considered at the Cabinet Economic Policy Committee on 10 April Yes | No

Signatures



Chris Nees
Deputy Executive Director
Climate Change Chief Executives Board
29/02/2024

Hon Simon WATTS
Minister of Climate Change

Date

Appendix 1: Draft Cabinet paper: New Zealand's Climate Goals and Obligations

- *See attached (sent via email as a separate file) -*

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Office of the Minister for Climate Change

Economic Policy Committee

New Zealand’s Climate Goals and Obligations

Proposal

- 1 This paper seeks to:
 - a. ensure Cabinet has a clear understanding of New Zealand’s climate change targets and goals and associated key legal obligations;
 - b. set out the context of increasing climate litigation and how to manage this risk;
 - c. provide Cabinet with analysis on the impacts of stopping work on several actions in the first emissions reduction plan (ERP1) **Out of scope** - the key climate action plans to meet climate targets;
 - d. signal upcoming points of Cabinet decision-making on our climate work programme.

Relation to government priorities

- 2 The proposals in this paper reflect this Government’s commitment to meet the net zero target emissions of all greenhouse gas emissions other than biogenic methane by 2050, and manifesto commitments to:
 - a. double supply of renewable energy;
 - b. deliver 10,000 more public EV chargers;
 - c. lower agricultural emissions through a technology-led approach; restrict land-use conversions and increase confidence in the forestry sector and forestry pricing;
 - d. The second emissions reduction plan (ERP2) due to be published by the end of 2024, will communicate to New Zealanders how we will deliver on these commitments, and ensure we are on a path to meet the 2050 target.

3 **Out of scope**

Executive Summary

- 4 The Climate Change Response Act legislates domestic emissions reduction targets and establishes a set of legal obligations to meet climate targets and goals:
 - a. 10 per cent reduction below 2017 biogenic methane emissions by 2030, and 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050;
 - b. net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050.

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- 5 9(2)(h) [Redacted]
- [Redacted]
 - [Redacted]
- 6 New Zealand ratified the Paris Agreement in 2016. As part of the Agreement, New Zealand agreed to set progressively ambitious targets that contribute to the global climate response. New Zealand’s first such target (Nationally Determined Contribution) commits to reduce net emissions to 50 per cent below gross 2005 levels by 2030.
- 7 6(a), 9(2)(h) [Redacted]
- [Redacted]
 - [Redacted]
- 8 9(2)(h) [Redacted]
- [Redacted]
- 10 Our climate priorities, and approach to decarbonisation has resulted in work stopping on a number of policies in ERP1 **Out of scope** [Redacted]. These changes are not expected to have a material impact on our ability to achieve our first emission budget, either because the abatement impacts are already ‘locked in’ or because they do not have a direct impact on emissions.
- 11 As we develop and deliver the second ERP over 2024, we will set out this Government’s updated policy pathway to meet future emissions budgets. **Out of scope** [Redacted]

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12 Out of scope [Redacted]

13 Out of scope [Redacted]

New Zealand's domestic climate commitments

The Climate Change Response Act provides the framework for our domestic response...

- 14 The Climate Change Response Act (the Act) intends to support stable climate change adaptation and mitigation policies that provide predictability for New Zealand households, businesses, and investors. It legislates a domestic emissions reduction target to achieve:
- a. a 10 per cent reduction below 2017 biogenic methane emissions by 2030;
 - b. a 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050;
 - c. net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050.
- 15 A key requirement of the Act is the duty for the Minister of Climate Change to set a system of legally binding emissions budgets. These budgets cap the amount of net greenhouse gas emissions that are permitted across successive five-year periods (four years in the case of the first emissions budget). These are designed to step New Zealand towards the 2050 target while balancing flexibility with policy predictability, and be consistent with the Paris Agreement 1.5°C global temperature goal.
- 16 The Act contains mechanisms that provide some ability to adjust New Zealand's climate response if circumstances change¹:
- a. **Banking**: allows the Government to carry forward any excess abatement achieved over the current emissions budget period to the next emissions budget.
 - b. **Borrowing**: once the period is over, there is a possibility to borrow up to 1 per cent of the next emissions budget to meet the past budget period. The Minister

¹ Decisions on banking, borrowing and offshore mitigation can only be made after the Climate Change Commission provides its final report at the end of the emissions budget period. The report for EB1 will be provided in mid-2027, the Minister of Climate Change must have regard to this advice.

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must have regard to the Climate Change Commission’s prior advice on the quantity that may be banked or borrowed over two budget periods.

- c. **Revising:** In limited circumstances, emissions budgets that have been set can be revised before their budget period begins, but only following a recommendation of the Climate Change Commission.
- d. **Offshore mitigation:** may be used if there is a significant change in circumstance that affects the consideration on which the relevant emissions budget was based on, or that affects the ability to meet the relevant emissions budget domestically.

...and establishes a set of legal obligations to meet our targets and goals.

- 17 9(2)(h) [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Emissions projections are a key tool for assessing whether policies are likely to be sufficient to meet emissions budgets and we need to track this regularly.

18 Emissions projections are updated annually and subject to uncertainty and change over time. As well as annual updates in Q4, the Climate Change Chief Executives Board provides six monthly assessments of whether we are on track to meet budgets. The projections change with each update to reflect updated assumptions about economic activity, impacts of policy settings, and updates to the way emissions are measured (methodological adjustments).

19 These factors will impact on New Zealand’s ability to meet its emissions budgets and change with each update. 9(2)(h) [Redacted]

20 9(2)(h) [Redacted]

[Redacted]

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

- [Redacted]
[Redacted]
[Redacted]
[Redacted]

New Zealand's international obligations and commitments

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

- [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

[Redacted]
[Redacted]

- [Redacted]
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[Redacted]
[Redacted]
[Redacted]
[Redacted]

- [Redacted]
[Redacted]
[Redacted]

29 9(2)(h) [Redacted]
[Redacted]
[Redacted]
[Redacted]

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6(a) [Redacted]
[Redacted]

[Redacted]
[Redacted]
[Redacted]

31 6(a), 9(2)(h) [Redacted]
[Redacted]
[Redacted]
[Redacted]

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

[Redacted]
[Redacted]
[Redacted]
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[Redacted]
[Redacted]

[Redacted]
[Redacted]
[Redacted]

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

[Redacted]

[Redacted]
[Redacted]

² 9(2)(f)(iv) [Redacted]
³ 9(2)(f)(iv) [Redacted]

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9(2)(h) [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

CLASSIFICATION

9(2)(h) [Redacted]

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Implications of our climate priorities for the first emissions reduction plan

47 Our approach to decarbonisation is different from that of the previous administration. Our Government’s priorities have resulted in halting work on a number of ERP1 actions, as laid out in table one in Appendix Four.

- 48 9(2)(h) [Redacted]
- [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]

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

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- 51 The most recent projections (reflecting policies at 1 July 2023) indicate New Zealand’s emissions will land within EB1. I am advised that while it is challenging to map the emissions impact of discontinuing specific policies on a line-by-line basis, it is anticipated that stopping work on these ERP1 policies will not affect our ability to land within EB1. We have more flexibility to manage any impacts on the second and third budget periods as we develop our next emissions reduction plan.
- 52 This assessment is based on projections outlined in Appendix Five⁴, and supporting analysis as outlined in the climate implications of the policy assessment section. Ministers will receive an updated estimate of the ‘sufficiency’ of our climate actions to support consultation on ERP2. The projections are produced annually and Ministers will receive a fully updated set in Q4.

Distributional impacts of climate policies also need specific consideration

- 53 Emissions reduction plans are required to contain a strategy to mitigate impacts that reducing emissions and increasing removals will have on employees, employers, regions, iwi, Māori, and wider community, including the funding for any mitigation action. For ERP1 this was, in large part, being met through the development of an Equitable Transitions Strategy. Work has stopped on development of the Equitable Transitions Strategy, 9(2)(h)
- 54 9(2)(h)
- 55 Work to mitigate distributional impacts will continue, albeit in a different form, I am receiving advice on options for a distributional impacts strategy. General tax relief, funded in part from emissions trading scheme revenues (Climate Dividend) and existing labour market and social security policies will play a major role in mitigating distributional impacts. Additional tailored actions will also be considered as details on the scale and distribution of policy impacts become clearer with ERP2 development.

Delivery of ERP2 will set out the revised credible pathway to keep on track to meet emissions budgets and climate goals.

- 56 ERP2 will set out the Government’s updated policy pathway and plan to meet the second emissions budget (2026-2030). It will also respond to the Climate Change Commission’s advice regarding ERP2 (released December 2023) and will demonstrate how our approach to decarbonisation meets the statutory objectives, including the development of an effective distributional impacts strategy.
- 57 There is a key opportunity to mitigate the risks presented by discontinuing actions which could impact the overall sufficiency of actions to meet our climate targets, while giving effect to the Government’s wider priorities.

⁴ Based on economic, demographic, policy and methodological settings that were in place at 1 July 2023. The Ministry for the Environment updates these projections annually to reflect shifts in key variables (economic, demographic, policy and methodological changes)

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58 9(2)(h) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

60 I am seeking that Cabinet notes that work has stopped on these ERP1 actions, and notes that ERP1 will not be revised to remove them from the plan. *Note: In 2024 the Government consulted on and formally amended ERP1*

Out of scope

[Large redacted area]

Financial Implications

65 CLASSIFICATION [Redacted] Funding that was attributed to discontinued work programmes has been reprioritised through Budget 2024 to reduce Crown expenditure, implement the 100-day plan, and prioritise Government commitments.

Legislative Implications

66 The recommendations in this paper do not require decisions on legislation.

Impact Analysis

Climate Implications of Policy Assessment [In Development]

- 67 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirm that the CIPA requirements do not apply to this proposal as the actions being stopped (**Appendix 4**) either do not have a direct emissions impact or are difficult to quantify at this time.
- 68 The CIPA, although not strictly required, is attached at **Appendix 6**.

Population Implications

- 69 Proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 70 The following agencies were consulted on this Cabinet paper: Department of Internal Affairs; Department of Conservation; Ministry of Housing and Urban Development; Ministry for the Environment; Ministry of Foreign Affairs and Trade; Ministry of Business, Innovation and Employment; Te Waihanga; Ministry of Transport, Ministry of Primary Industries; National Emergency Management Agency; the Treasury; Te Puni Kokiri; Ministry of Social Development; and the Department of Prime Minister and Cabinet.
- 71 Crown Law have also been consulted on this Cabinet Paper.

Communications

- 72 No announcements are planned for the proposals in this Cabinet paper.

Proactive Release

- 73 This paper will be proactively released alongside other forthcoming papers on the Government's climate work programme.

Note: the proactive release did not happen as this Cabinet paper did not proceed to Cabinet

Recommendations

The Minister for Climate Change recommends that the Committee:

- 1 note the following domestic commitments in relation to climate change:
 - 1.1 The Climate Change Response Act (outlines the duty for the Minister of Climate Change to set and meet a system of legally binding emissions budgets to be met, as far as possible, through domestic reductions and domestic removals, with the view to achieving the 2050 target.
 - 1.2 9(2)(h) [REDACTED]

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1.3 Out of scope [redacted]
[redacted]
[redacted]

[redacted]

[redacted]
[redacted]
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[redacted]
[redacted]
[redacted]

[redacted]
[redacted]

[redacted]

3 9(2)(h) [redacted]
[redacted]
[redacted]
[redacted]

4 note that work has stopped on the following actions in the first emissions reduction plan (ERP1):

- 4.1 Action 3.2.1- Develop an equitable transition strategy.
- 4.2 Action 6.10- Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process.
- 4.3 Action 9.10- Commence a Circular Economy and Bioeconomy Strategy.
- 4.4 [Action 3.4- Equitable transition: Build the evidence base and monitor and assess impacts.]
- 4.5 [Action 8.1.1- Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.]
- 4.6 [Action 10.1.1.6- Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.]
- 4.7 [Action 10.1.4- Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.]

Note: Square brackets indicate actions that were at the time of drafting still TBC as to whether they would be discontinued

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- 4.8 [Action 10.1.2- Revise Waka Kotahi’s national mode shift plan (keeping cities moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode-shift required in urban areas.]
- 4.9 [Action 10.4.1- Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan.]
- 4.10 [Action 11.2.2- Ban new fossil-fuel baseload generation.]
- 4.11 [Action 11.3.1- Manage the phase out of fossil gas. Develop a gas transition plan.]
- 4.12 [Action 11.4.1a- Develop a mandatory energy and emissions reporting scheme.]
- 4.13 [Action 11.5.1- Monitor progress towards the aspirational renewable electricity target.]
- 5 note that the majority of these actions have no direct impact on emissions and discontinuing them is not anticipated to affect our ability to land within the first emissions budget or materially affect future budgets.
- 6 note that ERP1 will not be updated through a standalone public consultation; and that delivery of ERP2 will set out the updated pathway to meet the second emissions budget, and set out the next steps to achieve future emission budgets.
- 7 Out of scope
[Redacted text]

[Once the Minister has approved the draft Cabinet paper for lodgement for Cabinet or a Cabinet committee, this section should be updated to state ‘Authorised for lodgement’.]

Hon Simon Watts
Minister for Climate Change

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Appendices

Appendix 1: Appendix withheld in full under section 9(2)(h) of the Act
[REDACTED]

Appendix 2: Appendix withheld in full under section 9(2)(h) of the Act
[REDACTED]

Appendix 3: Statutory Requirements: Emissions reduction Out of scope [REDACTED] plans.

Appendix 4: Discontinued actions from the first emissions reduction plan (ERP1) and ^{Out of scope} [REDACTED]
[REDACTED]

Appendix 5: Progress towards our emissions budgets

Appendix 6: Climate Impacts Policy Assessment

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Appendix 3: The Climate Change Response Amendment Act lays out statutory requirements for emissions reduction Out of scope plans.

The Climate Change Response Amendment Act requires that Emissions reduction plans contain the policies and strategies for meeting the relevant emissions budgets.

s5ZG(3) These plans must include:

- a. sector-specific policies to reduce emissions and increase removals
- b. a multi-sector strategy to meet emissions budgets and support sectors to adapt to effects of climate change
- c. a strategy to mitigate impacts that reducing emissions and increasing removals will have on employees, employers, regions, iwi, Māori, & wider community including the funding for any mitigation action.
- d. any other policies or strategies that the Minister considers necessary.

Out of scope

[Redacted content]

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Appendix 4: Discontinued Actions from ERP1 Out of scope

Table 1: Discontinued ERP1 Discontinued through Ministerial decision as at 27 February 2024 *(bracketed actions are still under discussion with Ministers)*

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact
3.2.1	Develop an equitable transition strategy	Minister for social development, Minister for economic and regional development	Nil direct abatement impact. Note discussions are underway with Ministers on the potential to transfer ownership of this work programme.
6.10	Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process	Minister of Finance	Nil direct abatement impact as future rounds of CERF funding have not yet been allocated so there is not net change in emissions. Initiatives already funded by CERF will proceed unaffected or have already locked in their emissions abatement impact. Note this action is complete, however there has been a redirection of CERF to other priorities.
9.10	Commence a Circular Economy and Bioeconomy Strategy.	Minister for Economic Development	Nil direct abatement impact.
<i>The following actions are still under discussion with Ministers</i>			
3.4	[Build the evidence base and monitor and assess impacts]	Minister for Social Development and Employment, Minister for Economic Development	Nil abatement impact.
8.1.1	[Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.]	Minister of Science, Innovation and Technology	Nil direct abatement impact.
10.1.1.6	[Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.]	Minister of Transport	(pending input)

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10.1.4	[Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.]	Minister of Transport	(pending input)
10.1.2.	[Revise Waka Kotahi’s national mode shift plan (keeping cities moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode-shift required in urban areas]	Minister of Transport	(pending input)
10.4.1	[Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan]	Ministry of Transport	(pending input)
11.2.2	[Ban new fossil-fuel baseload generation.]	Minister for Energy	Officials consider This initiative is not likely to have an emissions reduction benefit. There is a low likelihood that generation developers will build new fossil fuel baseload due to its higher cost compared with renewables coupled with the ETS making fossil-fuel baseload generation less competitive. There are also uncertainties with future gas supply.
11.3.1	[Manage the phase out of fossil gas. Develop a gas transition plan.]	Minister for Energy	Nil direct abatement impact. Workstreams will continue under gas security of supply workplan.
11.4.1.a	[Develop a mandatory energy and emissions reporting scheme.]	Minister for Energy	Nil direct abatement impact.
11.5.1	[Monitor progress towards the aspirational renewable electricity target.]	Minister for Energy	Nil direct abatement impact.

Out of scope

CLASSIFICATION

Appendix 5: Progress towards our emissions budgets

- 1 New Zealand is halfway through its first emissions budget (2022-2025) and implementation of its first emissions reduction plan. Our most recent estimates (based on mid- 2023 projections¹) show that New Zealand is on track to stay within the limit of the first and second emissions budgets, but there is considerable uncertainty for the third emissions budget and our 2050 target.
- 2 Emissions for EB3 are projected to be between 203 Mt CO₂ and 264 Mt CO₂-e, (see Table 1 below). The top end of this range is above the third emissions budget limit of 240 Mt CO₂-e.
- 3 The risk to not meeting EB3 is heightened, as projections are highly uncertain, and likely to be overstated. The projections for the transport and energy sectors also assume a rising ETS price over time, which is unlikely to happen under current policy settings. As a result, the current projections are likely to overstate emissions reductions in the third emissions period.

Table 1: Emissions Projections as at 1 July 2023

	EB1 (2022- 2025)	EB2 (2026- 2030)	EB3 (2031- 2035)
Emissions Budgets (Mt CO ₂ -e)	290	305	240
Projected low and high range (Mt CO ₂ -e)	272-284	267-296	203-264
'Buffer' from central estimate (Mt CO₂-e and %)	13 (4%)	24 (8%)	7 (3%)

Out of scope

¹ These calculations are based on economic, demographic, policy and methodological settings that were in place at 1 July 2023. The Ministry for the Environment updates these projections annually to reflect shifts in key variables (economic, demographic, policy and methodological). Officials are modelling this Government's policy priorities as part of Emissions Reduction Plan 2, to be published by the end of 2024.

Appendix 6: Climate Implications of Policy Assessment: Disclosure Sheet

This disclosure sheet provides the responsible department’s best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand’s future emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	Cabinet Paper: New Zealand’s Climate Goals and Obligations
Agency responsible for the Cabinet paper:	Climate Change Interagency Executive Board Unit
Date finalised:	<i>29 February 2024</i>
Short description of the policy proposal:	The Minister of Climate Change is providing Cabinet with analysis on the impacts of stopping work on several actions in the first emissions reduction plan, to give effect to the Government’s priorities. This analysis relates to actions that have not already been considered by Cabinet. Many of these actions are still under discussion with Minister. As this work progresses (e.g., through the Ministerial consultation process) and clarity emerges on which actions will be removed, the team will work with officials to evaluate the emissions impacts and disclose them to cabinet as necessary.

Section 2: Greenhouse gas emission impacts

Sector & source	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO ₂ -e)						Cumulative impact
	2020–25	2026–30	2031–35	2036–40	2041–45	2046–50	
Electricity	0	0	0	0	0	0	0
Transport	0	0	0	0	0	0	0
Industry	0	0	0	0	0	0	0
Waste	0	0	0	0	0	0	0
Agriculture	0	0	0	0	0	0	0
Land use, land use change and forestry	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

Section 3: Additional information

Additional information

Appendix 4 in the Cabinet Paper Climate Change Goals and Obligations lists out the actions this Government will likely discontinue, and their impacts. Some of these actions are still under active consideration by Ministers, and these are displayed in brackets.

At this stage, agencies advise that the removal of the majority of these actions is not anticipated to have a material or direct impact on the emissions reductions target of the first Emissions Reduction Budget (EB1). Most of these actions are only indirectly related to emissions reductions, such as developing a circular and bioeconomy strategy. Some actions appear to increase emissions, for example the removal of the ban on new fossil-fuel baseload generation. However, MBIE officials consider there is a low likelihood that generation developers will build new fossil fuel baseload due to its higher cost compared with renewables, coupled with the ETS making fossil-fuel baseload generation less competitive. There are also uncertainties with future gas supply and therefore removing this action is not likely to impact emissions, at least not over the EB1 period.

The delivery of the second emissions reduction plan (ERP2) in 2024 will set out the approach to achieving the necessary emissions reductions to deliver our second and third emissions budgets. To the extent that discontinuing these actions heighten the challenge of meeting future budgets, ERP2 will ensure these are met. Notably, this Government has introduced several new actions to address climate change mitigation and adaptation. These include doubling the supply of renewable energy; delivering 10,000 more public EV chargers; lowering agricultural emissions through a technology-led approach; restricting land-use conversions and increasing confidence in the forestry sector and forestry pricing. These are in the process of being implemented. The abatement potential of these new actions will be modelled in the coming months, as part of ERP2 development.

We note that while this CIPA is not strictly required, officials consider it is a useful framework for setting out these impacts in a consistent way to Cabinet. **Out of scope, 9(2)(h)**

Section 4: Quality assurance

Quality assurance

The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirm that the CIPA requirements do not apply to this proposal as the actions being stopped (**Appendix 4 of the Cabinet Paper**) either do not have a direct emissions impact or are difficult to quantify at this time.

At this stage, the removal of the majority of the policies is not anticipated to have a direct emissions abatement impact. Most of these actions are only indirectly related to emissions reductions, such as developing a circular and bioeconomy strategy. The CIPA team expects this assessment to evolve in response to these developments.



Briefing: Meeting legal requirements for mitigating distributional impacts in ERP2

Date submitted: 28 February 2024

Tracking number: BRF-4354

Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Discuss with officials on Monday 4 March	4 March 2024

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
1. Agenda and talking points for meeting with Ministers Upston and Lee

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Arek Wojasz		
Responsible Manager	Simon Mandal-Johnson	9(2)(a)	✓
General Manager	Stephen Goodman		

Minister's comments

Meeting legal requirements for mitigating distributional impacts in ERP2

Key messages

1. The Climate Change Response Act 2002 (the Act) requires that emissions reduction plans (ERPs) include “a strategy to mitigate the impacts that reducing emissions and increasing removals will have” on prescribed groups.
2. Meeting the distributional impacts requirement for ERP1 was, in large part, to be achieved through the development of an Equitable Transitions Strategy. However, Ministers Upston and Lee, as responsible Ministers, have agreed to not progress the Equitable Transitions Strategy. They would also like to transfer Ministerial ownership of this work programme to you.
3. This presents three challenges:
 - i legal risks for ERP1
 - ii a need for a plan to meet the distributional impacts requirement in ERP2
 - iii a need to agree on Ministerial responsibility for the distributional impacts work programme.
4. You are meeting with Ministers Upston and Lee on 6 March 2024 to discuss their decision to not progress the Equitable Transitions Strategy and the legal implications this has for ERP1 and ERP2.

Legal risks for ERP1

5. 9(2)(h) [REDACTED] The Interdepartmental Executive Board (IEB) is preparing a Cabinet paper that will formalise the discontinuation of some ERP1 actions, including for the Equitable Transitions Strategy.
6. There’s also a risk that without the Equitable Transitions Strategy, ERP1 no longer meets the requirement to include a distributional impacts strategy. We recommend addressing this risk through the development of an effective distributional impacts strategy in ERP2.

Meeting the distributional impacts strategy requirement in ERP2

7. The Act requires a strategy that mitigates distributional impacts on prescribed groups, but is not specific on the particular form or content of such a strategy.
8. 9(2)(h) [REDACTED]
9. 9(2)(h) [REDACTED]

9(2)(h)

10. 9(2)(h)

11. Officials are preparing a work programme and timeline for a distributional impacts strategy that meets your legal obligations. We will provide you draft content for the discussion document on 27 March for your feedback.

Ministerial responsibility for distributional impacts work programme

12. You will need to determine if you're comfortable with taking on responsibility for this work programme. Regardless of which Minister is responsible, officials will need to continue to work cross-agency.

Recommendations

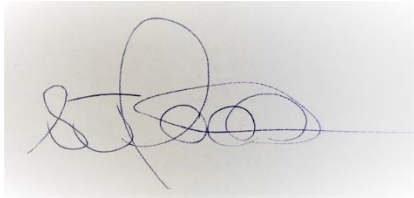
We recommend that you:

- a. **note** that you have agreed to meet with Ministers Upston and Lee following their decision to not progress the Equitable Transitions Strategy.
- b. 9(2)(h)
- c. **note** that the risks to ERP1 can be best met by formalising proposed changes through the Interdepartmental Executive Board's upcoming Cabinet paper and by ensuring that ERP2 effectively addresses distributional impacts.
- d. 9(2)(h)
- e. **note** that officials will develop advice on what additional tailored policies are needed once details on the scale and distribution of policy impacts become clearer.
- f. **note** that Ministers Upston and Lee wish to transfer Ministerial ownership of this work programme to you.

- g. **meet** with officials on Monday, 4 March to discuss options for meeting these legal requirements.

Yes | No

Signatures



Stephen Goodman
General Manager (acting) – Climate Change
Mitigation

**Climate Change Mitigation and
Resource Efficiency**

28/02/2024

Hon Simon WATTS
Minister of Climate Change

Date

Meeting legal requirements for mitigating distributional impacts in ERP2

Purpose

13. Ministers Upston and Lee have requested to meet on 6 March from 3.30pm to 4.30pm to discuss their decision to not progress the Equitable Transitions Strategy and the legal implications this has for the first and second emissions reduction plans (ERPs).
14. This briefing provides background information for your meeting with Ministers Upston and Lee to discuss risks to ERP1 and ERP2, alternative options for mitigating distributional impacts through ERP2 and associated legal considerations. Minister Lee may also wish to discuss implications on ERP2 of her decision to not to develop a Circular Economy and Bioeconomy Strategy (CEBE Strategy).
15. This briefing should be read alongside BRF-4084, which outlines the broader policy areas required in ERP2, including mitigating distributional impacts.
16. **Appendix One** provides an agenda and talking points for this meeting.

Background

17. Reducing emissions in line with our budgets and targets will bring change and potential disruption for many businesses, workers, households, and communities. This disruption will impact some groups more than others. To support affected groups and to maintain social license for emissions reduction, section 5ZG(3)(c) of the Climate Change Response Act 2002 (“the Act”) requires ERPs include *“a strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees and employers, regions, iwi and Māori, and wider communities, including the funding for any mitigation action”*.
18. You are the Minister with overall responsibility for ERPs and their content. The previous Government delegated responsibility for meeting s5ZG(3)(c) in ERP1 jointly to the Minister for Social Development and Employment and the Minister for Economic Development. The previous government had planned a similar distribution of responsibility for ERP2 but this can be reassigned based on your preferred approach.
19. Meeting the distributional impacts requirement of ERP1 was to be achieved primarily through the development of an Equitable Transitions Strategy. However, Ministers Upston and Lee have agreed to not progress the Equitable Transitions Strategy based on the Government’s 100-day plan. This decision is subject to final Cabinet agreement.
20. This affects the currency of ERP1 and leaves a gap that will need to be addressed through another approach in ERP2.

Mitigating legal risks to ERP1 from halting of Equitable Transitions Strategy

Currency of ERP1

21. 9(2)(h) [Redacted]
22. Regarding the broader currency issue, the Interdepartmental Executive Board (IEB) is preparing a Cabinet paper that will formalise the discontinuation of some ERP1 actions. The Ministry of Business, Innovation and Employment (MBIE) is engaging with the IEB to ensure the halting of the Equitable Transitions Strategy is included in that Cabinet paper. We also recommend disclosing the halting of the Equitable Transitions Strategy as part of ERP2 consultation.

Section 5ZG(3)(c) requirements for ERP1

23. Halting the Equitable Transitions Strategy means a specific risk that section 5ZG(3)(c) is no longer fulfilled for ERP1. Instead of developing new actions for ERP1, we recommend reducing this risk through the development of the distributional impacts strategy in ERP2 that ensures we fulfil the requirements of section 5ZG(3)(c).

Mitigating distributional impacts in ERP2

- 9(2)(h) [Redacted]
24. 9(2)(h) [Redacted]
- | [Redacted]
 - | [Redacted]
 - | [Redacted]
 - | [Redacted]
25. 9(2)(h) [Redacted]
26. 9(2)(h) [Redacted]

9(2)(h)

27. 9(2)(h)

Proposed ERP2 approach to reduce legal risks

28. We are working together with officials from MBIE and Ministry of Social Development (MSD) to minimise the legal risks associated with section 5ZG(3)(c).
29. General tax relief, funded in part from emissions trading scheme revenues (Climate Dividend) and existing labour market and social security policies will play a major role in mitigating distributional impacts but additional actions will be key to reduce the legal risks further.
30. An immediate and low-cost option would be to integrate consideration of distributional impacts in the design of emissions reduction policies. MBIE and MSD have already developed a framework that can be readily applied. This framework can also identify possible additional actions for your consideration that could mitigate risks of severe impacts on particular groups.
31. We recommend you take advice on what additional tailored actions are required once details on the scale and distribution of policy impacts become clearer as ERP2 develops. We expect to have a clearer picture of expected impacts and to develop options for additional mitigation actions alongside and following the consultation process.
32. Through this process we will also need to consider the Climate Change Commission's advice and recommendations related to mitigating distributional impacts in its broader advice on the direction of policy for ERP2.
33. For consultation, we propose highlighting confirmed mitigation measures such as the Climate Dividend and other existing policies and emphasise that the Government will consider other more targeted measures as the expected impacts become clearer.

Ownership of distributional impacts work programme

34. Ministers Upston and Lee have indicated a reluctance to carry on the responsibility for meeting the distributional impacts requirement and will discuss the possibility of responsibility returning to you. You will need to determine if you're comfortable with taking on responsibility for this work programme.
35. Regardless of which Minister is responsible, officials will need to continue to work cross-agency. MBIE and MSD's continued involvement throughout the ERP2 process will be highly valuable given their experience with developing the Equitable Transitions Strategy and knowledge of existing and potential mitigation levers. MBIE and MSD have signalled that a lack of resourcing and prioritisation may limit their engagement in ERP2 development.

¹ See section 3A(ad) of the Act

Circular Economy and Bioeconomy Strategy

36. Minister Lee co-leads the ERP chapter on the circular economy and bioeconomy (CEBE) with the Minister for Energy. Minister Lee was specifically leading the development of the CEBE Strategy.
37. The CEBE Strategy was focused on:
 - i reducing emissions by designing waste out of products, keeping products in use as long as possible, and then recovering and reutilising materials
 - ii transitioning from fossil fuel to bio-based energy and materials.
38. Minister Lee has decided not to continue to develop the CEBE Strategy, but to instead use the underpinning research programme to develop a small number of relevant CEBE initiatives, which reduce emissions and are aligned with Government's economic priorities.
39. The Climate Change Commission's provided advice on the CEBE in its broader advice on the direction of policy for ERP2, which will need to be considered. We will determine appropriate ownership for the response to this advice at officials' level.

Next steps

40. Officials are preparing a work programme and timeline for a distributional impacts strategy that meets your legal obligations and risk appetite. We will provide you draft content for the discussion document on 27 March for your feedback.
41. Officials will be available to discuss options for meeting your legal obligations at the officials meeting on Monday 4 March in advance of your meeting with Ministers Upston and Lee on 6 March.

Appendix One: Agenda and talking points for meeting with the Minister for Economic Development and the Minister for Social Development and Employment

Agenda prepared by MBIE on behalf of Minister Lee. The suggested talking points for this agenda have been updated to reflect your feedback.

Agenda item	Suggested talking points
1. Discontinuing the Equitable Transitions Strategy	<ul style="list-style-type: none"> • I understand that you are considering whether to discontinue work on the Equitable Transitions Strategy. • As you know this leaves a gap for ERP1 and ERP2 and causes legal risks for both documents.
2. Risk to currency of the first emissions reduction plan (ERP1)	<ul style="list-style-type: none"> • Meeting our climate targets and discharging our legal obligations is a priority for this government. • Climate change is a cross-cutting issue, this means that many Ministers need to consider how it impacts their portfolios. For your portfolios, one of the key considerations is the distributional impacts of climate change.
3. Risk of not meeting the legislative requirement to manage the impacts of climate policies	<ul style="list-style-type: none"> • Under the CCRA ERPs require a strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees and employers, regions, iwi and Māori, and wider communities, including the funding for any mitigation action. • I am unable to discharge this requirement alone, given the distribution of levers and institutional knowledge in this space. Expertise is mostly held within MBIE and MSD. • The previous Government's equitable transitions strategy was broad, and I would like to have an approach which is more tightly focused for ERP2. • I see our best approach to ensuring we meet the requirement for a distributional impacts strategy is by developing an effective strategy through ERP2 that mitigates the impacts from the low-emissions transition and meets the CCRA legal requirements. <p><i>Actions officials need from you for this meeting</i></p> <ul style="list-style-type: none"> • Ask Ministers to agree that the Minister for Economic Development and the Minister for Social Development and Employment will retain responsibility for this work programme. • Ask Ministers to direct MBIE and MSD to develop options for a focused approach that ensures our legal obligations are met.

<p>4. Discontinuing the Circular Economy and Bioeconomy Strategy</p> <p><i>(Item for the Minister for Economic Development and Minister of Climate Change only)</i></p>	<ul style="list-style-type: none">• I understand that you will not be continuing with the Circular Economy and Bioeconomy Strategy, but will use the research in this space to develop some practical initiatives that will reduce emissions and are aligned with Government's economic priorities.• I note that the Climate Change Commission included advice and recommendations on the Circular Economy and Bioeconomy in its advice on the direction of policy for ERP2. We need to determine who responds to that advice, but I suggest that is determined at officials' level.
<p>5. Any other business</p>	



To: Hon Todd McClay, Minister of Agriculture
Hon Simon Watts, Minister of Climate Change
From: Julie Collins, Deputy Director-General, Policy & Trade
Sam Buckle, Deputy Secretary, Climate Change Mitigation and Resource Efficiency

Cover briefing: Cabinet paper on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme

Date	8 March 2024	Reference	B24-0176 (MPI)
			BRF-4368 (MFE)

Decision required	Date decision required by
YES <input checked="" type="checkbox"/> / NO <input type="checkbox"/>	11 March 2024

Purpose

- The appended draft Cabinet paper seeks agreement on final policy decisions to amend the Climate Change Response Act (CCRA) to remove agriculture as an activity from the New Zealand Emissions Trading Scheme (NZ ETS).
- Due to the timeframes for passing legislation this year, officials recommend your offices' lodge the Cabinet paper on 21 March, for Economic Policy Committee (ECO) consideration on 27 March followed by Cabinet on 2 April.

Context

Background

- Following your bilateral meeting on 31 January, you directed Officials to work jointly towards preparing a Cabinet paper to keep agriculture out of the NZ ETS.
- On 21 February you indicated that your preferred option for amending the CCRA to 'keep agriculture out of the ETS,' is a full repeal and complete removal of NZ ETS obligations for agriculture [B24-0127 / BRF-4249 refers].

3. The appended draft Cabinet presents this proposal, outlines the analysis behind the decision to fully repeal the CCRA requirements for agriculture, and indicates the timeline and steps for implementing these amendments. It also presents a sequence of high-level milestones relating to agricultural emission reducing actions. These will be communicated at the same time as the CCRA amendments to place the amendments within the context of the wider strategy for agricultural emissions.
4. To provide maximum flexibility when you make announcements, note the wording related to introducing agricultural emissions legislation this term has been adjusted in the Cabinet paper to "working towards introducing and passing...". This does not preclude you announcing a firm date but does provide you with more scope to adjust the messaging.
5. Note, the draft Cabinet paper does not include a final Regulatory Impact Statement (RIS). A RIS will be provided once the regulatory impact analysis panel finalise their assessment of the agencies' analysis. The RIS will be included prior to lodging the Cabinet paper.

Key dates for this Cabinet paper

6. There are short timeframes for passing a CCRA Amendment Bill by December 2024. To support meeting this deadline, we propose the following steps to ensure ECO Committee consideration on 27 March, and Cabinet consideration on 2 April.

Date	Milestone	Action
8 March	Ministers receive Cabinet paper	Provide feedback on changes to officials by Monday 11 March
11 to 19 March	Ministerial consultation	Your offices' to send out the draft Cabinet paper for Ministerial consultation
18 March	Officials provide Ministers with the Regulatory Impact Statement	
19 March	Officials receive Ministers advice	Offices provide feedback from Ministerial consultation to officials.
19 to 21 March	Officials revise paper based on Ministers advice and send back to Ministers Office.	
21 March	Lodge papers	Ministers' offices to lodge papers
27 March	Economic Policy Committee	
2 April	Cabinet consideration	

Summary of agency feedback

7. Te Arawhiti suggested the following wording be added to the Treaty analysis section: *"To ensure the pricing system is fair it will need to account for unique aspects of Māori agribusiness, such as Māori land tenure and the particular land use profile for Māori farmers."*

8. The Treasury was interested to know whether any direct or indirect financial implications were identified. The Treasury is also of the view that retention of a legislative backstop of some form would be the optimal approach and is interested in seeing more information on the options considered.
9. Department of the Cabinet and Prime Minister (DPMC) wanted it to be clear in the body of the text that no change is proposed in regard to on-farm carbon dioxide emissions from, for example, tractors.
10. Environmental Protection Agency (EPA) have raised with us concerns about the potential financial implications these amendments would have for them. For example, because they might need to update some of their systems and internal processes. EPA have also suggested Cabinet approval be sought for the amendment legislation to provide for a streamlined de-registration process which could be initiated by the EPA (as opposed to having to wait for each participant to initiate de-registration).
11. Te Puna Kōkiri (TPK) wanted to ensure that the government allowed sufficient time for consultation with Māori landowners and collectives that are invested in agriculture, when designing the proposed pricing system. They also wanted the paper to acknowledge that iwi, hapu and Māori face a unique challenge transitioning to lower emissions agriculture, and that the compounding interests of adaptation and mitigation must be considered. Further, tangata whenua have significant investments in agriculture, and any policy or legislative changes will impact the future of Māori agriculture. TPK emphasises that it is important to consider the impacts to this population group.

Contextual note: The agency name in Paragraph 10 is incorrect; the correct name is the Environmental Protection Authority.

Recommendations

12. It is recommended that you:

- a) **Agree** to provide feedback on changes to the draft Cabinet paper (**Appendix One**) to Officials by Monday 11 March.

YES / NO

- b) **Agree** to aim for Cabinet consideration of the paper on 2 April. Note the following steps to lodging the Cabinet paper for Economic Policy Committee and Cabinet consideration:

- i. 11 to 19 March: Ministerial consultation;
- ii. 21 March: Cabinet paper lodgement;
- iii. 27 March: Economic Policy Committee; and
- iv. 2 April: Cabinet consideration.

YES / NO

Julie Collins
Deputy Director-General
Policy & Trade

Hon Todd McClay
Minister of Agriculture

/ / 2024

Mark Vink
General Manager
Markets, Climate Change Mitigation and
Resource Efficiency

Hon Simon Watts
Minister of Climate Change

/ / 2024

Appendix One: Draft Cabinet paper - Final policy decisions on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme

Office of the Minister of Agriculture
Office of the Minister of Climate Change

Chair, Economic Cabinet Committee

Final policy decisions on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme

Proposal

- 1 This paper seeks agreement on final policy decisions to amend the Climate Change Response Act 2002 (CCRA) to remove agriculture as an activity from the New Zealand Emissions Trading Scheme (NZ ETS).

Relation to Government priorities

- 2 This supports the Government's coalition agreements and the National Party's Manifesto commitment to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas".

Executive Summary

- 3 This paper seeks agreement to amend the CCRA to keep agriculture out of the NZ ETS by repealing Part 5 of Schedule 3, which lists agriculture activities as mandatory NZ ETS participants.
- 4 The CCRA, via the NZ ETS, currently requires:
 - 4.1 agricultural processors to pay for their agricultural emissions by 1 January 2025 (processors currently report their emissions); and
 - 4.2 animal farmers to report their emissions by 1 January 2026, and pay for them by 1 January 2027.
- 5 We have been clear in our commitment to keep agriculture out of the NZ ETS, and so an amendment Bill needs to be passed by December 2024 to remove these requirements. To achieve this, the Bill needs to be prioritised, with introduction in May 2024 and with First Reading in June 2024.
- 6 To provide further certainty to the sector, when making this amendment we will also announce our high-level plan for reducing agricultural emissions, including timelines to implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030. Further detail of this will follow in Emissions Reduction Plan (ERP) 2.

Background

- 7 Since 2011, the CCRA has required fertiliser manufacturers and importers and animal processors to monitor and report their agricultural emissions under the NZ ETS. In 2020, the CCRA was amended to require fertiliser and animal processors to pay for these emissions through the NZ ETS from 2025.
- 8 In October 2023, the Minister of Climate Change deferred NZ ETS obligations for animal farmers, which require them to report and pay for their emissions via the NZ ETS, from 1 January 2024 to 1 January 2026 via an Order in Council [CAB-23-MIN-0457 refers]. This means that from 1 January 2026, the CCRA (as affected by the Climate Change (Animals–Farmer Activities) Order 2023) requires animal farmers to report their emissions, with surrender obligations commencing on 1 January 2027.
- 9 This requirement for processors and animal farmers to report and pay for their emissions in the NZ ETS, known as the ETS backstop, was put in place in 2020 to support progress towards developing an alternative pricing system for agricultural emissions by 2025. It also sends a signal to incentivise actions to reduce agricultural emissions to support New Zealand's emissions reduction goals. The intention was that these provisions would be repealed when an alternative pricing system was introduced.

Analysis

- 10 We have been clear in our commitment to keep agriculture out of the NZ ETS, and introduce fair and sustainable pricing for agricultural emissions by 2030 that reduces emissions without sending production overseas. Keeping agriculture out of the NZ ETS is a key part of this – and is something we must act quickly on, given the impending surrender obligations.
- 11 We gave consideration to a number of potential options for amending the CCRA, however only a full repeal of agricultural obligations at both processor and farm-level credibly meets our commitment to keep agriculture out of the NZ ETS. The other two options we considered were: 'deactivating' the requirement to report and pay for agricultural emissions, and removing requirements for farmers to report and pay for their emissions but requiring agricultural processors to pay for emissions at a later date—arguably these both keep agriculture within the NZ ETS, and so would be counter to our commitment.
- 12 Also relevant is that we are committed to fair and sustainable pricing no later than 2030. This itself may also help to incentivise earlier action from the sector to reduce emissions.

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- 13 Full repeal of agricultural obligations from the NZ ETS will require repealing Part 5 of Schedule 3 to remove the requirements for farmers and processors to surrender and report emissions from agricultural activities. Associated agriculture provisions will also be repealed as they will no longer be required once agriculture is removed from the NZ ETS, including¹:
- Those provisions relating to the commencement of NZ ETS obligations for agriculture activities;
 - allocation of units to agricultural activities;
 - transitional provisions for agriculture activities entering the NZ ETS;
 - the associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS; and
 - the order in Council deferring farm-level reporting and surrender obligations for animal activities.
- 14 We recommend a transitional provision to provide for the de-registration of participants that are no longer required to report, alongside other transitional arrangements. The Environmental Protection Agency (EPA) estimates there are approximately 130 participants who could be deregistered in this way.
- 15 Note, where an agricultural processor is involved in processing activities (for example, dairy and meat processing or the import and manufacture of synthetic fertiliser), the emissions associated with non-farm activities such as transportation, or the energy to process, will continue to be covered by the NZ ETS. A small proportion of on-farm emissions are currently included in the NZ ETS, such as emissions from driving farm vehicles. No change is proposed in this regard.

Climate Priorities for Agriculture

- 16 Removing agriculture from the NZ ETS shows demonstrable commitment to our coalition and manifesto priorities. However, to provide increased certainty, it is important we simultaneously provide clear signals to the agriculture sector, and New Zealand, related to the Government's direction for agricultural mitigation policy.
- 17 At the same time as announcing our proposed amendments, we therefore propose to publicly reaffirm the Government's commitment to implementing a fair and sustainable pricing system for on-farm agricultural emissions no later than 2030. As part of this, we will present as a package the following key agricultural emissions actions:
- 17.1 reviewing the methane science and targets (this may have been announced prior);[to be updated following BRF-4278 / B24-0154 Methane Science and Targets Review]
- 17.2 establishing the agriculture emissions pricing board in 2025;

¹ s162 of the CCRA provides opportunities to recognise approved agricultural mitigation actions in the NZ ETS.

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- 17.3 publishing the standardised farm-level methodology in the first half of 2025;
 - 17.4 commencing measurement of on-farm emissions in 2025, based on the published methodology;
 - 17.5 Investigate options to incentivise the uptake of mitigation technologies;
 - 17.6 working towards developing and passing agricultural climate change legislation [this term of Government]; and
 - 17.7 introducing fair and sustainable pricing of on-farm emissions no later than 2030.
- 18 The presentation of this package of actions will help to substantiate our commitment to agricultural emissions action. As such we expect they will also help to mitigate concerns that repealing agricultural provisions in the CCRA will negatively impact our ability to meet our domestic and international emissions targets. Emissions Reduction Plan 2, which is currently being developed, will provide more detail on our agricultural emissions approach.

Timeframes for amending the CCRA

- 19 To remove the backstop obligations, we intend to introduce a Bill to amend the CCRA. The bill must be passed prior to 1 January 2025 to prevent surrender obligations for agricultural processors coming into effect. This means the Bill must be prioritised and introduced to the House by the end of May 2024 to allow enough time for the Select Committee process, subsequent readings and royal assent to take place.
- 20 If there are any delays preparing the Bill, we may need to consider truncating the Parliamentary process to meet the 31 December 2024 deadline. That process would likely require motions such as considering the Bill under urgency or shortening the Select Committee to less than four months.
- 21 If obligations are amended or removed after commencement on 1 January 2025, the changes will either need to have explicit retrospective effect (which requires adequate justification), or transitional arrangements will need to be drafted and included in the bill.

Emissions Reduction Plans and Emissions Budgets

- 22 Although pricing agricultural emissions by 2025 was included in ERP 1, repealing agricultural obligations from the NZ ETS does not significantly impact Emissions Budget 1 (which covers the period 2022 to 2025) as it was only expected to result in a small emission reduction over that period. Potential impacts on other emissions budgets can be mitigated via development of the second emissions reduction plan, which is legislatively required to be published this year, and as such will be a key vehicle to address this.

Treaty of Waitangi Analysis

- 23 The Crown and Māori have obligations through legislation, case law, and settlement agreements. As a partner to the Treaty of Waitangi, the Crown is

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required to adhere to principles of partnership, participation, and protection in their relationship with Māori.

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- 24 Māori have significant interests in agribusiness and forestry, through both investment and settlement assets. Also relevant is that iwi, hapu, and Māori are likely to face unique challenges to transitioning to lower emissions agriculture (for example, as related to complex ownership structures, difficulties in changing land use and raising finance, and other historical barriers).
- 25 It will be important for Government to engage with Māori on future decisions regarding agricultural emissions policy that could impact Māori interests and assets, to ensure unique circumstances and obligations are taken into account. There will be opportunity to engage further on this proposal as the Bill progresses through to Select Committee, and on wider agricultural emissions policy later this year through ERP2 and other policy development processes.

Cost-of-living Implications

- 26 Removing agricultural obligations from the NZ ETS does not create any direct cost of living implications.

Financial Implications

- 27 Implementing these changes will have associated operational costs for the EPA that are yet to be quantified. For example, they will be required to execute the deregistration of participants from the NZ ETS registry and the scope of their NZ ETS reporting will need to be updated. Any such costs will be met within existing baselines.

Legislative Implications

Bid for legislation

- 28 I, the Minister of Climate Change, have submitted a bid, '*Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill*', for inclusion in the Legislation Programme. The Amendment Bill has a category ranking of 1 and priority category of 2 which means it must be passed in 2024.
- 29 The Bill will amend the CCRA to repeal all NZ ETS obligations for agricultural activities (refer to paragraph 13).
- 30 The Bill is expected to be a medium bill with low complexity given it is primarily focused on repealing agricultural obligations in the NZ ETS.
- 31 We will instruct Parliamentary Counsel Office to begin drafting following Cabinet decisions on the proposals outlined in this paper.
- 32 As the Bill is amending the existing CCRA, I propose that the Bill is binding on the Crown.

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Impact Analysis

Regulatory Impact Statement

- 33 A Regulatory Impact Statement (RIS) was prepared for the proposed repeal of agricultural obligations under the NZ ETS (see **Appendix One**). The Quality Assurance Panel provided a statement indicating that the RIS 'partially meets/meets' the standards for regulatory impact assessment.
- 34 The Quality Assurance Panel's statement is as follows:
[TBC]

Climate Implications of Policy Assessment

- 35 The Ministry for the Environment has been consulted and confirms that the CIPA requirements apply to these changes as the threshold for significance is met. Their statement is as follows:
- 35.1 "The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal. This paper requests Cabinet's approval for the final policy decisions to draft legislation aimed at repealing agricultural obligations within the New Zealand Emissions Trading Scheme (NZ ETS), as outlined in the Climate Change Response Act 2002 (CCRA). Repeal of these obligations, with no alternative action taken (note alternative action is proposed), is anticipated to lead to a cumulative increase in expected emissions of around 24Mt CO₂-e for the 30-year period from 2020 to 2050. This equates to approximately 157kt CO₂e within the first emissions budget period (2022 - 2025), 2Mt CO₂e within the second emissions budget period (2026 - 2030), and 5Mt CO₂e within the third emissions budget period (2030 - 2035). Relative to status quo, repealing these obligations, is expected to lead to an increase in emissions because pricing serves as an incentive for emission reduction efforts. Associating a cost with emitting greenhouse gas emissions encourages the adoption of practices and technologies that lower emissions. The CIPA team has conducted a high-level review of the modelling and deems it reasonable in reflecting the impact of this proposed change."

Population Implications

- 36 Our proposal would mean farmers and growers, agricultural processors, and Māori with agriculture interest will not face the regulatory burden associated with participating in the NZ ETS - which is not how we intend to price agricultural emissions.
- 37 The effectiveness of reducing agricultural emissions could have flow-on effects for the wider population of New Zealand. Agriculture is a large proportion of New Zealand's emissions. The extent to which agricultural emissions reduce outside of the NZ ETS will determine what is required from other sectors and/or the quantum of offshore emissions reductions needed to meet New Zealand's climate targets.

Human Rights

38 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.²

9(2)(h)

- [REDACTED]
- [REDACTED]
- [REDACTED]

Next steps

42 Following Cabinet's approval, officials will begin the process of developing legislation in order to bring a Bill before the House by May 2024. We will also publicly signal our intention to meet timelines for key agricultural emission actions (see paragraph 16), including a fair and sustainable pricing system for on-farm agricultural emissions by 2030.

² Noting that the Ministry of Justice is responsible for scrutinising proposed legislation and advising the Attorney-General on whether it meets Bill of Rights Act requirements.

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- 43 The following actions need to take place to support Royal Assent by December 2024:

Actions	2024
Bill drafting and LEG Committee	May
Introduction of the Bill	May
First Reading	June
Select Committee (four months)	July to the end of October
Second and Third reading and Committee of the Whole	November
Royal Assent	November/December

Consultation

Public consultation

- 44 Officials have not specifically consulted on amending the CCRA to 'keep agriculture out of the Emissions Trading Scheme' although the National party were very clear about intending to do this in their party manifesto. There will be an opportunity to hear from the public as part of the Select Committee process.
- 45 Last year, the Government consulted on deferring NZ ETS reporting obligations for animal farmers with 1225 submissions received. Through this consultation, most agricultural sector submitters continued to support an agricultural emissions pricing system outside of the NZ ETS as they considered it would provide greater opportunities to develop a more effective solution.
- 46 Māori submitters considered that there would be increased administrative costs as a result of animal farmers' obligations under the NZ ETS. The majority of submissions received who opposed the deferral expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.

Departmental consultation

- 47 The Treasury, Te Puni Kōkiri (TPK), Te Arawhiti, and the EPA were consulted on this paper. The Department of the Prime Minister and Cabinet has been informed. [Other agencies may be consulted]

Communications

- 48 The decisions will be announced via press release, email communications to sector stakeholders, and publication on the Ministry for the Environment's (MfE's) website.

Proactive Release

- 49 Following Cabinet consideration, we will consider the release of this paper and attachments on the MfE website in whole or in part, subject to appropriate redactions.

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Recommendations

The Minister of Agriculture and the Minister of Climate Change jointly recommends that Cabinet:

- 1 **Note** the Government has clearly committed to “Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas.”
- 2 **Agree** to amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities by:
 - 2.1 repealing Part 5 of Schedule 3 which lists agriculture activities as mandatory NZ ETS participants, to remove surrender and reporting obligations for those activities;
 - 2.2 repealing associated agriculture-specific provisions, including provisions relating to the commencement of NZ ETS obligations for agriculture activities, allocation of units to agricultural activities, and transitional provisions for agriculture activities entering the NZ ETS;
 - 2.3 consequential amendments related to cross-references to the above provisions;
 - 2.4 revoking related secondary legislation, including relevant order in council; and
 - 2.5 creating transitional provisions, including for the de-registration of participants that are no longer required to report.
- 3 **Authorise** the Minister of Agriculture and Minister of Climate Change to issue drafting instructions to prepare an amendment to the Climate Change Response Act 2002 based on the decisions presented in this paper;
- 4 **Approve** the release of the drafting instructions and legislation in draft to the Environmental Protection Authority on an confidence basis and subject to legal professional privilege;
- 5 **Authorise** the Minister of Agriculture and Minister of Climate Change to further make policy decisions relating to the amendments proposed in this paper, in a way consistent with Cabinet’s decisions;
- 6 **Agree** that the Bill will bind the Crown;
- 7 **Note** the Minister of Climate Change has submitted a legislative bid, *Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill*, for inclusion in the Legislation Programme, and as a category ranking of 1 and priority category of 2, which means it must be passed in 2024.

Signalling the Government’s direction on actions to reduce agricultural emissions

- 8 **Note** it is important to provide clear signals to the agriculture sector and New Zealand on the Government’s direction for agricultural emissions policy, of which keeping agriculture out of the ETS is only part;

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- 9 **Agree** that as part of this CCRA Amendment process, the Minister of Agriculture and Minister of Climate Change will publicly reaffirm the Government's commitment to implementing a fair and sustainable pricing system for on-farm agricultural emissions no later than 2030 that reduces emissions without sending production overseas, and will announce the following package of key actions:
- 8.1 reviewing the methane science targets (this may have been announced prior); [to be updated following BRF-4278 / B24-0154 Methane Science and Targets Review]
 - 8.2 establishing the agriculture emissions pricing board in 2025;
 - 8.3 publishing the standardised farm-level methodology in the first half of 2025;
 - 8.4 commencing measurement of on-farm emissions in 2025, based on the published methodology;
 - 8.5 Investigating options to incentivise the uptake of mitigation technologies;
 - 8.6 working towards developing and passing agricultural climate change legislation [this term of Government]; and
 - 8.7 introducing fair and sustainable pricing of on-farm emissions no later than 2030.

Authorised for lodgement

Hon Todd McClay
Minister of Agriculture

Hon Simon Watts
Minister of Climate Change

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Appendix One: Regulatory Impact Statement

Note: A draft Regulatory Impact Statement was not provided as part of this briefing, only a placeholder page for one.

DRAFT



To: Hon Todd McClay, Minister of Agriculture
Hon Simon Watts, Minister of Climate Change
From: Charlotte Denny, Director Natural Resources Policy, Ministry for Primary Industries
Sam Buckle, Deputy Secretary Climate Change Mitigation and Resource Efficiency,
Ministry for the Environment

Approval to lodge: Amending the Climate Change Response Act 2002 to repeal agricultural obligations in the NZ ETS

Date	21 March 2024	Reference	B24-0244 (MPI) BRF-4464 (MfE)
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Decision required	Date decision required by
YES <input checked="" type="checkbox"/> / NO <input type="checkbox"/>	21 March 2024

Purpose

- This briefing seeks your approval to lodge an updated draft Cabinet paper, 'Final policy decisions on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme' (see **Appendix One**), on 21 March to ensure consideration at Economic Policy (ECO) Committee on 27 March, followed by Cabinet consideration on 2 April.

Key updates to the Cabinet paper

Methane Science and Target Review Update

- The date for the announcement of the methane science and targets review has been updated to "by 8 April 2024" to reflect the work that is underway in this space [B24-0230 / BRF-449 refers].

Removal of dates from actions

- To provide more flexibility, the Cabinet paper has been adjusted so that publication of the standardised methodology, and establishment of an agricultural emissions reduction advisory board (see paragraph 4c), are not associated with specific dates. Note this does not preclude you from signalling your timing preferences when making announcements.

Incorporation of Regulatory Impact Assessment Statement

3. The Regulatory Impact Assessment Statement (RIS) will be lodged with the Cabinet Paper. It achieved a 'partially meets' from the RIA panel. This is reflected in the Cabinet Paper along with feedback from the Quality Assurance panel.

Summary of Ministerial feedback

4. Between the 11 to 19 March, you consulted with Ministers on a draft Cabinet paper to support the Government's commitment to 'Keep agriculture out of the New Zealand Emissions Trading Scheme (NZ ETS)'. We are not aware of any feedback being provided on the paper by other Ministers. Changes have however been made to reflect feedback from the Minister of Agriculture's office, that is:
 - a) removing dates that did not align with introduction of the Bill to the house on June 2024;
 - b) edits to language to shift the focus from pricing, to reducing emissions;
 - c) updating the name of the 'agriculture emissions pricing board' to the 'agricultural emissions reduction advisory board'; and
 - d) removal of square brackets around text, to firm up that work towards developing and passing agricultural climate change legislation will occur this term of government

Parliamentary Council Office Feedback

5. 9(2)(h)
- 

Next Steps

6. We recommend that you approve lodging the Cabinet paper (**Appendix One**) by 21 March 2024.
7. This will ensure that the Cabinet paper is ready for consideration by Economic Policy Committee on 27 March, followed by Cabinet on 2 April. We understand the Minister of Agriculture's office will lead on lodging.
8. To support your presentation of the item, talking points have been provided in **Appendix Two**. Officials can be available to attend ECO if required.

Recommendations

9. It is recommended that you:

- a) **Agree** to lodge the Cabinet paper (**Appendix One**) by Thursday 21 March for consideration at ECO Committee on 27 March, followed by Cabinet on 2 April.

YES / NO

- b) **Note** that talking points are attached at **Appendix Two**.

NOTED

Charlotte Denny
Director Natural Resources Policy
Ministry for Primary Industries

Hon Todd McClay
Minister of Agriculture

/ / 2024



Sam Buckle
Deputy Secretary Climate Change Mitigation
and Resource Efficiency
Ministry for the Environment

Hon Simon Watts
Minister of Climate Change

/ / 2024



Appendix One: Draft Cabinet paper Sub24-0028- Final policy decisions on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme

Office of the Minister of Agriculture
Office of the Minister of Climate Change

Chair, Economic Policy Committee

Final policy decisions on amending the Climate Change Response Act 2002 to repeal agricultural obligations in the New Zealand Emissions Trading Scheme

Proposal

- 1 This paper seeks agreement on final policy decisions to amend the Climate Change Response Act 2002 (CCRA) to remove agriculture as an activity from the New Zealand Emissions Trading Scheme (NZ ETS).

Relation to Government priorities

- 2 This supports the Government's coalition agreements and the National Party's Manifesto commitment to "Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas".

Executive Summary

- 3 This paper seeks agreement to amend the CCRA to keep agriculture out of the NZ ETS by repealing Part 5 of Schedule 3, which lists agriculture activities as mandatory NZ ETS participants.
- 4 The CCRA, via the NZ ETS, currently requires:
 - 4.1 agricultural processors to pay for their agricultural emissions by 1 January 2025 (processors currently report their emissions); and
 - 4.2 animal farmers to report their emissions by 1 January 2026, and pay for them by 1 January 2027.
- 5 We have been clear in our commitment to keep agriculture out of the NZ ETS, and so an amendment Bill needs to be passed by December 2024 to remove these requirements.
- 6 To provide further certainty to the sector, when making this amendment we will also announce our high-level plan for reducing agricultural emissions, including timelines to implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030. Further detail of this will follow in Emissions Reduction Plan (ERP) 2.

Background

- 7 Since 2011, the CCRA has required fertiliser manufacturers and importers and animal processors to monitor and report their agricultural emissions under the NZ ETS. In 2020, the CCRA was amended to require fertiliser and animal processors to pay for these emissions through the NZ ETS from 2025.
- 8 In October 2023, the Minister of Climate Change deferred NZ ETS obligations for animal farmers, which require them to report and pay for their emissions via the NZ ETS, from 1 January 2024 to 1 January 2026 via an Order in Council [CAB-23-MIN-0457 refers]. This means that from 1 January 2026, the CCRA (as affected by the Climate Change (Animals–Farmer Activities) Order 2023) requires animal farmers to report their emissions, with surrender obligations commencing on 1 January 2027.
- 9 This requirement for processors and animal farmers to report and pay for their emissions in the NZ ETS, known as the ETS backstop, was put in place in 2020 to support progress towards developing an alternative pricing system for agricultural emissions by 2025. It also sends a signal to incentivise actions to reduce agricultural emissions to support New Zealand's emissions reduction goals. The intention was that these provisions would be repealed when an alternative pricing system was introduced.

Analysis

- 10 We have been clear in our commitment to keep agriculture out of the NZ ETS, and introduce fair and sustainable pricing for agricultural emissions by 2030 that reduces emissions without sending production overseas. Keeping agriculture out of the NZ ETS is a key part of this – and is something we must act quickly on, given the impending surrender obligations.
- 11 We gave consideration to a number of potential options for amending the CCRA, however only a full repeal of agricultural obligations at both processor and farm-level credibly meets our commitment to keep agriculture out of the NZ ETS. The other two options we considered were: 'deactivating' the requirement to report and pay for agricultural emissions, and removing requirements for farmers to report and pay for their emissions but requiring agricultural processors to pay for emissions at a later date—arguably these both keep agriculture within the NZ ETS, and so would be counter to our commitment.
- 12 Also relevant is that we are committed to fair and sustainable pricing no later than 2030. This itself may also help to incentivise earlier action from the sector to reduce emissions.

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- 13 Full repeal of agricultural obligations from the NZ ETS will require repealing Part 5 of Schedule 3 to remove the requirements for farmers and processors to surrender and report emissions from agricultural activities. Associated agriculture provisions will also be repealed as they will no longer be required once agriculture is removed from the NZ ETS, including¹:
- 13.1 those provisions relating to the commencement of NZ ETS obligations for agriculture activities;
 - 13.2 allocation of units to agricultural activities;
 - 13.3 transitional provisions for agriculture activities entering the NZ ETS;
 - 13.4 the associated secondary legislation for calculating emissions from agriculture activities in the NZ ETS; and
 - 13.5 the order in Council deferring farm-level reporting and surrender obligations for animal activities.
- 14 We recommend a transitional provision to provide for the de-registration of participants that are no longer required to report, alongside other transitional arrangements. The Environmental Protection Agency (EPA) estimates there are approximately 130 participants who could be deregistered in this way.
- 15 Note, where an agricultural processor is involved in processing activities (for example, dairy and meat processing or the import and manufacture of synthetic fertiliser), the emissions associated with non-farm activities such as transportation, or the energy to process, will continue to be covered by the NZ ETS. A small proportion of on-farm emissions are currently included in the NZ ETS, such as emissions from driving farm vehicles. No change is proposed in this regard.

Climate Priorities for Agriculture

- 16 Removing agriculture from the NZ ETS shows demonstrable commitment to our coalition and manifesto priorities. However, to provide increased certainty, it is important we simultaneously provide clear signals to the agriculture sector, and New Zealand, related to the Government's direction for agricultural mitigation policy.
- 17 At the same time as announcing our proposed amendments, we therefore propose to publicly reaffirm the Government's commitment to implementing a fair and sustainable system to reduce on-farm agricultural emissions. As part of this, we will present as a package the following key agricultural emissions actions:
- 17.1 reviewing the methane science and targets (the review will be announced by 8 April 2024);
 - 17.2 establishing an agricultural emissions reduction advisory board;
 - 17.3 publishing the standardised farm-level methodology;
 - 17.4 commencing measurement of on-farm emissions in 2025, based on the published methodology;
 - 17.5 Investigate options to incentivise the uptake of mitigation technologies;

¹ s162 of the CCRA provides opportunities to recognise approved agricultural mitigation actions in the NZ ETS.

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- 17.6 working towards developing and passing agricultural climate change legislation this term of Government; and
 - 17.7 introducing fair and sustainable pricing of on-farm emissions no later than 2030, that reduces emissions without resulting in emissions leakage and sending production overseas.
- 18 The presentation of this package of actions will help to substantiate our commitment to agricultural emissions action. As such we expect they will also help to mitigate concerns that repealing agricultural provisions in the CCRA will negatively impact our ability to meet our domestic and international emissions targets. ERP 2, which is currently being developed, will provide more detail on our agricultural emissions approach.

Timeframes for amending the CCRA

- 19 To remove the backstop obligations, we intend to introduce a Bill to amend the CCRA. The bill must be passed prior to 1 January 2025 to prevent surrender obligations for agricultural processors coming into effect. This means the Bill must be prioritised and introduced to the House in June 2024 to allow enough time for the Select Committee process, subsequent readings and royal assent to take place.
- 20 If there are any delays preparing the Bill, we may need to consider truncating the Parliamentary process to meet the 31 December 2024 deadline.

Emissions Reduction Plans and Emissions Budgets

- 21 Although pricing agricultural emissions by 2025 was included in ERP 1, repealing agricultural obligations from the NZ ETS does not significantly impact Emissions Budget 1 (which covers the period 2022 to 2025) as it was only expected to result in a small emission reduction over that period. Potential impacts on other emissions budgets can be mitigated via development of the second emissions reduction plan, which is legislatively required to be published this year, and as such will be a key vehicle to address this.

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- 22 The Crown and Māori have obligations through legislation, case law, and settlement agreements. As a partner to the Treaty of Waitangi, the Crown is required to adhere to principles of partnership, participation, and protection in their relationship with Māori.

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- 23 Māori have significant interests in agribusiness and forestry, through both investment and settlement assets. Also relevant is that iwi, hapu, and Māori are likely to face unique challenges to transitioning to lower emissions agriculture (for example, as related to complex ownership structures, difficulties in changing land use and raising finance, and other historical barriers).
- 24 It will be important for Government to engage with Māori, along with other New Zealanders, on future decisions regarding agricultural emissions policy that could impact Māori interests and assets, to ensure unique circumstances and obligations are taken into account. There will be opportunity to engage further on this proposal as the Bill progresses through to Select Committee, and on wider agricultural emissions policy later this year through ERP2 and other policy development processes.

Cost-of-living Implications

- 25 Removing agricultural obligations from the NZ ETS does not create any direct cost of living implications.

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- 26 Implementing these changes will have associated operational costs for the EPA that are yet to be quantified. For example, they will be required to execute the deregistration of participants from the NZ ETS registry and the scope of their NZ ETS reporting will need to be updated. Any such costs will be met within existing baselines.

Legislative Implications

Bid for legislation

- 27 I, the Minister of Climate Change, have submitted a bid, '*Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill*', for inclusion in the Legislation Programme. The Amendment Bill has a category ranking of 1 and priority category of 2 which means it must be passed in 2024.
- 28 The Bill will amend the CCRA to repeal all NZ ETS obligations for agricultural activities (refer to paragraph 13).
- 29 The Bill is expected to be a medium bill with low complexity given it is primarily focused on repealing agricultural obligations in the NZ ETS.
- 30 We will instruct Parliamentary Counsel Office to begin drafting following Cabinet decisions on the proposals outlined in this paper.
- 31 As the Bill is amending the existing CCRA, I propose that the Bill is binding on the Crown.

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Impact Analysis

Regulatory Impact Statement

- 32 A Regulatory Impact Statement (RIS) was prepared for the proposed repeal of agricultural obligations under the NZ ETS (see **Appendix One**). The Quality Assurance Panel provided a statement indicating that the RIS ‘partially meets’ the standards for regulatory impact assessment.
- 33 The Quality Assurance Panel’s statement is as follows:
- “A quality assurance panel with members from the Treasury and the Ministry for the Environment has reviewed the Regulatory Impact Statement (RIS), “Repeal of Processor-level Surrender Obligations Provisions for the Primary Sector in the Climate Change Response Act” produced by the Ministry for the Environment and Ministry for Primary Industries dated 13 March 2024. The panel considers that it partially meets the quality assurance criteria.
- The RIS clearly states the problem with current surrender obligations at the processor-level and farm-level under the CCRA. The analysis shows that while the status quo could deliver emissions reductions and provide emissions pricing equity with other sectors, it is not practically feasible to implement due to administrative and compliance issues.
- The case for legislative change to prevent current NZ ETS obligations at the processor-level from taking effect has been based on the fundamental assumption that an alternative, farm-level pricing system would be introduced no later than 2030. This has influenced the framing of the analysis and conclusions in the RIS.
- As an alternative pricing system has yet to be developed outside the ETS, there is limited evidence about the effectiveness of the Ministers’ preferred option. The analysis has also been constrained by lack of recent modelling of potential options. Cost benefit analysis undertaken for the status quo, indicates that pricing emissions at a processor level in the ETS has a small positive benefit. It has been assumed that amending the CCRA to remove agricultural processor-level pricing would mean that the potential economic net benefit suggested by this modelling would be reversed, resulting in a net loss to New Zealand society. However, the applicability of this analysis is limited because under the CCRA, processor-level pricing used in the analysis would be superseded by farm-level surrender obligations in 2027 and this not included in the modelling.
- The RIS acknowledges that there are significant uncertainties and risks associated with the preferred option. The option to defer processor-level pricing, effectively extends out the current ETS backstop for processor only obligations and could potentially help to mitigate some of these risks if the alternative agricultural pricing mechanism is delayed or not progressed.
- Partial consultation has been undertaken previously, but the full range of options in the RIS has not had the benefit of broad public consultation and there will be limited opportunity for consultation during the Select Committee process.
- It will be important to continue monitoring the impact on emission reduction targets.”

Climate Implications of Policy Assessment

- 34 The Ministry for the Environment has been consulted and confirms that the CIPA requirements apply to these changes as the threshold for significance is met. Their statement is as follows:

“The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal.

This paper requests Cabinet’s approval for the final policy decisions to draft legislation aimed at repealing agricultural obligations within the New Zealand Emissions Trading Scheme (NZ ETS), as outlined in the Climate Change Response Act 2002 (CCRA). Repeal of these obligations, with no alternative action taken (note alternative action is proposed), is anticipated to lead to a cumulative increase in expected emissions of around 24Mt CO₂-e for the 30-year period from 2020 to 2050. This equates to approximately 157kt CO₂e within the first emissions budget period (2022 - 2025), 2Mt CO₂e within the second emissions budget period (2026 - 2030), and 5Mt CO₂e within the third emissions budget period (2030 - 2035).

Relative to status quo, repealing these obligations (in the absence of additional obligations), is expected to lead to an increase in emissions because pricing serves as an incentive for emission reduction efforts. Associating a cost with emitting greenhouse gas emissions encourages the adoption of practices and technologies that lower emissions. The CIPA team has conducted a high-level review of the modelling and deems it reasonable in reflecting the impact of this proposed change.”

Population Implications

- 35 Our proposal would mean farmers and growers, agricultural processors, and Māori with agriculture interest will not face the regulatory burden associated with participating in the NZ ETS - which is not how we intend to price agricultural emissions.
- 37 The effectiveness of reducing agricultural emissions could have flow-on effects for the wider population of New Zealand. Agriculture is a large proportion of New Zealand’s emissions. The extent to which agricultural emissions reduce outside of the NZ ETS will determine what is required from other sectors and/or the quantum of offshore emissions reductions needed to meet New Zealand’s climate targets.

Human Rights

- 38 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.²

9(2)(h) [REDACTED]

² Noting that the Ministry of Justice is responsible for scrutinising proposed legislation and advising the Attorney-General on whether it meets Bill of Rights Act requirements.

9(2)(h)

[Redacted]

[Redacted]

Next steps

42 Following Cabinet’s approval, officials will begin the process of developing legislation in order to bring a Bill before the House by June 2024. We will also publicly signal our intention to meet timelines for key agricultural emission actions (see paragraph 17), including a fair and sustainable pricing system for on-farm agricultural emissions by 2030.

43 The following actions need to take place to support Royal Assent by December 2024:

Actions	2024
Bill drafting and LEG Committee	20 June
Introduction of the Bill	24 June
First Reading	27 June
Select Committee (four months)	27 June to 28 October
Second and Third reading and Committee of the Whole	November
Royal Assent	November/December

Consultation

Public consultation

44 Officials have not specifically consulted on amending the CCRA to ‘keep agriculture out of the Emissions Trading Scheme’ although the National party were very clear about intending to do this in their party manifesto. There will be an opportunity to hear from the public as part of the Select Committee process.

45 Last year, the Government consulted on deferring NZ ETS reporting obligations for animal farmers with 1,225 submissions received. Through this consultation, most agricultural sector submitters continued to support an agricultural emissions pricing system outside of the NZ ETS as they considered it would provide greater opportunities to develop a more effective solution.

46 Māori submitters considered that there would be increased administrative costs as a result of animal farmers’ obligations under the NZ ETS. The majority of submissions received who opposed the deferral expressed frustration over the delays to pricing agricultural emissions and raised concerns that any delay would have a detrimental effect on the path towards mitigating agricultural emissions.

Departmental consultation

- 47 The Treasury, Te Puni Kōkiri (TPK), Te Arawhiti, and the EPA were consulted on this paper. The Department of the Prime Minister and Cabinet has been informed.

Communications

- 48 The decisions will be announced via press release, email communications to sector stakeholders, and publication on the Ministry for the Environment's (MfE's) and Ministry for Primary Industries (MPI) website.

Proactive Release

- 49 Following Cabinet consideration, we will consider the release of this paper and attachments on the MfE website in whole or in part, subject to appropriate redactions.

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Recommendations

The Minister of Agriculture and the Minister of Climate Change jointly recommends that Cabinet:

- 1 **Note** the Government has clearly committed to “Keep agriculture out of the Emissions Trading Scheme and implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas.”
- 2 **Agree** to amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities by:
 - 2.1 repealing Part 5 of Schedule 3 which lists agriculture activities as mandatory NZ ETS participants, to remove surrender and reporting obligations for those activities;
 - 2.2 repealing associated agriculture-specific provisions, including provisions relating to the commencement of NZ ETS obligations for agriculture activities, allocation of units to agricultural activities, and transitional provisions for agriculture activities entering the NZ ETS;
 - 2.3 consequential amendments related to cross-references to the above provisions;
 - 2.4 revoking related secondary legislation, including relevant order in council; and
 - 2.5 creating transitional provisions, including for the de-registration of participants that are no longer required to report.
- 3 **Authorise** the Minister of Agriculture and Minister of Climate Change to issue drafting instructions to prepare an amendment to the Climate Change Response Act 2002 based on the decisions presented in this paper;
- 4 **Approve** the release of the drafting instructions and legislation in draft to the Environmental Protection Authority on an confidence basis and subject to legal professional privilege;
- 5 **Authorise** the Minister of Agriculture and Minister of Climate Change to make any further policy decisions relating to the amendments proposed in this paper, in a way consistent with Cabinet’s decisions;
- 6 **Agree** that the Bill will bind the Crown;
- 7 **Note** the Minister of Climate Change has submitted a legislative bid, *Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill*, for inclusion in the Legislation Programme, and as a category ranking of 1 and priority category of 2, which means it must be passed in 2024;

Signalling the Government’s direction on actions to reduce agricultural emissions

- 8 **Note** it is important to provide clear signals to the agriculture sector and New Zealand on the Government’s direction for agricultural emissions policy, of which keeping agriculture out of the NZ ETS is only part;

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- 9 **Agree** that as part of this CCRA Amendment process, the Minister of Agriculture and Minister of Climate Change will publicly reaffirm the Government's commitment to implementing a fair and sustainable system to reduce on-farm agricultural emissions that reduces emissions without sending production overseas, and will announce the following package of key actions:
- 8.1 reviewing the methane science and targets (the review will be announced by 8 April 2024);
 - 8.2 establishing an agricultural emissions reduction advisory board;
 - 8.3 publishing the standardised farm-level methodology;
 - 8.4 commencing measurement of on-farm emissions in 2025, based on the published methodology;
 - 8.5 Investigating options to incentivise the uptake of mitigation technologies;
 - 8.6 working towards developing and passing agricultural climate change legislation this term of Government; and
 - 8.7 introducing fair and sustainable pricing of on-farm emissions no later than 2030, that reduces emissions without resulting in emissions leakage and sending production overseas.

Authorised for lodgement

Hon Todd McClay
Minister of Agriculture

Hon Simon Watts
Minister of Climate Change

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Appendix One: Regulatory Impact Statement

Appendix refused under section 18(d) as it is already publicly available

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Appendix Two: Talking Points

- We have committed to fair and sustainable pricing of agricultural emissions outside of the NZ ETS by 2030.
- Removing agriculture from the NZ ETS, via this repeal, is the first step in achieving our coalition and manifesto priorities in this area.
- It is important to pass legislation by 31 December 2024 to prevent NZ ETS obligations from coming into effect on 1 January 2025. If we do not amend the legislation by this time, processors will be required to pay for farm level emissions.
- Announcing this repeal is also an opportunity to signal our future intentions for agricultural emissions policy. It is important we do this to provide some more certainty for the sector and other stakeholders – and further demonstrate our commitment to action.
- As part of this, we expect to highlight the following key agricultural emissions actions:
 - reviewing the methane science and targets (the review will be announced by 8 April 2024);
 - establishing an agricultural emissions reduction advisory board;
 - publishing the standardised farm-level methodology;
 - commencing measurement of on-farm emissions in 2025, based on the published methodology;
 - investigate options to incentivise the uptake of mitigation technologies;
 - working towards developing and passing agricultural climate change legislation; and
 - introducing fair and sustainable system to reduce on-farm emissions, that reduces emissions without resulting in emissions leakage and sending production overseas.
- We will also take action to tidy up He Waka Eke Noa, which was set up under the previous Government – as it is time for a fresh start. We will come back to you with more detail on this, and what we plan to do instead, in due course.



Cover Briefing: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill

Date submitted: 9 May 2024

Tracking number: BRF-4613

Joint agencies: Ministry for Primary Industries: B24-0312

Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
<p>Hon Todd MCCLAY Minister of Agriculture To Hon Simon WATTS Minister of Climate Change</p>	<p>Agree to provide feedback on the attached draft Cabinet paper and draft Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Approval for Introduction.</p>	13 May
	<p>Agree to circulate the draft Cabinet paper and draft Climate change Response (Emissions Trading Scheme Agricultural Obligations) Amendment bill to your Ministerial colleagues for consultation for the period from 15 to 21 May.</p>	
	<p>Note that to meet a lodgement date of 23 May which will be required for an announcement at Fieldays we have allowed five days for ministerial consultation from 15 May to 21 May.</p>	
	<p>Note the Bill will be lodged on 23 May and be considered by the LEG committee on 30 May, followed by Cabinet on 4 June.</p>	21 May

Actions for Minister's office staff

Forward this briefing to:

[Add extra lines or delete as necessary.]

Return the signed briefing to the Ministry for the Environment and the Ministry for Primary Industries (ministerials@mfe.govt.nz, ministerials@mpi.govt.nz).

Appendices and attachments

1. Cabinet Paper: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment bill: For Approval.
2. Draft Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment bill.
3. Disclosure statement for Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment bill.

Key contacts at Ministry for the Environment

<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Arthur Ung	9(2)(a)	
Responsible Manager	Cheryl Moir	9(2)(a)	✓
General Manager	Mark Vink	021 176 2243	

Key contacts at Ministry for Primary Industries

<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Albert Walker	9(2)(a)	
Responsible Manager	Beth Hampton	9(2)(a)	✓
Director (Acting)	Sophia Murphy	9(2)(a)	

Minister's comments

Appendix 2 is refused under section 18(d) of the Act as it is already publicly available at: <https://www.legislation.govt.nz/bill/government/2024/0062/latest/whole.html>

Appendix 3 is refused under section 18(d) of the Act as it is already publicly available at: <https://www.legislation.govt.nz/bill/government/2024/0062/latest/whole.html>

Cover Briefing: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill

Purpose

1. This briefing seeks your approval to consult with your Ministerial colleagues on the following material to support amending the Climate Change Response Act 2002 (CCRA) to keep agriculture out of the New Zealand Emissions Trading Scheme (NZ ETS):
 - i a draft Cabinet Legislation Committee (LEG) Paper on the proposed Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill for Ministerial consultation: Approval for Introduction (see **Appendix 1**).
 - ii a draft of the proposed Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill (see **Appendix 2**)

Background

2. On 2 April 2024, Cabinet agreed to amend the Climate Change Response Act 2002 to repeal all NZ ETS obligations for agricultural activities [CAB-24-MIN-0109.02 refers].
3. The draft Cabinet Legislation Committee (LEG) cabinet paper (**Appendix 1**) and the draft Bill (**Appendix 2**) attached to this briefing proceeds with the steps necessary to give effect to these Cabinet decisions. The associated disclosure statement (**Appendix 3**) is also attached for your information.

Risks and mitigations

4. Legislation needs to be passed by 31 December to stop NZ ETS surrender obligations commencing for agriculture activities on 1 January 2025. To support meeting this deadline, LEG decisions need to be made in May to enable first reading in June followed by a four-month select committee process. If LEG decisions are not made in May, then the Government may need to consider truncating this process. This could include considering the Bill under urgency or shortening the Select Committee to less than four months which would require a time-unlimited debateable motion.

Legal issues

5. The draft Bill provided in Appendix 2 is subject to the Parliamentary Counsel Office's quality assurance checks, which are to be undertaken concurrently with circulation of the draft alongside agency and Ministerial consultation.

Next steps

6. The following actions and timeframes enable obtaining Cabinet approval to support an announcement at Fielddays and progressing the bill to Parliament to meet the December 2024 deadline:

Action	Date
Ministerial Consultation	15 to 21 May
Lodgement date for LEG committee	23 May
LEG Committee	30 May
Cabinet Approval	4 June
Announcement at Fielddays	12 June
Introduction of the Bill	17 June

Recommendations

We recommend that you:

- a. **Agree** to provide feedback on the draft cabinet paper to officials by 13 May 2024.

Yes | No

- b. **Agree** to circulate the attached Cabinet paper - Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Approval For Introduction (see **Appendix 1**) and Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill (see **Appendix 2**) to your Ministerial colleagues for consultation for the period from 15 to 21 May.

Yes | No

- c. **Note** that to meet a lodgement date of 23 May, which will be required for an announcement at Fielddays, we have allowed five days for ministerial consultation from 15 May to 21 May.

- d. **Note** the Bill will be lodged on 23 May and be considered by the LEG committee on 30 May, followed by Cabinet on 4 June.

Mark Vink
General Manager
Markets Directorate
16 May 2024



Hon Simon WATTS
Minister of Climate Change

Date

Sophia Murphy
Director (Acting)
Natural Resources Policy
16 May 2024

9(2)(a)



Hon Todd MCCLAY
Minister of Agriculture

Date

Appendix 1: Cabinet Paper: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment bill: Approval for Introduction

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Office of the Minister of Agriculture

Office of the Minister of Climate Change

Cabinet Legislation Committee

Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill: Approval for Introduction

Proposal

1. This paper seeks approval for the introduction of the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill to the House of Representatives (see Appendix 1).

Policy

2. On 2 April 2024, Cabinet agreed to amend the Climate Change Response Act 2002 (CCRA) to repeal all New Zealand Emissions Trading Scheme (NZ ETS) obligations for agricultural activities [CAB-24-MIN-0109.02 refers].
3. A Bill is required to amend the CCRA prior to NZ ETS surrender obligations for these activities beginning on 1 January 2025.
4. This proposal supports the Government's coalition agreements and National Party's manifesto commitment to keep agriculture out of the NZ ETS; and aligns with Action 12 'Finalise policy to keep agriculture out of the ETS' of the Coalition Government's Action Plan for New Zealand.

Impact analysis

5. A Regulatory Impact Statement was prepared in accordance with the necessary requirements, and was submitted to Cabinet along with the Cabinet paper seeking approval for final policy decisions on the Climate Change Response Amendment Bill [CAB-24-MIN-0109.02 refers]. This Regulatory Impact Statement achieved a 'partially meets' from the Regulatory Impact Assessment Panel.

Compliance

6. This Bill complies with:
 - I. the principles of the Treaty of Waitangi;
 - II. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993

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- III. the disclosure statement requirements. A disclosure statement has been prepared and is attached to this paper (see Appendix 2)
- IV. the principles and guidelines set out in the Privacy Act 2020
- V. relevant international standards and obligations and;
- VI. the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory.

Consultation

7. The following agencies were consulted on this paper - The Treasury, Te Puni Kōkiri, Te Arawhiti, and the Environmental Protection Authority (EPA), Ministry of Foreign Affairs and Trade, Ministry of Transport, Public Service Commission, Ministry of Business, Innovation and Employment, Department of Conservation. The Department of the Prime Minister and Cabinet was informed.
8. [PLACEHOLDER for Ministerial consultation feedback]
9. We have not consulted publicly on amending the CCRA to 'keep agriculture out of the Emissions Trading Scheme' although we have clearly signalled our intention to do this. There will be opportunity to hear from the public as part of the Select Committee process.
10. Whilst specific consultation has not been undertaken for this Bill, previous consultation on related policy proposals is relevant and has been considered. Last year, the Government consulted on deferring NZ ETS reporting obligations for animal farmers with 1,225 submissions received. Analysis of submissions identified that most agricultural sector submitters continued to support an agricultural emissions pricing system outside of the NZ ETS as they considered it would provide greater opportunities to develop a more effective solution.
11. Māori submitters identified there would be increased administrative costs as a result of animal farmers' obligations under the NZ ETS. The majority of submissions received who opposed the deferral expressed concern about delays to pricing agricultural emissions and the associated impact that would have on agricultural emissions reductions.

Binding on the Crown

12. This Bill will bind the Crown.

Creating new agencies or amending law relating to existing agencies.

13. This Bill does not create new agencies.

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14. Fertiliser and animals processors are currently NZ ETS participants reporting their emissions in accordance with the CCRA. This Bill will require the EPA to update their operational systems and to notify fertiliser and animals processors that they have been removed from the NZ ETS participant register. This will not affect those participants remaining on the register for non-agricultural activities.
15. Note that fertiliser and animals processors will no longer be NZ ETS participants immediately following royal assent. The Bill enables the EPA to record in their systems a deregistration date for these processors of 1 December 2023. This is so the EPA's systems do not automatically send these processors notices that they need to submit emissions returns, as these will no longer be required due to them no longer being NZ ETS participants.
9(2)(h)

Allocation of decision-making powers

16. This draft legislation does not involve the allocation of decision-making powers between the executive, the courts, and tribunals.

Associated regulations

17. This Bill will not require subsequent regulations to bring the Bill into operation.

Other instruments

18. This Bill does not include any provision empowering the making of other instruments that are deemed to be legislative instruments or disallowable instruments (or both).

Definition of Minister/department

19. This Bill does not contain a definition of Minister, department (or equivalent government agency), or chief executive of a department (or equivalent position).

Commencement of legislation

20. This Bill will come into force the day after Royal assent.

Parliamentary stages

21. To align with Government priorities, the Bill should be introduced on 17 June 2024 for a first reading in the House in the sitting week of 25 June 2024.
22. The Bill should be referred to the Environment select committee for a report back date in November to enable for the Bill to proceed through the House and obtain Royal assent before 31 December 2024.

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Proactive Release

23. The Ministers proposes to release the paper proactively within 30 business days on the Ministry for the Environment website

Next Steps

24. We propose to announce this amendment to the CCRA to 'keep agriculture out of the ETS' at Fieldays.
25. This will be followed by the introduction of the Bill on 17 June, with a first reading in Parliament between 25 and 27 June.

Recommendation

26. We recommend that the Cabinet Legislation Committee:
- 1 **note** the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill holds a category 2 priority on the 2024 Legislation Programme and must be passed this year to keep agriculture out of the ETS;
 - 2 **note** the Bill will amend the Climate Change Response Act 2002 to repeal all New Zealand Emissions Trading Scheme obligations for agricultural activities;
 - 3 **approve** the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill for introduction, subject to the final approval of the government caucus and sufficient support in the House of Representatives;
 - 4 **agree** the Bill be introduced on 17 June 2024;
 - 5 **agree** the government propose that the Bill be:
 - 5.1 referred to the Environment committee for consideration;
 - 5.2 enacted by 31 December 2024.

Authorised for lodgement

Hon Todd McClay

Minister of Agriculture

Hon Simon Watts

Minister of Climate Change

CLASSIFICATION



Briefing: Status of the first emissions reduction plan and emissions budget 1

Date submitted: 14 June 2024

Tracking number: BRF-4840

Security level: CLASSIFICATION

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	Discuss the recommendations in this briefing with officials Make decisions on the recommendations in this briefing	17 June 2024

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

Appendices and attachments
Appendix A: Withheld in full under section 9(2)(h) of the Act
Appendix B: Discontinued ERP1 actions already noted by Cabinet
Appendix C: Discontinued ERP1 actions still to be noted by Cabinet
Appendix D: EB1 interim projections June 2024

Key contacts at CCIEB Unit			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal author	Lydia Marston	9(2)(a)	
Executive Director, Climate Change IEB Unit	Lisa Daniell	022 124 9568	✓

Minister's comments

Status of the first emissions reduction plan and emissions budget 1

Key messages

1. A key requirement of the Climate Change Response Act 2002 (CCRA/the Act) is the explicit duty for the Minister of Climate Change to:
 - a. Set emissions budgets and ensure they are met;¹
 - b. Prepare and publish emissions reduction plans to achieve these budgets.²
2. 9(2)(h)

How we are tracking for Emissions Budget 1

3. The limit on allowable net emissions for the first emissions budget (EB1) is 290 Mt CO₂e. The June 2024 interim emissions projections indicate the central estimate of emissions is 281 Mt CO₂e with a margin of ±4 Mt. While the central estimate is 9 Mt below EB1 limits, it is closer than the December 2023 projections (see Table 1 and Appendix D).

What has changed in terms of the first emissions reduction plan and what are the implications?

4. Several policies ('actions') in the first emissions reduction plan (ERP1) have been stopped ('discontinued') as they do not align with the Government's approach to reducing emissions or have been deprioritised for other reasons. Officials provided you with advice on the implications of stopping these actions in February (BRF-4311 refers). In addition, some ERP1 actions were stopped by the previous administration, and the Coalition Government has announced a number of new policies. 9(2)(h)
5. Officials' current assessment (based on the interim projections) is that despite recent policy changes, ERP1 remains sufficient to meet EB1. However, there is a level of risk to manage, given the reduced margin for meeting EB1 and the inherent uncertainty associated with projections.
6. 9(2)(h)
7. 9(2)(h)

¹ CCRA s5W and s5X.

² CCRA s5ZG(1).

³ 9(2)(h)

a. 9(2)(h)

[Redacted text block]

⁴9(2)(h)

9(2)(h)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Recommendations

15. It is recommended that you:

- a. **Note** the explicit duty under the CCRA for the Minister to set emissions budgets and ensure they are met, and to prepare and make public an Emissions Reduction Plan (ERP) for meeting the relevant emissions budget.
- b. **Note** the interim emissions projections of June 2024 suggest the central estimate of emissions is 9MT below EB1 limits.
- c. **Note** that officials' current assessment (based on the interim projections) is that despite recent policy changes, ERP1 remains sufficient to meet EB1.
- d. **Note** there has been a change in the policy approach to meeting climate targets, including several changes made to ERP1 actions by this Government and announcement of some new policies, off the back of changes by the previous government.
- e. 9(2)(h) [Redacted]
- f. **Note** the CCRA sets out that changes can be made to an ERP but does not explicitly state which circumstances *require* amendment of an ERP.
- g. 9(2)(h) [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

ii. 9(2)(h)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

n. **Agree** to discuss this briefing and the options presented with Officials.

Yes | No

Signatures



Lisa Daniell
Executive Director
**Climate Change Chief Executives Board
Unit**
14 June 2024

Hon Simon WATTS
Minister of Climate Change
Date

Status of the first emissions reduction plan and emissions budget 1

Purpose

16.9(2)(h)

There is a statutory duty on the Minister of Climate Change to set and meet emissions budgets, and prepare a plan to meet them

17. Under the CCRA, as the Minister of Climate Change, you have an explicit statutory duty⁵ to set, and subsequently meet, a system of legally binding emissions budgets.⁶

18. For each emissions budget, you must prepare and make publicly available a plan (emissions reduction plans - ERPs) setting out the policies and strategies for meeting that emissions budget.⁷ The need to prepare and publish an ERP is explicit in the Act.

19.9(2)(h)

Interim emissions projections indicate we are on track to meet EB1 but this has become more challenging compared to December 2023 projections

21. Emissions projections are a key tool for assessing whether policies are likely to be sufficient to meet emissions budgets. Projections can change with each update to reflect updated assumptions about economic activity or other factors outside of the Government's control, updates to the way emissions are measured (methodological adjustments) and impacts of policy settings or continued policy implementation. These factors can have both a negative and positive effect on emissions.

22. The June 2024 interim emissions projections provided an update on progress towards meeting New Zealand's emissions reductions targets (see Table 1 for more detail).

23. The interim projections indicate that we remain on track to meet EB1. For EB1 the headroom (from the central estimate) has decreased to a 'margin' of 9 Mt below EB1 limits (with an uncertainty band of ± 4 Mt⁸) compared to a 13 Mt margin in the December 2023 projections.

⁵ Refer previous briefing BRF-3987 for further detail on projections and appended Crown Law Office advice.

⁶ CCRA s5W and s5X.

⁷ CCRA s5ZG(1).

⁸ Projected emissions and modelling of ERP2 policies is currently underway, led by MfE and in collaboration with other agencies providing quality assurance.

Table 1: December 2023 and interim emissions projections (updated 12 June)

Emissions Budget (EB) levels – net, all gases	Central estimate and uncertainty range	
	Dec 2023 official projections (based on July 2023 settings and assumptions)	June 2024 interim projections (based on June 2024 settings and assumptions)
EB1 (2022-25) = 290 Mt (or 72.5 Mt annual average)	277 Mt (± 7 Mt)	281 Mt (± 4 Mt)
EB2 (2026-30) = 305 Mt (or 61 Mt annual average)	281 Mt (± 15 Mt)	301 Mt (± 18 Mt)
EB3 (2031-35) = 240 Mt (or 48 Mt annual average)	233 Mt (± 30 Mt)	252 Mt (± 29 Mt)

Officials' current assessment is that despite recent policy changes, the ERP1 remains sufficient to meet EB1

24. The June interim projections better reflect the impact of the more recent ERP1 policy changes that were able to be modelled. They indicate that the policy changes are not expected to materially impact our ability to meet EB1. On this basis, officials' current assessment is that despite recent policy changes, the ERP1 remains sufficient to meet EB1.
25. When comparing the December 2023 official projections and June 2024 interim projections, the impact on emissions in EB1 from policy changes was low, compared to other factors. See Appendix D for a further breakdown of the interim projection changes for EB1.
26. However, there is a level of ongoing risk to manage, given the reduced margin for meeting EB1 and the inherent uncertainty with projections. Due to the length of time it takes to implement policies and for these to deliver associated emissions reductions, there are limited options to influence material emissions reductions in the remaining 18 months of EB1. We therefore recommend careful consideration prior to removing any further policies from ERP1 that would impact on emissions reductions in EB1, and increase risk/decrease the margin further.⁹
27. **The Government's approach to reducing emissions has adjusted** Several ERP1 policies or actions have been stopped, as they do not align with the Government's approach to reducing emissions or have been deprioritised for other reasons (see Appendix B).¹⁰ In addition, some ERP1 actions were discontinued by the previous administration (see Appendix B).
28. 9(2)(h)

⁹ CCRA s5ZF provides for the Minister of Climate Change to 'borrow' no more than 1 percent of the next emissions budget to meet the preceding emissions budget. For EB1 this is 2.90Mt 'borrowed' from EB2 (which would then to abate that borrowed amount). This provision can only be used following the end of EB1. The timing, and limitation to 1 percent, renders it an administrative "washing up" or "true-up" mechanism that provides the ability to absorb short-run shocks, such as volatility in emissions, or accounting errors or adjustments that happen late in an EB.

¹⁰ An additional 13 actions have been stopped by Ministerial decision but are yet to be noted by Cabinet (Appendix C.) Note that Appendix B and C contain stopped ERP1 actions reported by agencies to date, we are continuing to work with agencies on implications of recent B24 decisions and if further ERP1 actions need to be included as a result.

9(2)(h)

29. We provided you with advice on the implications of stopping the actions listed in Appendix B in February 2024 (BRF-4311 refers). 9(2)(h)

9(2)(h)

9(2)(h)

¹¹ 9(2)(h)

b. 9(2)(h)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

- [Redacted]

- [Redacted]

[Redacted]

[Redacted]

9(2)(h)

[Redacted]

9(2)(h)



Ongoing monitoring of progress

40. The Climate Change Interdepartmental Executive Board will continue to report to you on a quarterly basis on how we are tracking to meet EB1 (including via reporting on the Government's Target Nine), and every second quarter, on implementation of ERP1.
41. The first of the Climate Change Commission (the Commission) annual monitoring reports on emissions reductions and implementation of ERP1 is due in July 2024. The Government's response is required to be tabled in Parliament in October 2024.

Next steps

42. We recommend you discuss this briefing with Officials to confirm and direct action on your preferred approach.
43. The following proposed next steps would address the recommended approach, should you wish to proceed:

a. your confirmation that you consider ERP1 remains sufficient to meet EB1 (in light of the stopped policies set out at Appendices B and C),

b. 9(2)(h)

[Redacted content]

Appendix B: Discontinued ERP1 actions already noted by Cabinet

ERP1 Actions discontinued by the previous government

Action for delivery
7.5: Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.
10.1.2: Support initiatives to increase the uptake of e-bikes.
10.2.2: Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.
10.2.2: Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.
10.2.2: Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.
10.3.5: Implement the Sustainable Biofuels Obligation

ERP1 Actions discontinued by this government

Action for delivery
3.2.2b: Support regions and industries to manage the transition
3.3.1: Develop an income insurance scheme
5.2.1: Adjust the NZ ETS to drive a balance of gross and net emissions reductions.
5.2.3: Assess how the NZ ETS can support indigenous biodiversity.
6.10: Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process
9.4: Support businesses moving to circular economy models.
10.1.4: Require roadway expansion and investment in new highways to be consistent with transport targets
10.2.1: Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024
10.2.1: Establish whether the Clean Vehicle Discount can be extended to other vehicle classes
11.1.1: Provide rebates for energy efficient equipment.
11.2.2: Investigate options for dry-year electricity storage through the New Zealand Battery Project.
11.4.1: Set an action plan for decarbonising the industrial sector.
11.4.1: Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.
11.4.1: Fund further decarbonisation of industry and heat through expansion of the GIDI.
11.4.1: Provide grant funding for commercial space and water heating and high efficiency electrical equipment.
11.4.1: Finalise and implement the Advanced Manufacturing Industry Transformation Plan.

Appendix C: Discontinued ERP1 actions still to be noted by Cabinet

Discontinued Action	Responsible Minister/s	Approximate Direct Abatement impact (Assessment developed in consultation with responsible agencies)
3.2.1 Develop an equitable transition strategy	Minister for Social Development, Minister for Economic and Regional Development	Nil direct abatement impact. Note decisions have been taken to transfer ownership of this work programme, and work to mitigate distributional impacts is continuing in a different form.
9.10 Commence a Circular Economy and Bioeconomy Strategy.	Minister for Economic Development	Nil direct abatement impact.
8.1.1 Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.	Minister of Science, Innovation and Technology	Nil direct abatement impact.
10.1.1.6 Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
10.1.2 Revise Waka Kotahi's national mode shift plan (keeping cities moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode-shift required in urban areas	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
10.1.2: Set sub-national VKT reduction targets for Aotearoa New Zealand's major urban areas (Tiers 1 and 2)	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1 beyond the policy impact of the initial investments to improve safety and access to public transport and active modes.
10.1.2: Develop VKT reduction programmes for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1 beyond the policy impact of the initial investments to improve safety and access to public transport and active modes.

10.1.4 Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
10.4.1 Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan	Ministry of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
11.2.2 Ban new fossil-fuel baseload generation.	Minister for Energy	Officials consider this initiative is not likely to have an emissions reduction benefit. There is a low likelihood that generation developers will build new fossil fuel baseload due to its higher cost compared with renewables coupled with the ETS making fossil-fuel baseload generation less competitive. There are also uncertainties with future gas supply.
11.3.1 Manage the phase out of fossil gas. Develop a gas transition plan.	Minister for Energy	Nil direct abatement impact. Workstreams will continue under gas security of supply workplan.
11.4.1.a Develop a mandatory energy and emissions reporting scheme.	Minister for Energy	Nil direct abatement impact.
11.5.1 Monitor progress towards the aspirational renewable electricity target.	Minister for Energy	Nil direct abatement impact.

*Note: this list is correct as at 14 June 2024. We are continuing to work with agencies on implications of any recent decisions including via Budget 24 and if further ERP1 actions need to be included as a result, so is subject to further updates received. Any further updates to this list of discontinued actions, and their implications, can be incorporated into the ERP2 Cabinet paper for noting through Cabinet.

Appendix D: EB1 interim projections comparison in modelling results

The table below provides a breakdown (as at 14 June 2024) comparing the December 2023 official projections with latest June 2024 ENZ interim projections (in Mt CO₂e).

EB1	Energy	Transport	IPPU	Agriculture	Waste	Forestry	Gross	Net
(1) 2023 WEM	57.6	56.3	16.6	156.8	14.0	-23.8	301.2	277.4
(2) 2023 ENZ model and non-modelled GIDI effect	2.6	-0.2	0.2	-0.2	0.1	-0.6	2.5	1.9
(3) Inventory/methodology changes	1.1	-0.8	0.2	0.7	-0.2	1.3	6.4	7.7
(4) Tiwai Point continuing	0.0	0.0	0.6	0.0	0.0	0.0	0.6	0.6
(5) Ag pricing and Essential Freshwater removal	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1
(6) New price path	-0.5	0.0	0.0	0.0	0.0	0.0	-0.5	-0.5
(8) Removal of CCD	0.0	0.1	0.0	0.0	0.0	-0.2	-5.3	-5.5
(9) Effects of new policies	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4
(10) Total change	3.3	-0.9	1.0	0.6	-0.1	0.5	3.9	4.3
(10) New Baseline	60.8	55.4	17.7	157.4	13.8	-23.3	305.1	281.3

Note: The impact of removing GIDI is not able to be isolated in the interim projections (the 2023 ENZ model and non-modelled GIDI effect is estimated to have increased emissions by net 1.9Mt). At the point of decision on this particular policy - the December 2023 Mini-Budget - the impact of any foregone abatement on EB1 was anticipated to be 0.14 Mt. Further work has been done to assess the impact by MBIE as the responsible agency, and this is now estimated to be 0.255 Mt.



Proposed approach for delivering the Government responses to the Climate Change Commission's monitoring reports on emissions reduction and adaptation progress

Date submitted: 4 July 2024

Tracking number: BRF-4870

Security level: CLASSIFICATION

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	<p>a. Agree in principle (subject to confirmation once the final reports are received) to the proposed approach that each of the Government responses acknowledge the Commission's report, provide an overarching strategic narrative on the Government's climate change priorities, and respond to the key findings for each report.</p> <p>b. Agree in principle (in advance of receiving the report) for officials to progress the response to the NAP progress report through Cabinet in 2024, ahead of the statutory deadline of 2 February 2025.</p>	8 July 2024

Actions for Minister's office staff

Return the signed briefing to the CCIEB Unit (board@climateieb.govt.nz).

Appendices and attachments

Nil

Key contacts at CCIEB Unit

Position	Name	Cell phone	First contact
Principal author	Lydia Marston	9(2)(a)	
Manager, CCIEB unit	Amy Tisdall	9(2)(a)	
Executive Director, CCIEB unit	Lisa Daniell	022 124 9568	✓

Minister's comments

Key Messages

1. The Climate Change Response Act 2002 (the Act) requires the Climate Change Commission (the Commission) to independently monitor and report to you, as the responsible Minister:
 - a. annually on the Government's progress towards meeting the 2050 target, progress against emissions budgets and emissions reduction plans (s5ZK), and
 - b. biennially on progress on the implementation and effectiveness of national adaptation plans (s5ZU).
2. Both monitoring reports will be provided this year for the first time. On receipt of these reports, you are required to present a copy of the report to the House of Representatives within 10 working days. The Commission must make the report public as soon as practicable after it is presented to the House, but no later than 20 working days after providing it to you (even if it has not been presented to the House (s5L)).
3. You are required to provide a response to each of these reports within specified timeframes; three months for the emissions reduction report (ERM report), and six months for the Adaptation progress report (NAP1 progress report). Applied to this work, the statutory timeframes are as follows:

Commission Report	Report received by	Report tabled by	Response due by
ERM report	16 July	30 July	16 October 2024
NAP1 progress report	2 August	16 August	2 February 2025

4. You, along with a small number of Climate Change Interdepartmental Executive's Board (CCIEB) Unit and Ministry for the Environment (MfE) officials, have received the embargoed draft key findings of the ERM report recently.

The proposed approach for how the Government responds to these reports

5. The CCIEB Unit, MfE adaptation and MfE mitigation officials have together considered different options for responding to these reports in line with the legal requirements you must meet. Options must also provide sufficient time to consider the report findings and manage pressure on climate change resources across government at a time of critical delivery for the broader climate change programmes (such as the second emissions reduction plan ERP2, and the adaptation framework.)
6. We recommend that each of the Government responses acknowledge the Commission's report, provide an overarching strategic narrative on the Government's climate change priorities, and respond to the key findings and how they will be considered or addressed (rather than providing a line-by-line response to all of the findings). We are recommending you agree to this in-principle and confirm the approach after receipt of each report.

While we recommend the same overarching approach to each response, there are different contexts to take account of

7. **ERM report response:** The Act includes that the response to the Commission's ERM report can "note any amendments" to the current ERP. You are about to consult publicly on the change of approach to meeting emissions reduction targets, including for the first emissions budget period through the ERP2 consultation. This includes noting for the public the actions in ERP1 that have stopped [BRF 4840 refers].
8. Any findings of the Commission's ERM report relevant to changes to ERP1 can be considered in this process. If timing allows, following receipt and consideration of

submissions, you can use the ERM response as the delivery vehicle for an ERP1 amendment. The ERM report will also include findings relevant to future emissions budgets, and these can be considered in the analysis for ERP2 prior to finalising it in late 2024.

9. **NAP1 progress report response:** NAP progress reports are produced by the Commission every two years. This response is a key opportunity this term for the Government to publicly set strategic direction and wider Government priorities for climate adaptation, and to better align actions with these priorities for the remaining four years of NAP1 implementation.

Timeframes to deliver the responses are tight and require early consideration

10. The most pressing statutory timeframe is tabling the Commission’s ERM report by 30 July, and then tabling your response to it by 16 October 2024. The constraints on these timeframes arise from the upcoming Parliamentary recess periods and your travel. The dates we propose to hit are below:
 - a. the ERM report needs to be tabled on either 23, 24 or 25 July¹ (shortly after the planned release of the ERP2 consultation material), and
 - b. the response is taken to Cabinet ECO Committee on 25 September 2024 and Cabinet on 30 September. If there are any delays (noting a Cabinet recess in early October) final Cabinet approval is needed on 14 October.
11. We recommend you seek Cabinet decisions for the NAP1 progress report response in this calendar year, ahead of the statutory timeframe of 2 February. This is to manage the risk created by the uncertainty of the end of year Parliamentary recess and of sitting dates in January and February 2025 prior to Waitangi Day.

Recommendations

12. Officials recommend you:
 - a. **Note** that under the Climate Change Response Act 2002 (the Act) the Climate Change Commission (the Commission) is required to produce independent monitoring reports on emissions reduction and adaptation progress.
 - b. **Note** that, as the Minister of Climate Change, you are required to table the Commission’s monitoring reports within 10 working days of receipt and respond to the reports within set timeframes.
 - c. **Note** the Act specifies the process and timeframes for these functions to be undertaken. Applied to these reports the timeframes are:

Commission report	Report received by	Report tabled by	Response due by
ERM report	16 July 2024	30 July 2024	16 October 2024
NAP1 progress report	2 August 2024	16 August 2024	2 February 2025

- d. **Agree in principle** (subject to confirmation once the final reports are received) to the proposed approach that each of the Government responses acknowledge the Commission’s report, provide an overarching strategic narrative on the Government’s climate change priorities, and respond to the key findings for each report.

Yes | No

¹ We understand that you are travelling overseas on 30 July, and will have limited ability to respond to media enquiries, so while this is the last possible day you can table the report we recommend you do so earlier in order to facilitate any communications.

- e. **Note** that the sitting calendar in July and then in October provides limited options for tabling the ERM report (on 23, 24 or 25 July) and that the ERM report response would need to be considered by ECO Committee on 25 September or CBC 30 September.
- f. **Agree in principle** (in advance of receiving the report) for officials to progress the response to the NAP progress report through Cabinet in 2024, ahead of the statutory deadline of 2 February 2025.

Yes | No

- g. **Note** officials will provide you with a further briefing upon receipt of each of the Commission's reports that provides an initial analysis of the Commission's findings and key messages to support you to table the reports.

Signatures



Lisa Daniell
Executive Director
**Climate Change Chief Executives Board
Unit**

Date: 4 July 2024

Hon Simon WATTS

**Minister of Climate Change
Date**

Proposed approach for delivering the Government responses to the Climate Change Commission’s monitoring reports on emissions reduction and adaptation progress

Purpose

13. The purpose of this briefing is to:
- a. set out the statutory requirements for responding to the Commission’s independent monitoring reports on emissions reduction and adaptation progress.
 - b. seek your early direction on the approach and timeframes for delivering the Government responses to the Commission’s reports.
14. There are similarities between the responses to both reports, including in terms of the statutory requirements that need to be met, however, the context for responding to each report is different. This briefing considers these factors and provides you with a recommended approach for both responses.

Independent monitoring and reporting on the Government’s response to climate change

You will receive two monitoring reports from the Commission on the progress and effectiveness of the Government’s response to climate change

15. The Commission is required, under the Act, to monitor and report on the following:

Annual emissions reduction monitoring report (section 5ZK(1), (2) & (3))	Biennial NAP progress report (section 5ZU(1) & (2))
<ul style="list-style-type: none"> • Measured emissions and removals for the most recent year of the emissions budget for which data is available from the GHG Inventory, and • The latest projections for current and future emissions and removals, and • As assessment of the adequacy of the emissions reduction plan and progress in its implementation, including any new opportunities to reduce emissions. 	<ul style="list-style-type: none"> • An assessment of the progress made towards implementing the strategies, policies and proposals included in the NAP, and • An assessment of the degree to which the objectives of the NAP have been achieved and how well the plan responds to the most significant risks posed by climate change, and • An identification of any known barriers to the implementation and effectiveness of the current NAP, including recommendations for how those barriers might be addressed or overcome in future, and • Any other relevant matters required to support the report.

16. This will be the first time the Commission has prepared each of these reports. The emissions reduction monitoring report (ERM report) is due on 16 July 2024. The national adaptation plan progress report (NAP1 progress report) is due on 2 August 2024.

17. The Commission has had access to implementation data collected through the regular Climate Change IEB reporting to help inform these reports. MfE have also provided the Commission with responses from the call for data on adaptation preparedness you issued earlier this year (under s5ZW).
18. The Commission has provided embargoed copies of the key messages within the ERM report to your office, and to named officials within the CCIEB Unit and MfE, and we understand you have had an initial briefing from the Commission on 24 June. The Commission has been clear early access is not intended to set a precedent for any future reports, but we are working with the Commission to seek a similar provision for the upcoming NAP progress report.

You are required to provide a response to each of the Commission’s monitoring reports

19. On receipt of these reports, two statutory requirements are triggered. Firstly, you are required to present a copy of the report to the House of Representatives within 10 working days, at which point the Commission can make the report public (s5L).² Second, you are required to provide a response to each of the reports within specified timeframes. The Act outlines what is required for the response to each of these reports, as follows.

Emissions reduction monitoring annual report (section 5ZK(4))	NAP biennial report (section 5ZV)
<p>No later than 3 months after receiving the report, the Minister must make available a report that:</p> <ul style="list-style-type: none"> • Sets out the Minister’s response to the report and recommendations, and • Describes the progress made in implementing the current emissions reduction plan, and • Notes any amendments to that plan, and • Make the response publicly available and present it to the House of Representatives. 	<p>No later than 6 months after receiving the report, the Minister must:</p> <ul style="list-style-type: none"> • Respond in writing to the progress report, and • Make the response publicly available and present it to the House of Representatives.

20. For each report, the statutory timeframes for delivery are as follows.

Commission report	Report received by	Report tabled by	Response due by
ERM report	16 July	30 July ³	16 October 2024
NAP1 progress report	2 August	16 August	2 February 2025

21. 9(2)(h)

² Note, the Minister must present a copy of the Commission’s report to the House of Representatives by the later of (a) 10 working days after the report is provided to the Minister; and (b) if Parliament is not in session during the 10 working days after the report is provided to the Minister, as soon as practicable after the commencement of the next session of Parliament (s5L(2)). Here, it is expected that Parliament will be in session for at least some of the 10 working days as noted above.

³ We understand that you are travelling overseas on 30 July and will have limited ability to respond to media enquiries, so while this is the last possible day you can table the report, we recommend you do so on an earlier sitting day in order to facilitate any communications.

9(2)(h)

The proposed approach to responding to the monitoring reports

22. The responses to the Commission's monitoring reports are an opportunity to align the existing climate change plans with your Government's climate strategy.
23. In developing options for how you could respond to these reports, we have sought to balance what is required under the Act, what can be considered reasonable as a response to the reports' findings, and what is achievable from a resourcing perspective within the statutory timeframes. There are choices about how detailed the responses could be, as the Act does not prescribe the level of detail required. The proposed approach sits at the lighter end of these options (i.e. is less detailed) but will be prepared so that it is consistent with obligations in the Act.
24. The proposed approach for each of the Commission's reports (which we will confirm with you once the final reports are received) is that the responses:
 - a. acknowledge the Commission's report, and
 - b. provide an overarching strategic climate narrative (relevant to emissions reduction or climate adaptation from your climate strategy), and
 - c. identify and respond to key findings.
25. You are already receiving quarterly reporting from the CCIEB to regularly monitor progress on implementation of ERP1 and NAP1, delivery of the Government's top climate priorities, and progress towards Government Target 9. To drive efficiency across the system we propose that most of the response should draw from and build on this existing work, and that the upcoming September quarterly progress report to the Climate Priorities Ministerial Group is used as the basis to inform both responses.
26. This is particularly relevant given the responses to the Commission's reports comes at a time of critical delivery for multiple cross-government climate change programmes (namely the second emissions reduction plan and the adaptation framework) with corresponding impacts on the level of resourcing across climate change agencies.

While we propose the same overarching approach to each response, there are different contexts to take account of

27. On receiving the final reports from the Commission, officials will provide you with briefings on each, and outline specific context which is important to consider when developing each response. Some initial points are outlined below.

Context specific to the ERM report response

28. The ERM report response is an opportunity to set out the Government's commitment to meeting climate change targets, and outline the Government's revised approach to doing so, providing a method of linking back to your climate strategy.
29. The Act includes a provision for the response to the Commission's report to "note any amendments" to the current ERP. You are about to consult publicly on the changed approach to meeting emissions reduction targets, including for the first emissions budget period. This includes noting ERP1 actions which have stopped [BRF 4840 refers]. If the timing allows, following consideration of submissions to the ERP2 consultation, you could use the ERM response as the delivery vehicle for an ERP1 amendment to progress through Cabinet.

30. The Commission's ERM report will include findings relevant to future emissions budget periods, so these can be considered in the analysis for ERP2 prior to finalising it later in 2024.

Context specific to the NAP1 report response

31. The NAP1 progress report response provides a mechanism for aligning to the Government's climate adaptation priorities, including the Adaptation Framework. As these reports are only produced every two years, they are a key milestone for ensuring implementation progress is being made and action is effective.
32. We see this response as your best opportunity to align NAP1 with your climate strategy and help to drive the progress Ministers want to see for adaptation⁴. The Adaptation Framework is the key priority of the Government's adaptation response. How the Adaptation Framework and other government initiatives will support the delivery of NAP1, and address risks identified in the first National Climate Change Risk Assessment could be further discussed at the proposed September Climate Priorities Ministerial Group meeting.
33. There is no explicit provision within the Act to note amendments to a NAP as it does for ERPs. We are considering options to publish an updated table of NAP1 actions as a way of being clear about the Government's wider priorities for adaptation and for transparency about implementation of the plan. We will provide you with more detail on this in the next briefing to you on responding to the NAP1 progress report.

Timeline considerations

34. The responses to the Commission's reports are required within set statutory timeframes, as outlined earlier in this briefing. It will be necessary to engage with multiple agencies and Ministers on each of the responses within that timeframe given the cross-portfolio involvement in both reducing emissions and adapting to the impacts of climate change. The CCIEB Unit will lead and coordinate delivery of the responses with MfE and wider agencies.
35. We have provided initial detail on the timelines and possible time constraints below for you to consider. The final timeline for delivery will be included in the briefings we will send you when the final reports are received.

Context specific to the ERM report response timing

36. The most pressing statutory timeframe is tabling the Commission's ERM report by 30 July, and then tabling your response to it by 16 October 2024. The constraints on these timeframes arise from the upcoming Parliamentary recess periods and your travel.
37. The tabling of the Commission's ERM report, and its public release by the Commission, is planned to happen shortly after the Government launches its public consultation on ERP2. There is a possibility that the ERM report and ERP2 proposals will be seen by the media and other stakeholders to take different perspectives on key questions, such as whether New Zealand is on track for EB2. This will be compounded by differences in the underlying data sets and analytical approaches used between the two products, with ERP2 using more recent modelling than the ERM report. We will work with your office to closely manage this risk, including providing key messages to specifically articulate the differences between the products.

⁴ You have previously endorsed the system-wide NAP1 objectives for adaptation [BRF-4268 refers].

38. The corresponding response to the ERM report is on a particularly tight timeline, to be made public and tabled in the House of Representatives by 16 October. Due to Parliamentary recess in October, there are limited options for Cabinet Committee dates to gain Cabinet approval before the response is due. These are:

Option for lodgement date	Cabinet Committee	Cabinet meeting
a. 19 September	ECO - 25 September	30 September
b. 26 September	CBC - 30 September	14 October

39. Our initial recommendation would be to plan for consideration at ECO committee on 25 September, as this allows for the later date as a backup in case of any unexpected delay. Ministerial and agency consultation could then occur from 3-13 September and could potentially be considered by CPMG during this time.

Context specific to the NAP1 report response timing

40. The NAP1 progress report has a longer deadline for response (due 2 February 2025) however, the proposed timeline for the response has you seeking Cabinet decisions in late 2024, ahead of the statutory timeframe. The main driver to deliver the response early is the risk created by the uncertainty of the end of year Parliament recess and of sitting dates in January and February 2025.
41. There are options for Cabinet Committee consideration in November 2024, and this would need to work around your travel plans for COP29.

Option for lodgement date	Cabinet Committee	Cabinet meeting
a. 31 October	ECO - 6 November	11 November
b. 7 November	ECO - 13 November	18 November
c. 14 November	ECO - 20 November	25 November

Next steps

42. Embargoed copies of the preliminary key findings from the ERM report were provided to you on 21 June 2024, and you have received an initial briefing from the Commission to explain the approach taken for this work.
43. On receipt of the full and final ERM report in mid-July, officials will provide you with a briefing on the Commission's findings, along with an outline of the proposed response based on your feedback on the proposed approach in this briefing. That briefing will include an initial assessment about which findings we recommend the response to focus on, and a more detailed timeline for delivery. It will also include support for tabling the report and any public statement /release you may wish to make.
44. You will also be required to table the Commission's report in the House, and this will trigger the Commission's publication of its ERM report. You may wish to release a press release to welcome the report. MfE's communications team can provide a draft press release for your consideration, and key messages to clarify how this product differs to the Government's ERP2 proposals out for consultation.
45. In early August, on receipt of the NAP1 progress report, officials will provide you with a briefing on the Commission's findings, and an outline to develop the response based on your feedback on this briefing, and a more detailed timeline for delivery.



Briefing: ERP2: Cabinet paper and discussion document - summary of feedback and approval to lodge

Date submitted: 26 June 2024

Sub Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Agree to lodge the Cabinet paper	26 June 2024

Actions for Minister's office staff
Lodge the appended Cabinet paper, once agreed
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
1. Appendix 1: Departmental feedback and actions
2. Appendix 2: Talking points and Q&A to support CBC
3. Appendix 3: Cabinet paper – Public consultation on the second emissions reduction plan (clean)
4. Appendix 4: Cabinet paper – Public consultation on the second emissions reduction plan (tracked changes)
5. Appendix 5: Discussion document – Aotearoa New Zealand's second emissions reduction plan (2026-30) (clean)
6. Appendix 6: Discussion document – Aotearoa New Zealand's second emissions reduction plan (2026-30) (tracked changes)
7. Appendix 7: Technical annex to the discussion document

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Freya Farrar		
Responsible Manager	Stephen Goodman	9(2)(a)	✓
General Manager	Hemi Smiler		

Appendix 1 is withheld in full under section 9(2)(g)(i) of the Act.

Appendix 3 is refused in full as it is already publicly available at: <https://environment.govt.nz/assets/publications/BRF-5034-ERP2-Climate-MfE.pdf>

Appendices 5 and 7 are refused in full as they are already publicly available at: <https://environment.govt.nz/assets/publications/climate-change/New-Zealands-second-emissions-reduction-plan-Technical-annex.pdf>

ERP2: Cabinet paper and discussion document - summary of feedback and approval to lodge

Purpose

1. This paper seeks your approval to lodge the second emissions reduction plan (ERP2) consultation Cabinet paper package.
2. We attach the following documents for your final review:
 - i A table of departmental feedback (Appendix 1)
 - ii Talking points and proactive Q&As to support you at Cabinet Business Committee (CBC) (Appendix 2)
 - iii The Cabinet paper/consultation package:
 - i. Cabinet paper (clean Appendix 3, tracked changes Appendix 4)
 - ii. Discussion document (clean Appendix 5, tracked changes Appendix 6)
 - iii. Technical annex (Appendix 7).

Changes to papers for Cabinet

3. Last week you began Ministerial consultation on the ERP2 discussion document and approval to consult Cabinet paper (BRF-4935).

Ministerial and agency feedback

4. We have made changes requested by your office and PMO this afternoon.
5. We have actioned agency and Ministerial feedback that has come in to us up until Wednesday afternoon. Appendix 1 sets out agency feedback received and actions taken.
6. Agencies suggested a range of policy ideas that Ministers could consider for the final plan. At Cabinet you could tell your colleagues you are open to ideas from their portfolios over the next six months. Policies would need to fit with your Climate strategy and a focused, drivers-based approach to the plan (eg, if there are new enabling actions proposed by stakeholders through consultation). Policies would need to fit with your climate strategy and a focused, drivers-based approach to the plan (eg, if there are new enabling actions proposed by stakeholders through consultation).

9(2)(h)

■

■

9(2)(h)

ERP1 actions

9. 9(2)(h)

we have added the following to Chapter 2:

- i Included more text in the “*Summary*” box at the outset of Chapter 2 to signal this is part of the consultation in that chapter.
- ii Adjusted the title for this sub-section to: “How we are meeting the first emissions budget - amending the first emissions reduction plan”.
- iii Added a “*Share your views*” call out box at the start of the ERP1 section, to highlight what we are seeking feedback on.
- iv Moved the “*Consultation questions for Chapter 2*” up to the ERP1 section as they only relate to this content in the chapter. 9(2)(h)
- v 9(2)(h)
We also reordered the paragraphs in this section to improve clarity and flow.

11. 9(2)(h)

you also asked us to confirm that all the ERP1 actions that are not progressing are reflected in the consultation material. We have engaged with agencies at pace to reconfirm this and to present as accurate an update as possible. As a result, we have added a further 6 ERP1 actions to the list of actions that are being stopped.

- 13. Through this process multiple agencies advised that they are yet to engage with their Ministers on the future of some ERP1 actions that are currently “on hold”. It is therefore possible that additional ERP1 actions will be updated as discontinued over the coming months. This will be confirmed through the Climate Change Chief Executive’s Board September Quarterly Report and the publication of an amended ERP1 later this year.

9(2)(h)

14. 9(2)(h)

Providing an early signal regarding NZ ETS settings

15. You have directed officials to include text in the discussion document indicating the Government's preference regarding an option relating to upcoming NZ ETS settings decisions. Following direction from your office, we have removed this content from the discussion document, subject to your final approval.

Technical appendix

16. You are required to undertake adequate consultation on ERP2.¹ The consultation materials that are made public will form a significant part of any assessment of adequacy, along with other engagement and consultation plans.
17. We have appended a technical annex to the discussion document (Appendix 7). This annex provides detail for informed consultation participants on the modelling underpinning ERP2 proposals, including assumptions and logic mapping.

Next steps

18. If the paper is lodged tomorrow, we continue on the timeline as below:

<i>Milestone</i>	<i>Date</i>
Lodgement	Thursday 27 June
CBC	Monday 1 July (there is no ECO that week)
Cabinet	Monday 8 July
Public consultation	Begins Thursday 11 July

19. Once the paper is lodged, we will continue to do final publication edits to make sure the paper is ready for consultation shortly after Cabinet approval. This may include some edits before Cabinet approval, if needed to reflect late Ministerial feedback.

Recommendations

We recommend that you:


- a. **agree** to lodge the Cabinet paper on Thursday 27 June

Yes | No

¹ Climate Change Response Act s 5ZI(1)(b). You are also required to consider the advice of the Climate Change Commission (s 5ZI(1)(a)) – you received advice about how you will meet this obligation recently (BRF-4759).

- b. **note** that we understand more changes to the paper may be needed as you receive Ministerial comments, we will work with your office as needed to make any changes before lodgement

Signatures

A handwritten signature in blue ink, appearing to read 'S Goodman', is written over a yellow circular highlight.

Stephen Goodman
Manager
Climate Change Mitigation
26 June 2024

Hon Simon WATTS
Minister of Climate Change

Date

Out of scope

[Redacted text block]

Sector Policies

17. Out of scope

[Redacted text block]

21. This paper also notes the closure of some ERP1 actions. Removing additional actions is not expected to have material impact on meeting EB1, despite recent policy changes.

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Reactive questions and answers

Out of scope

[Redacted]

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Out of scope

Why do we need to make decisions about ERP1 actions here?

There are a number of ERP1 actions which are impacted by the government's revised approach to meeting emission budgets. Cabinet is still to note these actions and consider what impact collectively this may have on our ability to meet EB1. It is timely to take stock of these changes and reconfirm that the remaining plan will keep us on track to meet EB1.

Why do we need to consult on formally amending ERP1?

In order to meet statutory requirements, I'm required to consult on anything more than a minor or technical change to ERP1. There is an opportunity to do so now and combine the public consultation, as more efficient way of seeking feedback on our revised approach to meeting emissions budgets.

Out of scope

Appendix 3: Cabinet paper – Public consultation on the second emissions reduction plan (clean)

Appendix 3 refused in full under section 18(d) of the Act as it is already publicly available at: <https://environment.govt.nz/assets/publications/BRF-5034-ERP2-Climate-MfE.pdf>

Appendix 4: Cabinet paper – Public consultation on the second emissions reduction plan (tracked changes)

Appendix 4 provided as an excerpt as per section 16(1)(e) of the Act.

Appendix 5: Discussion document – Aotearoa New Zealand’s second emissions reduction plan (2026-30) (clean)

Appendix 5 refused in full under section 18(d) of the Act as it is already publicly available at: <https://environment.govt.nz/assets/publications/climate-change/New-Zealands-second-emissions-reduction-plan-Discussion-document.pdf>

Appendix 6: Discussion document – Aotearoa New Zealand’s second emissions reduction plan (2026-30) (tracked changes)

Appendix 6 refused in full under section 18(d) of the Act as it is already publicly available at: <https://environment.govt.nz/assets/publications/climate-change/New-Zealands-second-emissions-reduction-plan-Discussion-document.pdf>

Appendix 7: Technical annex to the discussion document

Appendix 7 refused in full under section 18(d) of the Act as it is already publicly available at: <https://environment.govt.nz/assets/publications/climate-change/New-Zealands-second-emissions-reduction-plan-Technical-annex.pdf>

28.1 Out of scope

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[Redacted]

There has been a change in the policy approach to meeting climate targets, including several changes made to ERP1 actions by this Government and announcement of some new policies, off the back of changes by the previous government. 9(2)(h)

[Redacted]

9(2)(h)

2530

Out of scope

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²Out of scope

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Assessment of sufficiency also needs to consider any impact from stopping actions in the first emissions reduction plan. Ensuring we remain on track requires consideration of the impact of stopping actions from the first emissions reduction plan.

- ~~4854~~ Our approach to the climate change response has resulted in stopping work on some climate policies (or actions) that were included in the first emissions reduction plan (ERP1, covering 2022-2025) but are not aligned with, or are no longer considered a priority. This is aside from the new policies we are proposing as part of ERP2 (covering 2026-2030).
- ~~49~~ ~~The CCRA provides for emissions reduction plans to be amended to ensure they remain current, and to allow for adjustments as the operating context changes. However, any~~Any change to an ERP that is more than minor or technical requires reconsideration of the Climate Change Commission advice for meeting that emissions budget, and adequate public consultation on the new approach to meeting the relevant emissions budget.
- ~~5055~~ I am seeking that asking Cabinet to note Cabinet notes the ERP1 actions that have stopped, as set out at work has stopped on the ERP1 actions laid out in in Appendix 5 6, and the anticipated emissions impact of doing so.
- ~~5156~~ Cabinet has previously noted the closure of other ERP1 actions, such as the Clean Car Discount and the Government Investment in Decarbonising Industry fund. In addition, some ERP1 actions were stopped by the previous administration. These are outlined in Appendix 67.
- ~~5257~~ Removing the additional actions (outlined in Appendix 6) is not expected to have a material impact on meeting our first emissions budget (EB1) ~~now~~, as in the main they most do not have a direct impact on emissions. The interim baseline projections indicate that the central estimate of our emissions is below the EB1 limit.
- ~~58~~ As such, I consider that ERP1 can still is still sufficient to meet for meeting meet the first emissions budget, despite recent policy changes. I note that some of these actions may have contributed to emissions reductions in later emissions budgets periods, including EB2 and beyond. This will be addressed in the preparation and finalisation or when preparing and finalising ERP2.
- ~~59~~ The CCRA provides a mechanism for amending emissions reduction plans. Any change to an ERP that is more than minor or technical requires the same process required for preparing the plan (i.e. consideration of the Climate Change Commission's advice for meeting that emissions budget, and adequate consultation.
- ~~5360~~ We now have a number of stopped policies and a changed approach to meeting domestic emissions budget targets, including the plan to meet for EB1RP1.
- ~~5461~~ As part of the broader ERP2 consultation, I propose to undertake the consultation on the consult on the Government's revised approach to meeting emissions budgets, including the change in approach to delivering ERP4 meeting EB1 -via an amended ERP1 as part of broader consultation on ERP2. impact of the changes made to ERP1 as a component part of the broader ERP2 consultation.
- ~~5562~~ I propose that the ERP2 discussion document provides all of the ERP1 actions which that are no longer part of the plan in order to inform the public on the totality of changes to ERP1, and to enable an efficient public consultation on our approach to meeting our climate change targets. 9(2)(h). The discussion document will also seek the public's feedback on the impacts of stopping work on policies, and the implications that the implications of this for -ERP2 will need to address.

5663 I acknowledge ~~that~~the margin for meeting EB1 is small, around 8MT (just under 3% of the total emissions budget), and we will need to proceed with caution if making any further changes to ERP1. I will continue to receive regular reporting [from the Climate Change Chief Executives Board](#) on ERP1 implementation and progress against EB1.

Out of scope

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12 Out of scope

13 **note** that as a result of our change in approach to meeting emissions budgets, work has stopped on a number of actions in the first emissions reduction plan - ERP1 (outlined in Appendix [56](#) of this paper).

14 **note** that the majority of the ERP1 actions outlined in Appendix [645](#) have no direct impact on emissions [for EB1](#) and I do not anticipate that discontinuing them will materially affect our ability to land within the first emissions budget. Any impact on later emissions budgets will be addressed through the development of ERP2.

15 **note** that the extent of changes to ERP1 since the start of the plan requires the plan to be updated to present an accurate record of our current plan to meet EB1 ([see Appendix 6-5 and 76](#))

16 **note** that information on [all](#) discontinued ERP1 actions (as outlined in Appendix [6-5](#) and [76](#)) will be included within the ERP2 consultation document [to consult on any broader impacts as a result of the changes as part of the consideration for ERP2 development. n the implications of the overall change in approach to meeting the first emissions budget.](#)

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

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Appendix 56: Table of discontinued ERP1 policies for Cabinet to Note

Note that the ERP1 actions are those which have been reported by agencies as at 14-26 June 2024, we are continuing to work with agencies on implications of any recent decisions including via Budget 24 and if further ERP1 actions need to be included as a result.

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement
3.2.1	Develop an equitable transition strategy	Minister for social development, Minister for economic and regional development	No direct abatement impact. Note decisions have been taken to transfer ownership of this work programme, and work to mitigate distributional impacts is continuing in a different form.
<u>3.2.3</u>	<u>Implement the Just Transition Partnerships Programme</u>	<u>Minister for social development, Minister for economic and regional development</u>	<u>Nil direct abatement impact.</u>
<u>8.1.1</u>	<u>Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.</u>	<u>Minister of Science, Innovation and Technology</u>	<u>No direct abatement impact.</u>
<u>8.2</u>	<u>Te Ara Paerangi – Future Pathways science-system reform programme-</u>	<u>Minister of Science, Innovation and Technology</u>	<u>No direct abatement impact.</u>
9.10	Commence a Circular Economy and Bioeconomy Strategy.	Minister for Economic Development	No direct abatement impact.
	Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.	Minister of Science, Innovation and Technology	Nil direct abatement impact.
10.1.2	Set sub-national VKT reduction targets for Aotearoa New Zealand's major urban areas (Tiers 1 and 2)	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1 beyond the policy impact of the initial investments to improve safety and access to public transport and active modes.
10.1.2	Develop VKT reduction programmes for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1 beyond the policy impact of the initial investments to improve safety and access to public transport and active modes.
<u>10.1.2</u>	<u>Revise Waka Kotahi's national mode shift plan (keeping cities moving) to ensure nationally led activities align with the pace and scale of VKT</u>	<u>Minister of Transport</u>	<u>Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.</u>

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	<u>reduction and mode-shift required in urban areas</u>		
10.1.1.6	Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
10.1.4	Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
<u>10.1.4</u>	<u>Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.</u>	<u>Minister of Transport</u>	<u>Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.</u>
10.1.2.	Revise Waka Kotahi's national mode shift plan (keeping cities moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode shift required in urban areas	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
10.4.1	Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan	Ministry of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.
11.2.2	Ban new fossil-fuel baseload generation.	Minister for Energy	Officials consider this initiative is not likely to have an emissions reduction benefit. There is a low likelihood that generation developers will build new fossil fuel baseload due to its higher cost compared with renewables coupled with the ETS making fossil-fuel baseload generation less competitive. There are also uncertainties with future gas supply.
11.3.1	Manage the phase out of fossil gas. Develop a gas transition plan.	Minister for Energy	<u>No</u> direct abatement impact. Workstreams will continue under gas security of supply workplan.
11.4.1.a	Develop a mandatory energy and emissions reporting scheme.	Minister for Energy	<u>No</u> direct abatement impact.
11.5.1	Monitor progress towards the aspirational renewable electricity target.	Minister for Energy	<u>No</u> direct abatement impact.
<u>13.1.1</u>	<u>An emissions pricing mechanism is developed, and agricultural emissions are priced by 1 January 2025.</u>	<u>Minister of Agriculture</u>	<u>Deferring agricultural emissions pricing from 2025 is expected to have an abatement impact. The level of impact will depend on future decisions related to agricultural mitigation actions.</u>
<u>13.1.2</u>	<u>All producers will have emissions reports by the end of 2022 and a farm plan in place by 2025.</u>	<u>Minister of Agriculture</u>	<u>No direct abatement impact.</u>

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<u>13.3.1</u>	<u>Develop further climate-focussed extension and advisory services.</u>	<u>Minister of Agriculture</u>	<u>No direct abatement impact.</u>
<u>14.1.1a</u>	<u>Ensure regulatory settings deliver the right type and scale of forests, in the right place.</u>	<u>Minister of Forestry</u>	<u>No direct abatement impact.</u>

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Appendix 67: Discontinued actions already noted by Cabinet

ERP1 Actions discontinued by the previous government

ERP1 Action number	Discontinued action
7.5	Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.
10.1.2	Support initiatives to increase the uptake of e-bikes.
10.2.2	Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.
10.2.2	Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.
10.2.2	Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.
10.3.5	Implement the Sustainable Biofuels Obligation

ERP1 Actions discontinued by this government

ERP1 Action number	Discontinued action
3.2.2b	Support regions and industries to manage the transition
3.3.1	Develop an income insurance scheme
5.2.1	Adjust the NZ ETS to drive a balance of gross and net emissions reductions.
5.2.3	Assess how the NZ ETS can support indigenous biodiversity.
6.10	Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process
9.4	Support businesses moving to circular economy models.
10.1.2	Set sub-national VKT reduction targets for New Zealand's major urban areas (Tiers 1 and 2)
10.1.2	Develop VKT reduction programmes for New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives
10.2.1	Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024
10.2.1	Establish whether the Clean Vehicle Discount can be extended to other vehicle classes
11.1.1	Provide rebates for energy efficient equipment.
11.2.2	Investigate options for dry-year electricity storage through the New Zealand Battery Project.

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ERP1 Action number	Discontinued action
11.4.1	Set an action plan for decarbonising the industrial sector.
11.4.1	Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.
11.4.1	Fund further decarbonisation of industry and heat through expansion of the GIDI.
11.4.1	Provide grant funding for commercial space and water heating and high efficiency electrical equipment.
11.4.1	Finalise and implement the Advanced Manufacturing Industry Transformation Plan.
<u>14.4.1</u>	<u>Develop forestry and wood processing industry transformation plan (ITP).</u>

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Briefing: Climate Change Commission ERM report

Date submitted: 19/07/2024

Tracking number: BRF-4996

Sub Security level: CLASSIFICATION

CCIEB Unit priority:

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	<p>Agree to the timeline for delivering your response to the ERM Report as set out in paragraph 27.</p> <p style="text-align: right;">Yes No</p> <p>Agree to the proposed structure for your response to the ERM Report, as set out in Appendix 3.</p> <p style="text-align: right;">Yes No</p>	24 July 2024

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

Appendices and attachments
<ol style="list-style-type: none"> 1. ERM report (attached separately to BRF) 2. Reactive key messages for post-release 3. Draft outline of ERM Response

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Hettie Morrison		
Responsible Manager	Jane White		
Executive Director	Lisa Daniell	022 124 9568	✓

Minister's comments

Key messages

1. On 16 July you received the final Emissions Reduction Monitoring Report (ERM Report) from the Climate Change Commission (CCC), as required under the Climate Change Response Act (the Act). It is the first of its kind and will be prepared by the CCC on an annual basis.
2. Under s5L(2) of the Act, you have 10 working days to present the report to the House of Representatives (by 30 July). We will work with your office to support you to table the ERM Report. If you are unavailable on a sitting day another Minister can table the report for you.
3. After the report is tabled, the CCC will make the report publicly available as soon as practicable. Officials (including the Ministry for the Environment's (MfE) communications team) will support you with any media enquiries received once the report is made public. Key messages and Q&As are outlined in Appendix 2.
4. Key messages from the Commission's ERM Report are provided in Appendix 1, along with our initial assessment of the findings when compared to information the Government has recently published on emissions projections and trends. In summary, the CCC found that:
 - i Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
 - ii Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
 - iii There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*
 - iv Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*
5. To assess current emissions reduction policies and plans, the CCC use publicly available data and government policies as of April 2024, including data collected from agencies for the Climate Change Chief Executive Board's March Quarterly report. As outlined in the forward of the ERM Report, findings and projections have a practical cut-off point after which no other new information or changes in circumstances will be included in the assessment. Interim government projections, including those used in the first Target 9 report and ERP2 discussion document, contain more recent inputs and assumptions.
6. You must respond to the report by 16 October under s 5ZK(4) of the Act [BRF 4870 refers]. We will prepare a draft response in line with the proposed approach you previously agreed [BRF 4870 refers]. We are seeking your agreement to a proposed draft structure for the response as provided in Appendix 3.
7. The response to the CCC's ERM Report could include amendments to ERP1 (which are currently being consulted on in the ERP2 discussion document). We will provide you

with advice shortly on the process, possible approaches and timelines for publicising any amendments to ERP1.

Recommendations

We recommend that you:

- a. **Note** on 16 July you received the Climate Change Commission's Emissions Reduction Monitoring Report (ERM Report), and you are required to table this Report in the House of Representatives by 30 July, at which point the Commission will make the report publicly available.
- b. **Note** the Act requires that you present a response to the ERM Report within three months (by 16 October) of receiving the Commission's report and make this publicly available [BRF4870 refers].
- c. **Note** that Appendix 1 sets out the key findings of the ERM Report and our initial assessment.
- d. **Note** that Appendix 2 provides key messages on the ERM Report to support any enquires you may receive, and that a press release is not being provided by MFE on the Report.
- e. **Note** that your response to the ERM Report could include amendments to ERP1 (which are currently being consulted on in the ERP2 discussion document) and that we will provide you with advice shortly on the process, possible approaches and timelines for publicising any amendments to ERP1.
- f. **Agree** to the timeline for delivering your response to the ERM Report as set out in paragraph 27.

Yes | No

- g. **Agree** to the proposed structure for your response to the ERM Report, as set out in Appendix 3.

Yes | No

Signatures

pp



Lisa Daniell
**Executive Director, Climate Change
 Chief Executives Board**

19 July 2024

Hon Simon WATTS
Minister of Climate Change

Date

Climate Change Commission ERM Report

Purpose

8. The purpose of this briefing is to support you to table Climate Change Commission's (CCC) Emissions Reductions Monitoring report (ERM Report) and to provide you with an initial assessment of the report's key findings. We also seek your agreement to the proposed structure for the required response to the ERM Report.

Analysis and advice

ERM Report findings

9. On 16 July you received the Commission's first annual emissions reduction monitoring report. It covers:
- Progress towards meeting emissions budgets and the 2050 target
 - An assessment of the adequacy of the emissions reduction plan and progress in its implementation, including any new opportunities to reduce emissions.¹
10. Four questions frame up the report:
- i What progress have we seen in emissions reductions to date?
 - ii How is the country tracking towards meeting the first emissions budgets for 2022-2025?
 - iii How is the country tracking towards meeting the second emissions budget (2026-2030) and the third emissions budget (2031-2035) and the 2050 target, under current emissions reduction policies and plans?
 - iv What is needed for New Zealand to be on track for future emissions budgets and the 2050 target?
11. The CCC's ERM Report includes the following four key findings:
- i Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
 - ii Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
 - iii There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*

¹ CCRA sections 5ZJ and 5ZK

- iv Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*
12. Attached to this briefing is our initial assessment of the key findings of the ERM Report (see Appendix 1).
 13. Our initial assessment is that the Government's reporting to date broadly aligns with the first two key findings of the ERM Report: that gross emissions overall have been declining since 2019, and that we are currently on track to meet EB1 although with some risks.
 14. However, the CCC has also found that there are significant risks to meeting EB2. Based on current interim projections, the Government's central projection shows that EB2 is achievable, assuming the strategies proposed in the ERP2 Discussion Document are implemented as planned. This Government modelling uses more up to date inputs and assumptions than the CCC used.
 15. Our initial assessment draws from existing reporting undertaken by the Climate Change Interdepartmental Executive Board (CCIEB) that tracks progress every 6 months on the implementation of ERP1 actions across government agencies. We have referred to the most recent government projections, which have been included in the Target 9 report and the second emissions reduction plan (ERP2) discussion document, which the CCC did not have access to when producing their report.
 16. In forming an initial view of the Commission's findings, we have also referred to the CCIEB's March 2024 quarterly report as a reference point given this report relates to the time period that the Commission used for its reporting. Differences are outlined from paragraphs 22 - 24.

Differences in modelling approach and data sources between ERM Report and CCIEB reporting

17. To assess current emissions reduction policies and plans, the CCC were able to use data and publicly available government policies up until April 2024, including data from the CCIEB March 2024 quarterly reporting. To assess progress on emissions reductions, the CCC used their own updated '2022 Demonstration Path' as a benchmark for tracking progress.² The CCC's demonstration path reflects judgements by the Commission about a durable path to the 2050 target consistent with the areas required to be considered under the Act.
18. There are several versions of the Demonstration Path– the 2021 advice (using AR4 data) and 2022 (using AR5 data for the first time).³ The Demonstration Path shows where the country might be at risk of not meeting emissions budgets, including identifying increasing risks over the long-term. The CCC compares data against the benchmarks from the demonstration path to assess progress. Government reporting

² The demonstration path was initially developed for *Ināia tonu nei*, the CCC advice for ERP1 in 2021.

³ AR4 and AR5 are different frameworks used by the United Nations Intergovernmental Panel on Climate Change (IPCC) annual reports.

only uses projections of where we expect to land, rather than comparisons with a benchmark.

19. Differences in CCC and the Government's findings also partly stem from the fact that the CCC must produce reports based on timelines set by the Act, and so the Commission needs to set a practical cut-off point for the data analysis. The Government has had an extra three months to produce more up to date projections, including in the Target 9 report and ERP2 discussion document.
20. The CCC has used the ENZ model for projections in the ERM Report, which is the same basic model the Government used for the April and July 2024 interim projections. However, the Government was able to use more up to date policy inputs and assumptions. Inputs used by the CCC on forestry are from July 2023 and are therefore much earlier than those used in MfE projections for the Target 9 report, ERP2 discussion document and for the Climate Change Chief Executive Board's quarterly reporting.

Support for presenting the ERM Report to the House of Representatives

21. Officials will work with your office to support the tabling of the ERM Report, which must be done by 30 July (within 10 days of receiving the report). We recommend tabling the report between 23 - 25 July, taking into account your upcoming travel and the sitting dates of the House of Representatives. If it is not feasible to table the report yourself due to travel commitments, this may be done on your behalf by an official from your office.
22. Once the ERM Report is tabled, the CCC must make it publicly available as soon as practicable afterwards. The CCC will then make the report available on their website and issue a press release after you have tabled the report. The CCC is required to make the report publicly available no later than 20 working days after providing it to you, even if the report has not been tabled with the House.
23. To assist you with any enquiries that may be received once the report has been made public, we have provided some high-level key messaging and reactive support for Q&A in Appendix 2.

Responding to the Commission's ERM Report

24. The response you are required to provide to the Commission's ERM report is an opportunity to set out the Government's commitment to meeting climate change targets, and outline the Government's revised approach to doing so, linking back to your Climate Strategy. The ERM Report also includes findings relevant to future emissions budget periods, and these findings will be considered by agencies in the analysis for ERP2 prior to finalising ERP2 later in 2024. [BRF 4870 refers].
25. As previously discussed with you [BRF 4870 refers], the proposed approach for your response to the CCC's report is to:
 - i acknowledge the report, and
 - ii provide an overarching strategic climate narrative relevant to emissions reduction from your climate strategy, and
 - iii identify and respond to key findings, rather than each of the sub- or supporting points.

26. Key findings on progress and updates on ERP1 actions and meeting emissions budgets will be drawn from the Government's Target 9 Report and the CCIEB September Quarterly Report. We will use these existing reporting products to streamline the response.
27. We previously signalled potential timeframes for delivering the response to the ERM report [BRF 4870 refers]. We now propose ministerial consultation on the Cabinet paper and response to the ERM Report take place from 16 to 20th September. Given competing priorities for ministerial consultation around ERP2 and parliamentary recess in early October, we propose 5 working days for ministerial consultation. If you agree, we propose the timeline as follows:

Timeframe	Action
23 rd - 25 th July (30 th July latest)	Table the Commission's ERM Report
16 th – 20 th September	Ministerial consultation on Cabinet paper and response to ERM report
26 th September	Cabinet paper lodged with ERM response appended
30 th September	Cabinet paper for CBC consideration
14 th October	Cabinet approval date
15 th October (16 th October latest)	Presented to House of Representatives

Next steps

28. Officials will continue to analyse the full ERM Report and will be available to provide support for any queries you may receive once the CCC publish their report. Officials will provide a draft response in early September.

Appendix 1: Climate Change Commission's Emissions Reduction Monitoring Report (ERM) key findings and initial assessment

Key question	ERM Report key finding	Officials' initial assessment
1. What progress have we seen in emission reductions to date?	Gross emissions have declined each year since 2019 in response to policy efforts combined with external factors.	<p>This aligns with the Government's GHG inventory. The 2024 inventory release states that gross emissions peaked in 2006 and have been declining since 2019.</p> <p>The Commission reports that, based on the 2024 Inventory, gross emissions fell in 2022 to the lowest levels since 1999, and that gross emissions fell in every sector from 2021 to 2022 with the largest drop from energy and industry.</p> <p>The Commissions' assessment is that 94% of the overall reduction in gross emissions in 2022 were influenced by external factors (for example, the Marsden Point Oil Refinery closure, and increased hydroelectricity due to higher inflows into hydro lakes). Some of these factors are likely to be temporary.</p>
2. How is the country tracking towards meeting the first emissions budget for 2022-2025?	Available emissions data and projections are consistent with the first emissions budget (2022–2025) being met. This is, however, highly uncertain. Risk factors such as deforestation levels, dry years and rising transport emissions, could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.	<p>This aligns with the Government's assessment that EB1 can be met. The CCC has made this assessment based on their updated 2022 Demonstration Path.</p> <p>July 2024 interim projections, released in the ERP2 Discussion Document indicate we are currently on track to meet the first emissions budget.</p> <p>This was also reported in the CCIEB March and May quarterly reports. The reports also stated that several factors impact our certainty in meeting future emissions budgets including external factors and macroeconomic variants outside of the government's direct control, methodological improvements, policy changes and related impacts on abatement and the continuously rising ETS price pathway.</p> <p>The Commission note that limited time remains for new policies to be able to have a sizeable impact within the first budget period. It identifies addressing ongoing delays and discontinuation of actions, and acting to sustain momentum in emissions reductions as a way of decreasing the risk of missing the budget.</p>
3. How is the country tracking towards meeting future emissions budgets and the 2050 target under current emissions	There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.	<p>This somewhat aligns with Government reporting to date.</p> <p>Interim modelling demonstrates that, with the additional measures proposed in the ERP2 discussion document, emissions are projected to be between a range of 285-321 Mt with a central scenario of 303 Mt. If this central scenario is achieved, as projected, then New Zealand will meet the budget of 305 Mt.</p>

Key question	ERM Report key finding	Officials' initial assessment
reduction policies and plans?		<p>There is greater uncertainty about our ability to achieve EB3 but that modelling still shows it is possible to achieve the budget (with proposed policies from the ERP Discussion Document.)</p> <p>The CCIEB March quarterly report reported that our ability to meet EB2 and EB3 is considerably more uncertain for the reasons outlined above policy changes.⁴</p> <p>The Commission's assessment for the agriculture and waste sectors shows significant risk that the legislated 2030 biogenic methane target will not be met under current policies and plans.</p> <p>The government is committed to reducing biogenic methane and nitrous oxide from livestock and fertiliser, which are not covered by the NZ ETS. The Government has committed to establishing pricing of on-farm emissions no later than 2030. In addition, there is a continued focus to reduce biogenic methane emissions in the waste sector.</p> <p>The Government has committed to providing an up-to-date evidence base for biogenic methane, and commenced an independent review of the methane science and targets for consistency with 'no additional warming'.</p>
4. What is needed for Aotearoa New Zealand to be on track for future emissions budgets and the 2050 target?	Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.	<p>This somewhat aligns with Government reporting to date.</p> <p>The CCIEB March Quarterly report stated that "several new initiatives are also in the process of being implemented, and their abatement potential will be modelled as part of ERP2 development. More broadly, ERP2 will provide the updated pathway for meeting future emissions budgets, and an opportunity to consider reducing the NDC1 abatement shortfall through more domestic action".</p> <p>The ERM Report also identifies ERP2 as the opportunity for a clear and coherent plan for future budgets, and that while there is flexibility for how to meet these there are real-world constraints and barriers that need to be addressed/considered.</p>

⁴ Policy changes including removing the Clean Car Discount (CCD) and the Government Investment in Decarbonising Industry (GIDI) fund and delaying agricultural emissions pricing are expected to impact EB2 and EB3 more materially, with initial calculations showing an increased likelihood of not meeting EB3 unless other policies are put in place (with ERP2 being the key opportunity to do so). Any decisions to discontinue additional policies could further reduce emissions reductions, though in many cases the policies being stopped will continue in different ways (including through ERP2) or had no projected direct abatement impacts. The impact of the broader commitments of the government's plan to reduce emissions (e.g. doubling renewable energy production; expanding public EV charging network) are not yet quantified and will be modelled as part of ERP2 development.



Appendix 2: Reactive key messages for post-release

Release of CCC’s monitoring report

- The Government welcomes the Climate Change Commission’s first annual monitoring report on emissions reductions.
- The report independently assesses progress against the 2050 target, the first emissions budget and the emissions reduction plan.
- The report gives us valuable insights and lessons, as well as emissions reduction opportunities to consider.
- The Commission must produce reports based on timelines set by the Climate Change Response Act 2002. To assess current emissions reduction policies and plans, and meet the required statutory timeframes, the Commission could only use data and Government policies up until April 2024. The Government has had an extra three months to produce more up-to-date projections for its Target 9 reporting and the second Emissions Reduction Plan consultation document.

Question	Answer
<p>The report says there is currently a lack of clarity in how the Government plans to manage potential impacts of emissions reduction policy and to grasp opportunities to improve the lives of New Zealanders, particularly for those most affected by emissions reduction policies. What’s the Government’s response to this?</p>	<p>The Government has reiterated its commitment to meeting its climate change targets. It made reducing net emissions one of its nine Government targets to achieving better results from the public service, to keep us on track to reach net zero by 2050.</p> <p>The Government now has a climate change strategy that sets out our approach to how delivering New Zealand’s climate goals.</p> <p>The strategy focuses on five pillars, making sure:</p> <ul style="list-style-type: none"> • Infrastructure is resilient and communities are well prepared • Credible markets support the climate transition • Clean energy is abundant and affordable • World-leading climate innovation boosts the economy • Nature-based solutions address climate change.
<p>What’s the Government’s response to the Commission’s findings that there are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies?</p>	<p>The Commission’s findings are three months behind the Government’s policy work and recent announcements and are based on earlier data due to a practical cut off date for when the Commission had to finish its report. We acknowledge the Commission’s view given the data the Commission had available at the time of writing.</p> <p>In addition, the Government has until 2026 to get ready for the second emissions budget. Over 2025, I expect the Government to prepare a strong implementation plan, so we know how we are tracking and how we manage uncertainty and risk.</p> <p>Throughout the country, central and local government, businesses, communities and households are making decisions every day that lead to fewer emissions being released into the atmosphere. Over the second half of this decade, we expect this momentum to continue.</p>

	<p>We expect more people to switch from petrol cars to electric vehicles, and our electricity generators to choose to invest more in renewable electricity. We expect more businesses to convert their industrial boilers from coal to electricity, and our waste system to continue to improve landfill gas capture technologies and how they manage organic waste. These actions all sit alongside the things we will do to take carbon out of the atmosphere, like planting more trees or exploring new ways to remove carbon such as wetland restoration.</p> <p>The role of the Government is to make sure local government, businesses and households have choices in how they reduce emissions. We're focused on removing barriers to our transition, and we see emissions pricing as playing a central role in how we meet our targets. We also want to enable New Zealand to achieve our climate change goals in a way that's cost effective – our plan is about actions that are good for the climate and that also benefit New Zealand's economy so that we can continue to thrive.</p>
<p>The sectors assessed at most risk of not achieving benchmark reductions are agriculture and transport. How will the Government address emissions in these sectors?</p>	<p>The Government is putting policies in place to target emissions reduction in the agriculture and transport sectors. These include:</p> <ul style="list-style-type: none"> • Targeting 10,000 public EV chargers by 2030 • Lowering agricultural emissions by giving farmers the tools to reduce emissions and through fair and sustainable pricing of on-farm agricultural emissions by 2030 • Investing in resource recovery through the Waste Minimisation Fund • Improving organic waste and landfill gas capture • Improving public transport.
<p>The Commission's assessment shows there is an urgent need to strengthen policies and strategies to put New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. How will the Government meet these climate goals?</p>	<p>We are making cost-effective decisions now to set up New Zealand to further electrify, use increased levels of renewable energy and bring in technologies that will reduce emissions as they become available. The choices and actions New Zealanders make over the coming years will set us up for success in the third emissions budget period.</p> <p>Our modelling and emissions projections are less certain the further out we look. The proposals outlined in the ERP2 discussion document set us up to meet the second emissions budget. They also set us up to make choices so that we can meet the third emissions budget. The Government will have to publish a third plan by the end of the decade, which must, by law, set out a plan for achieving EB3.</p>
<p>You've cancelled the clean car scheme, the GIDI fund and other key climate policies put in place by the previous Government. You've also started offshore mining. Why?</p>	<p>This Government remains committed to meeting our climate change targets. We've reaffirmed that commitment through making our domestic climate change targets out to 2030 one of nine public service targets for this government. We've also recently launched our climate strategy, to give New Zealanders a long-term roadmap of how we plan to get there, as well as consulting on the second ERP, which focuses on our plans for the next five years.</p> <p>What has changed from the last Government is our approach to meeting those targets. We see emissions pricing as playing a central role in our climate change response as a tool to help us make the transition at the least cost. We also want to remove barriers so everyone can take advantage of the opportunities that are presented by moving to a low-emissions way of living. We want households and businesses to be able to make quicker, cheaper, and easier decisions to innovate and use lower emissions technology.</p>

	<p>There are seven key policies that the Government believes will have the greatest impact of emissions:</p> <ul style="list-style-type: none"> • Increasing renewable energy by reducing the consenting burden through Electrify NZ • Targeting 10,000 public EV chargers by 2030 • Lowering agricultural emissions by giving farmers the tools to reduce emissions and through fair and sustainable pricing of on-farm agricultural emissions by 2030 • Investing in resource recovery through the Waste Minimisation Fund • Improving organic waste and landfill gas capture • Improving public transport • Investigating carbon capture, utilisation and storage.
<p>The ERP2 discussion document shows we are not on track to meet EB3. Why? What are you doing about that?</p>	<p>The Government is making cost-effective decisions now to set up New Zealand to further electrify, use increased levels of renewable energy and bring in technologies that will reduce emissions as they become available. The choices and actions New Zealanders make over the coming years will set us up for success in the third emissions budget period.</p> <p>Our modelling and emissions projections are less certain the further out we look. The proposals outlined in the discussion document set us up to meet the second emissions budget. They also set us up to make choices so that we can meet the third emissions budget. The Government will have to publish a third plan by the end of the decade, which must, by law, set out a plan for achieving EB3.</p>
<p>Why did the Commission use the earlier data for its monitoring report?</p>	<p>The Commission is legally required to release monitoring reports within a certain timeframe. The updated data wasn't available within this timeframe.</p> <p>This is an annual monitoring report, so the data will be updated regularly.</p> <p>There is, and always will be, a degree of uncertainty around estimating current and future emissions. Decision-makers need to be aware of this, and factor it into plans for meeting emissions budgets and targets</p>
<p>Why is the data in the Commission's report different to the Government's data in ERP2?</p>	<p>The Commission must produce reports based on timelines set by the Climate Change Response Act. There is a cut-off point after which no other new information or changes in circumstances can be included in the assessment.</p> <p>To assess current emissions reduction policies and plans, the Commission could only use data and Government policies up until April 2024. The Government has had an extra three months to produce more up-to-date projections. The Commission has also used a Demonstration Path scenario, with central government does not use.</p>
<p>Can we trust the data used in these publications?</p>	<p>The Ministry supports decision-making with robust and accessible environment and climate information. We work closely with regional councils, science agencies and universities to deliver this.</p> <p>The Ministry also has several projects underway to improve the way we collect and analyse data, including exploring emerging technologies and aligning with international best practice.</p>

Appendix 3: Draft outline for the Minister’s response to the Commission’s Emissions Reduction Monitoring Report

Reporting on progress towards meeting emissions budgets

Government strategy for meeting emissions budgets

- This section can outline the Government’s recently launched climate strategy and approach to reducing emissions, including ERP2 and Target 9.

Progress made in implementing the first emissions reduction plan

- Provide key findings from the Target 9 report and the CCIEB Quarterly report, which will include progress and updates on ERP1 actions and meeting emissions budgets.
- The Government will continue to monitor emissions reductions regularly on Target 9 and ERP1 implementation through the CCIEB.

Response to the Commission’s first emissions reduction monitoring report

- You received the ERM Report in July, the first of its type from CCC. This report will be provided annually
- Your response to any key findings in the first report (could be in table or paragraphs)

Commission finding	Response

Note: this format may differ in the final response

Amending the first emissions reduction plan (amendments to ERP1 could be included in your response, and we will provide further advice on this in the coming weeks)

- Note that you have undertaken consultation on the change in approach to meeting EB1 through ERP1.
- Provide a summary of key themes from the submissions on the change in approach to ERP1.
- As a result of that consultation, and considering the factors required by the CCRA, you now:
 - Either*
 - amend ERP1 (and attach as an appendix)
 - Or*
 - note that you will seek to publish an amended ERP1 with ERP2 after considering the submissions received through consultation (if the timing for considering submissions does not allow for the amended plan to be included in the ERM response).

Appendix 1: Amendments to the first emissions reduction plan

- Append the amended ERP1 (if timing allows for inclusion with the ERM response).



Briefing: Amending the first emissions reduction plan

Date submitted: 2 October 2024

Tracking number: BRF-5025

Sub Security level: CLASSIFICATION

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	Provide feedback on draft Cabinet paper and draft amendment to the first emissions reduction plan	8 October

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"> 1. Appendix 1: Draft Cabinet paper and ERP1 amendment 2. Appendix 2: ERP1 amendment results of consultation 3. Appendix 3: Summary of analysis of the previous Climate Change Commission advice 4. Appendix 4: Additional stopped actions in ERP1

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal author	Mel Rae	9(2)(a)	
Manager, CCIEB unit	Amy Tisdall	9(2)(a)	
Acting Executive Director, CCIEB Unit	Jane White	027 275 7836	✓

Minister's comments

Key messages

1. This briefing seeks your feedback on a draft Cabinet paper and amendment to the first emissions reduction plan (ERP1). The Cabinet paper content will be incorporated into the Cabinet paper on the second emissions reduction plan (ERP2) and amendment will be progressed in parallel.
2. The Climate Change Response Act 2002 (the Act) sets out the requirements for an emissions reduction plan, and the process to amend a plan, as needed, to maintain its currency.¹ In June 2024, you agreed to initiate the process to amend ERP1 following the Government's change in approach to meeting emissions budgets (EBs), and the resulting 41 actions being discontinued (BRF-4840 refers). This paper presents the analysis of the requirements in the Act for amending an emissions reduction plan and seeks your agreement to formally amend ERP1.
3. In summary, the analysis shows that:
 - i. **The plan has policies and strategies to meet emissions budget 1 (EB1):** New Zealand is on track to meet EB1. The EB1 limit is 290 Mt CO₂e (for 2022-2025), and the central estimate of the September 2024 ERP2 projections indicates New Zealand is on track to be under this limit at 284 Mt CO₂e (±4 Mt).² Officials consider that, despite the removal of the 41 discontinued actions, ERP1 remains sufficient to meet the requirements of a plan under the Act. Officials recommend the sufficiency of ERP1 continues to be monitored to ensure we stay within EB1 through its final year.
 - ii. **Submitters raised concerns about the changes to ERP1:** Submitters highlighted the risk that the changes to ERP1 will negatively impact our ability to reduce emissions over the longer-term, and provided feedback on specific policy changes, including the Climate Emergency Response Fund (CERF) and the Government Investment in Decarbonising Industry fund (GIDI).
 - iii. **Considering the Climate Change Commission's (the Commission's) policy advice on EB1:** The Government's net-based, least-cost approach to reducing emissions diverges from that recommended in the Commission's 2021 policy advice for meeting the first three emissions budgets.³ You are not obliged to agree with the Commission's advice but you must consider it in the context of preparing an emissions reduction plan.
4. The attached draft ERP1 amendment includes the 41 discontinued actions listed in the July ERP2 discussion document. Officials had previously discussed with you the possibility of including additional actions that have been stopped since the discussion document was published. 9(2)(h) [REDACTED]
5. 9(2)(h) [REDACTED]

¹ Climate Change Response Act sections 5ZG and 5ZI

² Central estimate' refers to the value believed to be most likely based on current understanding of relevant assumptions, including new ERP2 measures.

³ *Ināia tonu nei: a low emissions future for Aotearoa* (climatecommission.govt.nz), Part 2.

9(2)(h)

f

Recommendations

We recommend that you:

- a. **Note** the analysis for amending ERP1, which includes:
 - i. Assessing that ERP1 has policies and strategies for New Zealand to meet EB1
 - ii. Reviewing public submissions
 - iii. Reconsidering the relevant advice from the Commission in line with the areas most impacted by the amendment to ERP1
- b. 9(2)(h)
- c. **Agree to** formally amend ERP1 with the scope of the 41 discontinued actions as consulted on through the July ERP2 discussion document.
- d. **Provide feedback** on the attached draft Cabinet paper and draft ERP1 amendment ahead of it being incorporated into the final ERP2 Cabinet paper.

Yes | No

Yes | No

Signatures



Jane White
Acting Executive Director
Climate Change Chief Executives Board

3 October 2024

Hon Simon WATTS
Minister of Climate Change

[Date]

Amending the first emissions reduction plan

Purpose

6. This briefing seeks your feedback and direction on the draft Cabinet paper and proposed ERP1 amendment. This material will then be integrated into the Cabinet paper containing final recommendations for ERP2.

Background

7. In June 2024, you agreed to initiate a process to formally amend ERP1 [BRF-4840 refers]. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
8. As part of the development of the second emissions reduction plan (ERP2), the Government has outlined a new approach to meet future emissions budgets. This approach is net-based and least-cost, with the emissions trading scheme (ETS) acting as a key lever. Embedding this approach has contributed to work being stopped on 35 climate policies included in ERP1 that are not aligned with the Government's new approach. A further six actions were discontinued by the previous Government.
9. The Act provides for the ability to, at any time, amend a plan and supporting policies and strategies to maintain its currency. If an amendment to an ERP is more than 'minor or technical' the same process must be followed as for preparing a plan. That process is to reconsider the Commission's advice for meeting the relevant emissions budget and to undertake adequate consultation on the amended plan for meeting that emissions budget..
10. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Analysis for amending the first emissions reduction plan

11. The Act sets out the requirements to amend a plan and its supporting policies and strategies (s5Z1(3)(a)). This section lays out the analysis and information for you to consider ahead of agreeing to amend ERP1, including: having a plan to keeping New Zealand on track to meet EB1, adequate consultation, and reconsidering the Commission's policy advice for meeting EB1.
12. The analysis has focused on the chapters of ERP1 most impacted by the 41 discontinued actions, being transport, energy, and equitable transition, along with the approach to emissions pricing.

Assessing whether the plan is sufficient to meet the first emissions budget

13. The key requirement under the Act is for the Minister of Climate Change to prepare and publish a plan setting out the policies and strategies for meeting the relevant emissions

budget. Emissions projections are a key tool for assessing whether policies are likely to be sufficient to meet emissions budgets.

14. For EB1, 41 actions have been discontinued from ERP1 (as at 30 June 2024) and consulted on in July through the ERP2 discussion document. The ERP2 baseline emissions projections are currently being updated and account for any abatement impact from stopping those 41 ERP1 policies. The current ERP2 baseline projections indicate New Zealand remains on track to meet EB1 (see Table 1 below).

Table 1: ERP2 projections with new measures (net emissions) as at 25 September 2024

Emissions budget (net, all gases)	Interim projections (central estimate*)	Uncertainty for interim projections (from central estimate)
EB1 (2022-25) = 290 Mt	284.45 Mt CO ₂ -e	±4 Mt CO ₂ -e

Note: * 'Central estimate' refers to the value believed to be most likely based on current understanding of relevant assumptions including new ERP2 measures.

15. The upper limit of the uncertainty range for EB1 brings projected emissions to within 2 Mt CO₂-e of EB1, but remains within the limit. Based on a central estimate of 284.5 Mt CO₂-e and the uncertainty range of ± 4 Mt CO₂-e, our assessment is that we are on track to meet EB1, albeit with a small margin.
16. Due to the length of time it takes to implement policies and deliver the associated emissions reductions, there are limited options to influence material emissions reductions in the remaining 15 months of EB1. Officials recommend careful consideration prior to removing any further policies from ERP1 that would impact on emissions reductions in EB1 and increase risk or decrease the margin further.
17. The new approach to achieving emissions budgets shifts the focus from direct abatement policies to delivering emissions reductions through the NZ ETS. This has resulted in several transport and industry sector actions being removed through this amendment. At this relatively late stage in EB1, the Government's influence over the role the NZ ETS plays in EB1 is extremely limited. However, we consider there is a very high probability that NZ ETS-covered sectors will remain within the NZ ETS cap for EB1 [BRF-5304 – Appendix 4 refers].

Key themes from public consultation

18. Under the Act you are required to ensure that consultation has been adequate, including with sector representatives, affected communities, iwi and Māori, and undertake further consultation as you consider necessary.
19. In July, public consultation was undertaken on ERP2, which laid out the Government's approach to meeting EB2 and future emissions budgets. This included information on the 41 ERP1 actions to be formally removed. The consultation sought feedback on the *impact* of amending ERP1 to reflect the Government's revised strategy for meeting EB1 and future emissions budgets.
20. There was a diverse range of submitters including from private enterprise, local councils, and industry bodies who engaged through public forums, letters, and an online form. We received 216 written submissions that included feedback about amending ERP1. Submitters who commented on the impact of amending ERP1 also provided feedback on the Government's new approach and proposals for ERP2. These submissions have helped to inform the submissions analysis for ERP2 [BRF-5365 refers].

21. The following key themes have emerged regarding the impact of amendments to ERP1:
- i **The impact of discontinued actions on our ability to meet future emissions budgets.** Submitters highlighted concerns on the risk posed by amending ERP1 to meeting EB1 and future EBs, as some of the policies included in the amendment were projected to contribute to EB2 and EB3. In addition, they raised the risk of losing momentum, and the cumulative emissions impact of delaying mitigation action.
 - ii **Feedback on specific policy changes.** Of the submissions received on specific policy changes in the amendment, most did not support the changes. Specific policies mentioned include the NZ ETS and the role of forestry, the approach to distributional impacts and an equitable transition, the CERF, and GIDI.
 - iii **Feedback on the new approach for EB1 and future EBs** included submissions on the net-based approach, reliance on emerging technology, and the least-cost pathway. These themes and others are covered in more detail in the ERP2 submissions analysis [BRF-5365].
22. Further detail on the submissions received for amending ERP1 can be found at Appendix 2.

Key findings from the review of previous Climate Change Commission advice

23. In parallel with public consultation, we have reviewed the advice previously received from the Commission relevant to meeting EB1 – *Ināia tonu nei: a low emissions future for Aotearoa* (and the Commission’s recent publication *Monitoring report: Emissions reduction*).
24. We focused on matters of relevance to amending ERP1 (mainly in the energy, transport, equitable transition and emissions pricing chapters) and Appendix 3 has more detail of this analysis.
25. In many instances, the Government’s new approach is taking an alternative path to meet New Zealand’s climate goals than that recommended in the Commission’s advice for EB1. Where the Government has most notably diverged is in the net-based approach and placing a greater emphasis on removing barriers to incentivise more private investment and action.
26. The following key findings have emerged:
- i. **Key finding 1:** The Commission advised using proactive transition planning to target regions and communities most affected by the transition. To complement a primarily price-led approach, this Government is making greater use of existing universal supports (such as an inflation-indexed Government financial assistance and income support system) and the tax bracket adjustment will mitigate some impacts from the plan. This will be complemented by remaining ERP1 actions that target specific groups and regions. This includes establishing the Māori agribusiness pathway, and the continued delivery of the Warmer Kiwi Homes programme.
 - ii. **Key finding 2:** The Commission advised that a strong and stable NZ ETS will be critical to achieving our emissions budgets. The Government is committed to ensuring a credible NZ ETS complemented by policies that reduce barriers to investment in emissions reductions and removals. The most significant divergence between the Government’s approach and the Commission’s recommendations is deciding not to proceed with the ETS review.

- iii. **Key finding 3:** The Commission advised the Government to develop a strategy to support a coordinated approach to decarbonisation across the energy system. The Government has committed to removing regulatory barriers (e.g. consenting barriers) and providing enabling regulatory regimes to support private investment in energy through Electrify NZ (already underway) and the Climate Strategy. The Minister for Energy is also considering issuing an Energy Strategy.
- iv. **Key finding 4:** The Commission emphasised the phase out of coal burners and the need for innovation to address emissions in hard-to-abate industries. This was primarily being delivered through the previous Government’s fund to support businesses to switch to clean energy sources (GIDI). Despite this fund now being discontinued, the progress already made under the fund continues to contribute to EB1 as abatement from the first few years of delivery is “locked in”. The Government is exploring whether there are other barriers and opportunities to complement ETS-driven reductions in stationary energy and industrial emissions.
- v. **Key finding 5:** The Commission had an ‘avoid, shift, improve’ hierarchy to guide its transport sector advice to reduce transport emissions and change transport behaviour. The Government is still committed to reducing emissions from light vehicles, aviation and heavy transport, but by focusing on enabling electrification and removing regulatory barriers to investing in low emissions transport options.

Assessing whether ERP1 continues to meet the requirements for a plan under the Act

- 27. As outlined, the Government’s strategy and revised approach to meeting emissions budgets has implications for ERP1. While many of the policy decisions have been taken outside of your portfolio you retain responsibility for ERP1 as a whole under the Act.
- 28. Officials have therefore assessed whether the amended ERP1 meets the requirements for what an emissions reduction plan must include⁴. This review has focused on the energy, transport, emissions pricing and equitable transition chapters, along with the change in approach to meeting climate change targets.

Requirements of ERP1 under the Act:	Officials’ assessment
Sector-specific policies to reduce emissions and increase removals	<p>The remaining ERP1 retains policies in all sector chapters that both directly and indirectly reduce emissions and increase removals.</p> <p>The transport and energy chapters are the most affected sector chapters by the action changes included in this amendment. Some of the actions discontinued in these chapters were projected to make a significant direct impact to meeting EB1. This includes the Sustainable Biofuels Obligation (discontinued by the previous Government), the Clean Car Discount and GIDI. Despite being discontinued, these actions will continue to contribute to EB1 as some of the abatement from the first few years of delivery is “locked in”.</p>

⁴ Section 5ZG(3)

<p>A multi-sector strategy to meet emissions budgets and improve the ability of those sectors to adapt to the effects of climate change</p>	<p>The most recent projections (ERP2 baseline projections) indicate New Zealand remains on track to meet EB1 (see Table 1 above).</p> <p>The Government has a National Adaptation Plan that is being delivered alongside ERP1 and includes policies to mitigate the impacts of climate change and build resiliency. The Government is also focused on developing an Adaptation Framework to establish an enduring, long-term, and integrated approach to adaptation to respond to the increasing urgency to make progress and enable better risk management.</p>
<p>A strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees, employers, regions, iwi and Māori, and wider communities</p>	<p>The remaining ERP1 includes an equitable transition chapter, which sets out the overarching strategy and supporting actions and policies to manage transition impacts.</p> <p>A key action (3.2.1) to develop an equitable transition strategy has been discontinued. However, we consider the amended ERP1 will remain sufficient to meet the requirement to mitigate distributional impacts for ERP1 as the overarching strategy remains in place alongside the remaining actions in Chapter 3.</p> <p>The actions and policies included in ERP1 will be complemented by existing universal supports, including inflation-indexed government financial assistance and income support system, government employment services, and the tax bracket adjustment.</p>
<p>Any other policies or strategies that the Minister considers necessary</p>	<p>While actions in ERP1 have been discontinued, the Government’s approach to meeting emissions budgets and targets will primarily be embedded through ERP2 (focused on achieving EB2: 2026-2030). ERP2 contains climate initiatives from the Government’s manifesto commitments and Coalition Agreements and, in many cases, focus is already shifting to implementing ERP2 actions. For example, Electrify NZ and the Fast-track Approvals Bill to enable more investment in renewable energy, EV charging infrastructure roll out, and the development of a sustainable finance strategy.</p>

Scope of the amended ERP1

29. The draft Cabinet paper and ERP1 amendment outline the Government’s approach to meeting emissions targets and budgets, and list the 41 actions that have been discontinued (as at 30 June 2024) and publicly consulted on through the ERP2 discussion document.
30. The discussion document signalled that further policy adjustments were expected to be made to ERP1 as Ministers continue to embed the new approach in their respective portfolios. Since then, a further 15 ERP1 actions have been stopped or are currently

pending Ministerial decisions to stop (see Appendix 4). These changes are not expected to materially impact our ability to meet EB1 or future emissions budgets.

31. These additional actions are not included in the draft ERP1 amendment document.

9(2)(h) [Redacted]

[Redacted]

Next steps

33. The amendment has been prepared as an addendum to be read together with the existing ERP1 document and meets the requirements to make the plan easily accessible to the public. Table 2 sets out the timeframes to deliver the amendment.

Table 2: Timeline to deliver ERP2 and the ERP1 amendment

Timeframe	Action
10 October	Minister of Climate Change receives final full draft ERP2 package for review (ERP1 amendment appended)
14-21 October	Concurrent departmental and Ministerial consultation on the ERP2 Cabinet paper (ERP1 amendment appended)
31 October	Cabinet paper lodged (with ERP1 amendment appended)
6 November	Cabinet paper for ECO consideration
11 November	Cabinet approval
Mid December	ERP2 and ERP1 amendment tabled and made publicly available

33. Officials will refine the draft Cabinet paper content and ERP1 amendment to reflect your feedback, ahead of you consulting your colleagues. The ERP1 amendment content will be integrated into the ERP2 Cabinet paper as set out in the timeframes above. We will also develop key messages to support any enquiries you may receive, as part of the ERP2 communications support.

Appendix 1: Draft Cabinet paper and amendment to ERP1

(See attached papers)

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Office of the Minister of Climate Change

Cabinet Economic Policy Committee (ECO)

Amending the first emissions reduction plan

Proposal

- 1 I seek approval to present to the House of Representatives and make public, as provided for under the Climate Change Response Act 2002 (the Act), the amendment to the first emissions reduction plan (ERP1) to reflect this Government's policy approach for the remainder of the first emissions budget period (2022-2025).

Relation to government priorities

- 2 The proposed amendment of ERP1 is consistent with the Government's new Climate Strategy and climate commitments, including the Prime Minister's ninth public service target to meet New Zealand's 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025.

Executive Summary

- 3 ERP1 was published in May 2022 by the previous administration, setting out 305 actions, policies and strategies to meet EB1.
- 4 In July 2024, our Government launched its Climate Strategy aimed at reducing the impacts of climate change and preparing for its future effects. Embedding our approach to the climate strategy has resulted in work stopping on 35 climate policies included in ERP1 that are not aligned with the Government's new approach. A further six actions were discontinued by the previous administration.
- 5 Our latest baseline projections for the second emissions reduction plan (ERP2) – which accounts for the 41 discontinued actions from ERP1 – are consistent with EB1 being met, with a central estimate of 284 Mt. The upper limit of the uncertainty range for EB1 brings us to within 2 Mt CO₂-e of the first emissions budget but remains within the limit. Based on this range, I am confident that we are on track to meet the first emissions budget, albeit with a small margin.
- 6 Cabinet previously noted that the extent of changes to ERP1 since the start of the plan requires the plan to be updated to present an accurate record of our current plan to meet EB1 [CBC-24-MIN-0064 refers]. To formally amend ERP1, I have consulted on the change in approach to meeting EB1 through the discussion document for ERP2, and reconsidered the Climate Change Commission's advice for EB1 1 as set out in the Act (s5ZI(3)).
- 7 I am now seeking agreement to present the amended ERP1 to the House of Representatives as required by the Act.

Background

- 8 The first emissions reduction plan (ERP1) was published in May 2022 by the previous administration and sets out the policies and strategies to meet the first emissions budget (EB1) (2022-2025). It contained 305 actions spread across fifteen cross-cutting and sector-specific chapters.
- 9 In June 2024, Cabinet noted that as a result of our change in approach to meeting emissions budgets (set out in our Climate Strategy), work has stopped on 35 actions in ERP1 as they are not aligned with the Government’s approach for meeting the emissions budgets [CBC-24-MIN-0064 refers]. Six actions were also stopped by the previous administration. Cabinet noted that the extent of these changes to ERP1 requires the plan be amended to present an updated record of our current plan to meet EB1.
- 10 This is the first time this provision has been used. The Act provides that when an amendment is undertaken, and that amendment is more than minor or technical, I follow the same process as that of preparing an emissions reduction plan. This includes consulting with the public and considering the Commission’s original policy advice on meeting EB1.

Analysis

Our approach to delivering emissions budgets has changed

- 11 In July 2024 I publicly launched the Climate Strategy, our Government’s revised approach to deliver New Zealand’s climate change goals. Our strategy and its key policies are already being implemented, including our Electrify NZ commitments, and ensuring a fair and effective price on emissions.

12 9(2)(h) [Redacted text block]

- 13 The ERP2 baseline projections (see Table 1) account for from the impacts of stopping the 41 discontinued ERP1 policies and indicate we will remain within the EB1 limit of 290MT CO2-e (with a central emissions estimate of 284.5 Mt CO2-e +/- 4 Mt CO2-e).

Table 1: ERP2 projections with new measures (net emissions) as at 25 September 2024

Emissions budget (net, all gases)	Interim projections (central estimate*)	Uncertainty for interim projections (from central estimate)
EB1 (2022-25) = 290 Mt	284.5 Mt CO ₂ -e	±4 Mt CO ₂ -e

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EB2 (2026-30) = 305 Mt	Tbc before Ministerial consultation	Tbc before Ministerial consultation
EB3 (2031-35) = 240 Mt	Tbc before Ministerial consultation	Tbc before Ministerial consultation

- 14 The margin for meeting EB1 is small, with the upper limit of the uncertainty range for EB1 bringing projected emissions to within 2 Mt CO₂-e of EB1. Further changes to ERP1 will need to be made with caution, particularly if there is an expected impact on our ability to meet EB1 and future emissions budgets.
- 15 I will continue to receive regular reporting from the Climate Change Chief Executives Board on ERP1 implementation and progress against EB1.

Further changes to ERP1

- 16 The Government's revised approach to emissions reductions will primarily be embedded through ERP2. In many cases, my Ministerial colleagues are already shifting their focus to implementing ERP2, which contains initiatives from the Government's manifesto commitments and Coalition Agreements.
- 17 As signalled in the ERP2 Discussion Document (published July 2024), I expect further adjustments to be made to ERP1 actions as we continue to embed our Climate Strategy and Ministers implement the new approach in their respective portfolios. A further fifteen ERP1 actions have been stopped, or are currently pending Ministerial decisions to stop, since the Discussion Document was released. These additional changes are not expected to materially impact our ability to meet EB1.

18 9(2)(h)
[Redacted text]

Process for amending ERP1

- 19 I propose to amend ERP1 as provided in Appendix 1. The Act provides that when an amendment is undertaken, and that amendment is more than minor or technical, I must publicly consult on the amendments to the plan and consider the Commission's original policy advice on EB1.
- 20 Cabinet noted information on all discontinued ERP1 actions (as at June 2024) was included within the ERP2 Discussion Document to consult on the implications of the overall change in approach to meeting the first emissions budget [CBC-24-MIN-0064 refers]. Public consultation ran from 16 July to 21 August 2024 and 216 submissions included feedback on the impacts of amending ERP1. Key themes raised in the submissions were:

20.1 **Concerns about the impact of discontinued actions on our ability to meet future emissions budgets.** Submitters highlighted concerns about the risk

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posed by amending ERP1 to meeting EB1 and future EBs as some of the policies included in the amendment were projected to contribute to EB2 and EB3.

- 20.2 **Feedback on specific policy changes.** Submitters raised concerns about several policy changes. These included the NZ ETS and the role of forestry, the approach to distributional impacts and an equitable transition, and the Government Investment in Decarbonising Industry fund (GIDI).
- 20.3 **Feedback on the new approach for EB1 and future EBs** including on the net-based approach, reliance on emerging technology, and the least cost pathway. These themes were considered as part of developing ERP2.
- 21 The Commission provided its policy advice on meeting EB1 in 2021 in Part 2 of its report, *Ināia tonu nei: a low emissions future for Aotearoa*. I have considered the Commission's advice on matters relevant to the ERP1 areas most impacted by the discontinued actions, being:
- 21.1 In many instances, the Government's new approach is taking an alternative path to meet New Zealand's climate goals and deliver a just and resilient transition than that recommended in the Commission's advice for EB1. Where the Government has most notably diverged is in our net-based approach, using universal supports to mitigate distributional impacts, and placing a greater emphasis on removing barriers to incentivise private investment and action.
- 21.2 The Commission has advised using proactive transition planning and policies that target specific groups and regions. To complement our price-led approach, I am using existing universal supports accompanied by a number of actions remaining in ERP1 to mitigate the distributional impacts of the transition.
- 21.3 I have also diverged from the Commission's original advice on emissions pricing, specifically as we are adopting a net-based strategy (and consequently stopped the ETS Review proposed under the previous government). To ensure a least-cost approach to achieving EB2, a credible and well-functioning ETS is critical. To support this, I have updated ETS settings to halve the number of units available over 2025-2029.
- 22 I also note the Commission provided its monitoring report in July 2024 (refer X Cab minute), concluding that projections are consistent with the first emissions budget being met, however, they carry high uncertainty. The Commission's monitoring report has been considered by Officials as part of assessing our progress towards meeting EB1, and the proposed amendments to ERP1. The Government's response to the Commission's monitoring report was tabled in the House of Representatives in October 2024 and has been made publicly available.

Implementation (for relevant papers)

23 Not applicable.

Cost-of-living Implications

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

Financial Implications

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

Legislative Implications

26 No direct legislative implications are expected as a result of the publication of this report <https://dpmc.govt.nz/publications/co-02-4-acts-binding-crown-procedures-cabinet-decision>

Impact Analysis

Regulatory Impact Statement

27 The amendment to ERP1 does not require a RIS. Individual policies will include a RIS where required.

Climate Implications of Policy Assessment

28 There will be no direct emissions impacts from the publication of amended ERP1. Decisions on changes to individual climate change policies will include a CIPA where required.

Population Implications

29 There will be no direct population implications from the publication of amended ERP1. Decisions on changes to individual climate change policies that have population implications will be outlined at that point as required.

Human Rights

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

Use of external Resources

31 Not applicable.

Consultation

32 Agencies consulted in the development of this paper were: [Ministry for the Environment, Ministry for Primary Industries, Ministry of Business Innovation and

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Employment, Ministry of Transport, the Treasury, Department of Conservation, Ministry of Housing and Urban Development.]

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

Communications

34 The attached ERP1 amendment will be presented to the House of Representatives by 9 December, 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.

Proactive Release

35 This paper will be proactively released, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

36 **Note** that in June 2024, Cabinet noted the extent of changes to ERP1 and the change in approach to meeting New Zealand's climate targets requires the plan to be updated to present an accurate record of our current approach to meet EB1 [CBC-24-MIN-0064 refers].

37 **Note** that:

37.1 I have considered the Commission's policy advice on meeting EB1,

37.2 I have publicly consulted on the proposed amendments to ERP1, and

37.3 I am satisfied that ERP1 remains sufficient to achieve the first emission budget.

38 **Note** I intend to formally amend the first emissions reduction plan as attached in Appendix 1 (which includes the 41 discontinued actions as set out in the discussion document on the second emissions reduction plan).

39 **Authorise** that I present the amended ERP1 to the House of Representatives by X December, alongside the final ERP2.

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Te Kāwanatanga o Aotearoa
New Zealand Government

Aotearoa New Zealand's first emissions reduction plan:

Amendment 2024

DRAFT

Note – we anticipate this being in report format, but not on CCIEB template. Using template as an example for layout and working with MfE publications for final format

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Insert acknowledgements here if required.

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Te Kāwanatanga o Aotearoa
New Zealand Government

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Introduction

The Climate Change Response Act 2002 (the Act) provides the framework by which New Zealand develops and implements clear and stable policies that contribute to global efforts to limit global average temperature increase, and allows New Zealand to prepare for, and adapt to the effects of climate change.

The framework sets New Zealand’s domestic long-term emissions reductions targets to 2050, and provides for a series of interim targets, or 5-year emissions budgets, to be set as ‘stepping stones’ towards the 2050 target.

For each emissions budget period, the Act requires that there is an emissions reduction plan in place that sets out the policies and strategies to meet the emissions budget. The focus for the first emissions reduction plan (published in May 2022) is meeting the first emissions budget (2022-2025). The Act also provides for those plans to be amended during the emissions budget period to maintain their currency.

This document is the 2024 amendment to New Zealand’s first emissions reduction plan. It is designed to be read in conjunction with the original plan, and the associated Table of Actions.

New Zealand’s climate change targets and emissions budgets

New Zealand has legislated domestic emission reduction targets under the Act:

- reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050
- reduce emissions of biogenic methane to 24–47 per cent below 2017 levels by 2050, including to 10 per cent below 2017 levels by 2030.

An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period (expressed in megatonnes of carbon dioxide equivalent (Mt CO₂e)). Table 1 sets out NZ’s first three emissions budgets.

Table 1: New Zealand’s first three emissions budgets

Budget period	2022–25	2026–30	2031–35
All gases, net (AR5)	290 Mt CO ₂ e	305 Mt CO ₂ e	240 Mt CO ₂ e
Annual average	72.5 Mt CO ₂ e	61 Mt CO ₂ e	48 Mt CO ₂ e

The focus for the first emissions reduction plan is meeting the first emissions budget, which is 290Mt Co₂-e. The Government is also focused on ensuring New Zealand is well positioned to meet future emissions budgets.

The Government is committed to meeting our domestic climate change targets and emissions budgets. In April 2024, the Government reinforced this commitment in one of the Prime Minister’s public service targets - Target 9:

On track to meet New Zealand’s 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025 and 305 megatonnes from 2026 to 2030.



What is a tonne of emissions?

One tonne of carbon dioxide equivalent (CO₂-e) is 1,000 kg of emissions. One megatonne (Mt) is 1 million tonnes of emissions. For scale: one tonne of emissions is roughly equivalent to nine trips from Auckland to Wellington in the average car (total of 5,847kms). One Mt would be this multiplied by one million.

In July 2024, the Government launched its Climate Strategy, an ambitious plan aimed at reducing the impacts of climate change and preparing for its future effects. Five pillars will inform our pathway to responding to a changing climate:



This Government’s approach to delivering New Zealand’s emissions reduction goals seeks to reduce net emissions at least cost using effective and efficient policies that do not negatively impact on the productivity of New Zealand’s key industries. This approach will be technology-led and will rely on a credible emissions trading scheme, complemented by policies that reduce barriers to investment in emissions reductions and removals.

Our new approach to reduce net emissions

Since setting the first emissions budget in 2022, the context in which we are delivering the plan has evolved. We have also learned from the first two years of delivery and have adjusted the approach where it was needed.

In embedding the new approach to achieving our climate goals, several actions from the first emissions reduction plan have been discontinued because they do not align with the Government’s approach. Some actions have been discontinued because they do not effectively contribute to our emissions budgets, and some actions were stopped by the previous administration. The list of discontinued actions can be found in Appendix 1.

The purpose of amending the first emissions reduction plan is to ensure it reflects this Government’s approach to meeting the first emissions budget, and the necessary revisions to policies and actions that have been discontinued to better align with the government’s Climate Strategy for the remainder of the first emissions budget period (to the end of 2025).

In amending the Plan, we have considered the Climate Change Commission’s advice for meeting the relevant emissions budget (*Ināia tonu nei: a low emissions future for Aotearoa (2021)*), and consulted on

the impacts of the new approach and amended plan for meeting that emissions budget.¹ We will continue to take an agile approach to delivering the first emissions reduction plan and, where needed, changes will be made to ensure ongoing alignment with the Climate Strategy and to ensure the first emissions budget is met.

We are continuing to make progress towards our emissions budgets

The latest ERP2 baseline projections (as at 25 September 2024) indicate we are projected to meet the first emissions budget (see Table 2 below). These projections reflect current policies from the first emissions reduction plan and reflect the actions that are being discontinued (as at June 2024). They also account for the policies and actions proposed to be include in the second emissions reduction plan, developed to meet the second emissions budget period (2026-2030). [\[hyperlink to ERP2\]](#)

Table 2: ERP2 projections with new measures (net emissions) as at 25 September 2024

Emissions budget limits	Interim projections at 25 September 2024 including ERP2 policies (central estimate*)	Uncertainty for 25 September 2024 interim projections (central estimate)
First emissions budget 290 Mt CO2-e	284.5 Mt CO2-e	±4 Mt CO2-e
Second emissions budget 305 Mt CO2-e	Tbc before Ministerial consultation	Tbc before Ministerial consultation
Third emissions budget 240 Mt CO2-e	Tbc before Ministerial consultation	Tbc before Ministerial consultation

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

We use uncertainty ranges to represent a range of possible futures and provide Government with an assessment of confidence about our progress². The upper limit of the uncertainty range for the first emissions budget brings us to within 2 Mt CO2-e of the budget but remains within the limit. Based on this range, the Government is confident that we are on track to meet the first emissions budget.

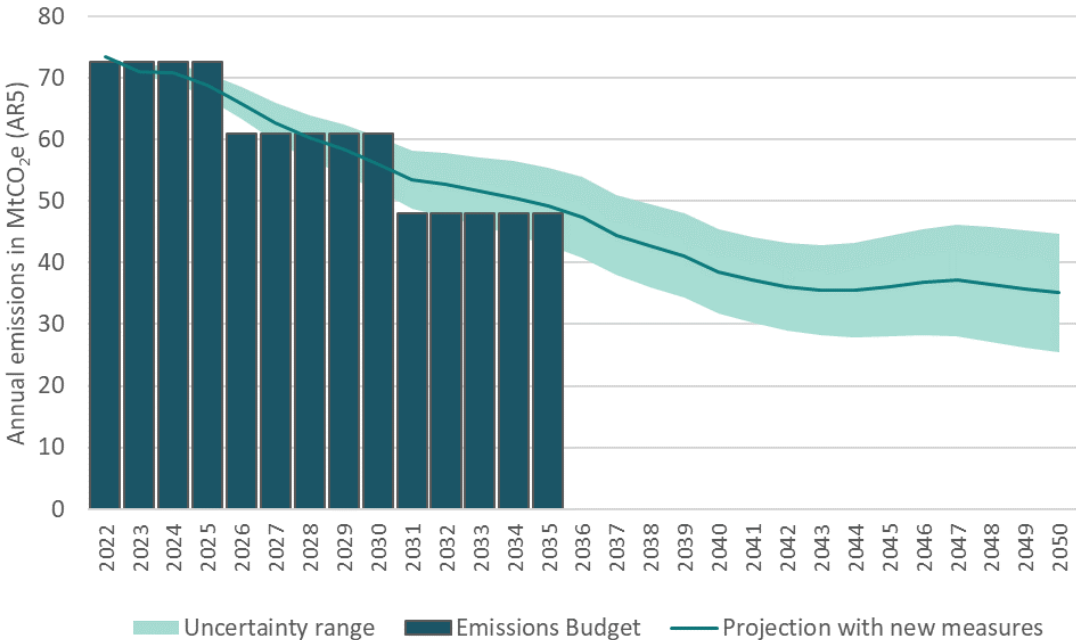
Figure 1 presents our projected emissions reduction pathway for the first three emissions budgets, based on final ERP2 projections. It shows that we are projected to meet the first and second emissions budget. The third emissions budget is within the projected range, but the central estimate is above the budget limit.

¹ Climate Change Response Act 2002 section 5Z(3)(a) provides that, when an amendment is undertaken, and that amendment is more than minor or technical, the same process as that of preparing an emissions reduction plan is followed.

² Our projections have shown us that they are impacted by three key factors: changes to underlying/external factors such as population growth and GDP, rainfall levels; methodological improvements such as the science and how emissions are measured; and policy design and implementation. External factors and methodological changes can drive substantive shifts in how we are tracking towards emissions budgets.

Figure 1: Interim emissions projections and uncertainty range (2022–50) using target accounting

TBC updated graph - to be inserted before Ministerial consultation



Because projections are based on assumptions made about the future, they become less accurate the further out the projections. Figure 1 shows we are currently not on track to achieve net zero by 2050. The Government is committed to reducing net emissions of all greenhouse gases (except biogenic methane) to zero by 2050 and this will be done through a series of emissions budgets and future emissions reduction plans.

The second emissions reduction plan (ERP2) includes confirmed policies and strategies for the second emissions budget (2026-2030) onwards.

Embedding our new approach

We are nearly three years into delivering New Zealand’s first emissions reduction plan. The Climate Change Chief Executive Board’s most recent Quarterly Report on progress was for the period 1 January - 30 June 2024 and summarises the challenges and successes of implementing the first emissions reduction plan and national adaptation plan. Implementation progress to date has been mixed. Of the remaining actions, 69% are either complete or actively being implemented, 20% are on hold, 8% are closed, and 3% (or 7 actions) have not yet started.

Completed actions include: implementing the Healthy Homes Standards, establishing the Centre for Climate Action on Agricultural Emissions, and implementing additional market mechanisms to accelerate the transition to a highly renewable energy system.

In delivering the first emissions reduction plan, we have faced challenges that have informed this amendment and how we will continue to deliver the Plan going forward. In the early stages, supply chain constraints driven by Covid-19 and later, Cyclone Gabrielle and the Auckland flooding, caused delivery delays across several sectors. Worsening inflation and the cost-of-living crisis has meant some actions have been paused or discontinued to ease cost pressure on households (e.g. the previous government cancelling the sustainable biofuels obligation in February 2023). These challenges have reinforced the

need to reduce the number of policies the Government is implementing and to prioritise those that deliver cost-effective abatement.

We are continuing to deliver the amended first emissions reduction plan through a set of cross cutting and sector-specific work programmes. The areas with the greatest shift in approach are Transport (chapter 10), Equitable Transition (chapter 3), Emissions Pricing (chapter 5), and Energy (chapter 11). Implementing the new approach for the remainder of the first emissions budget will see a renewed emphasis on action to enable renewable energy investment and development, universal support mechanisms to mitigate the impact of the transition on individuals and households, and work to recognise more sources of removals for EB2 and future budgets.

Embedding the climate strategy in future emissions budgets and getting started with ERP2 actions

The Government's revised approach will also be implemented through the second emissions reduction plan. As the second emissions reduction plan contains initiatives from the Government's manifesto commitments and Coalition Agreements, work is beginning on some of these in 2024/25 - ahead of the second emissions budget period formally commencing on 1 January 2026.

These include restoring confidence in the New Zealand Emissions Trading Scheme (NZ ETS), enabling electrification through *Electrify NZ* commitments to help achieve our objective to double renewable energy, delivering more public EV chargers, and enabling technology research and development to reduce agricultural emissions.

How to read the amended plan

This document is designed to be read in conjunction with the original first emissions reduction plan and the associated Table of Actions, which can be found on the Ministry for the Environment website [\[insert hyperlink to original ERP1 documents\]](#). More detailed information about the actions that have been removed from the first emissions reduction plan is provided in Appendix 1.

Appendix 1: Table of ERP1 removed actions

Below are the actions being removed from the first emissions reduction plan, organised by chapter, as at 30 June 2024.

Equitable transition (Chapter 3)

Actions for delivery	Lead
3.2.1 Develop an equitable transition strategy.	MBIE/MSD
3.2.2b Support regions and industries to manage the transition.	MBIE/MSD
3.2.3 Implement the Just Transition Partnerships Programme.	MBIE
3.3.1 Develop an income insurance scheme.	Government, BusinessNZ, New Zealand Council of Trade Unions

Emissions pricing (Chapter 5)

Actions for delivery	Lead
5.2.1 Adjust the NZ ETS to drive a balance of gross and net emissions reductions.	MfE
5.2.3 Assess how the NZ ETS can support indigenous biodiversity.	MfE

Funding and finance (Chapter 6)

Actions for delivery	Lead
6.1 Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process.	TSY

Planning and infrastructure (Chapter 7)

Actions for delivery	Lead (support)
7.5 Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.	Kāinga Ora (HUD, Waka Kotahi, MOT, MfE, Te Waihangā)

Research, science, innovation and technology (Chapter 8)

Actions for delivery	Lead
8.1.1 Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.	Cross government

Actions for delivery	Lead
8.2 Te Ara Paerangi Future Pathways science-system reform programme.	MBIE

Circular economy and bioeconomy (Chapter 9)

Actions for delivery	Lead (support)
9.1 Commence a Circular Economy and Bioeconomy Strategy.	MBIE
9.4 Support businesses moving to circular economy models.	MBIE

Transport (Chapter 10)

Actions for delivery	Lead
10.1.1.6 Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	MOT
10.1.2 Set sub-national VKT reduction targets for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) by the end of 2022.	MOT
10.1.2 Revise Waka Kotahi's national mode shift plan (Keeping Cities Moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode shift required in urban areas.	Waka Kotahi
10.1.2 Develop VKT reduction programmes for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives.	Waka Kotahi/local government
10.1.2 Support initiatives to increase the uptake of e-bikes.	MOT
10.1.4 Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	MOT
10.2.1 Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024.	MOT/Waka Kotahi
10.2.1 Establish whether the Clean Vehicle Discount can be extended to other vehicle classes.	MOT
10.2.2 Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.	MOT
10.2.2 Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.	MOT
10.2.2 Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.	MOT
10.3.5 Implement the Sustainable Biofuels Obligation, which requires liable fuel suppliers to reduce the total emissions of the fuels they supply by a set percentage each year through the deployment of biofuels (in blended or neat form).	MOT/MBIE
10.4.1 Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan.	MOT

Energy and industry (Chapter 11)

Actions for delivery	Lead
11.1.1 Provide rebates for energy efficient equipment.	MBIE/EECA
11.2.2 Investigate options for dry-year electricity storage through the New Zealand Battery Project.	MBIE
11.2.2 Ban new fossil-fuel baseload generation.	MBIE
11.3.1 Develop a gas transition plan.	MBIE
11.4.1 Set an action plan for decarbonising the industrial sector.	MBIE
11.4.1 Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.	MBIE/EECA
11.4.1 Fund further decarbonisation of industry and heat through expansion of the GIDI.	MBIE/EECA
11.4.1 Provide grant funding for commercial space and water heating and high efficiency electrical equipment.	MBIE/EECA
11.4.1 Finalise and implement the Advanced Manufacturing Industry Transformation Plan.	MBIE
11.4.1 Develop a mandatory energy and emissions reporting scheme.	MBIE
11.5.1 Monitor progress towards the aspirational renewable electricity target.	MBIE

Agriculture (Chapter 13)

Actions for delivery	Lead
13.1.1 An emissions pricing mechanism is developed, and agricultural emissions are priced by 1 January 2025.	MPI
13.1.2 All producers will have emissions reports by the end of 2022 and a farm plan in place by 2025.	MPI
13.3.1 Develop further climate-focussed extension and advisory services.	MPI

Forestry (Chapter 14)

Actions for delivery	Lead (support)
14.1.1a Ensure regulatory settings deliver the right type and scale of forests, in the right place.	MPI (MfE)
14.4.1 Develop forestry and wood processing industry transformation plan (ITP).	MPI

Appendix 2: ERP1 amendment results of consultation

The July 2024 discussion document on ERP2 included material to consult on amending ERP1.

Relying on the July 2024 interim emissions projections, the consultation outlined that *“current modelling suggests that with a changed approach, the first emissions reduction plan is still sufficient to meet the first emissions budget.”*

The two consultation questions included were:

- i. What, if any, other impacts or consequences of the Government’s approach to meeting the first emissions budget should the Government be aware of?
- ii. What, if any, are the long-term impacts from the changes to the first emissions reduction plan on meeting future emissions budgets that should be considered through the development of the second emissions reduction plan?

We received 1840 submissions from a range of interested groups, of which 216 included feedback on the impact of amending ERP1.

Key findings

Overall, submitters’ feedback on amending ERP1 was unsupportive. The primary concern from submitters was that the changes to ERP1 may affect the ability to meet EB1 and future budgets.

Submissions on amending ERP1 also included feedback on Government proposals for ERP2 and the approach to meeting future budgets – these submissions have been included in ERP2 analysis [BRF-5365 refers].

A breakdown of the submissions for ERP1 is provided in Table 3 below.

Table 3: Submissions on the change in approach and the impacts or consequences for emissions budgets

Key Theme	Detail
The impact of discontinued actions on our ability to meet future emissions budgets	Submitters have expressed concerns about the impact of discontinuing actions in ERP1 on New Zealand’s ability to meet future emissions budgets, particularly EB3, as projections show we are off track. Submitters predominantly perceive the amendments to ERP1 as a change in pace rather than a change in approach and highlight the risk of losing momentum.
The viability of the new approach for long-term success	There are concerns about the Government’s new approach and whether it will be viable for long term success. These submissions have been included in the analysis for ERP2 (BRF-5365 refers).
Submission on specific policy: Climate Emergency Response Fund (CERF)	Council submitters have raised the risk that without the Climate Emergency Response Fund reinvesting revenue from the ETS back into gross emissions reductions, funding is limited for regional and local government to deliver such initiatives.

Key Theme	Detail
Submission on specific policy: Equitable Transition/Just Transition	Submitters are concerned about the distributional impacts of the new approach and have asked the Government to present a more comprehensive strategy to mitigate these impacts.
Submission on specific policy: Emissions Trading Scheme (ETS) and Forestry	Submissions on the ETS and the role of forestry to meet New Zealand's budget are mixed. Some submitters expressed support for a well-functioning ETS, but raised the risk of an over reliance on the ETS and forestry over the long term. Other submitters raised concerns that a price-driven transition will result in adverse biodiversity outcomes.

Appendix 3: Summary of analysis of the Commission’s previous advice

To ensure the amendment meets the requirements of the Act, we have completed a review and analysis of the Commission’s advice - *Ināia tonu nei: a low emissions future for Aotearoa*⁵ - focused on the four sectors most affected by the discontinued ERP1 actions and the change in approach (being transport, energy, equitable transition, and emissions pricing).

This appendix summarises the Commission’s advice for the four affected areas and provides information on the corresponding approach taken by the Government. This summary is provided to support the Minister of Climate Change to consider the Commission’s advice.

Table 4: Summary of the analysis of the Commission’s previous advice

Chapter	Advice from <i>Ināia tonu nei: a low emissions future for Aotearoa</i>	Summary of corresponding Government approach
3 – Equitable transition	<p>Developing an Equitable Transitions Strategy that aims to deliver a well-signalled and inclusive transition, so it maximises opportunities, and minimises disruption and inequities. The strategy should include:</p> <ul style="list-style-type: none"> • Acting in partnership with Iwi/Māori, giving effect to the principles of Te Tiriti o Waitangi, • Undertaking proactive transition planning that aligns with tikanga values and is co-designed, • Strengthening efforts to support a nimble and responsive education system with equitable access that sets New Zealanders up with skills needed for a low emissions future, • Supporting workers to transition from high-emissions sectors to low-emissions sectors, • Factoring distributional impacts into how climate strategies and policies are designed and implemented, and • Clarity on how the Government is going to prioritise and fund the work laid out under the Strategy. 	<p>The Government has discontinued the Equitable Transitions Strategy, as a separate strategy is not considered necessary to understand and address distributional impacts for EB1.</p> <p>To complement a primarily price-led approach, the Government is using existing universal supports, such as an inflation-indexed government financial assistance and income support system. The ‘climate dividend’ tax bracket adjustment will also mitigate some impacts from the plan.</p> <p>This will be supported by the remaining ERP1 actions that target specific groups and regions. This includes:</p> <ul style="list-style-type: none"> • All actions within chapter 2 – <i>Empowering Māori</i> are remaining active in the amended plan; • 30 actions (as at June 2024) that address distributional impacts and remain active or have been completed across chapter 3 and sector chapters. This includes: establishing the Māori agribusiness pathway, working with local government to make public transport more affordable, and the Warmer Kiwi Homes programme.
5 – Emissions pricing	<p>Emissions pricing is a powerful tool, and an essential component of an effective policy package for reducing emissions. Amending and continually improving the NZ ETS so that it delivers the incentives needed to</p>	<p>A strong and stable ETS is the Government’s main tool to deliver on NZ’s climate targets.</p> <p>The most significant divergence between the Government’s approach and the Commission’s recommendations is in the</p>

⁵ A full version of the Commission’s advice can be viewed at [Ināia tonu nei: a low emissions future for Aotearoa \(climatecommission.govt.nz\)](https://climatecommission.govt.nz)

Chapter	Advice from <i>Ināia tonu nei: a low emissions future for Aotearoa</i>	Summary of corresponding Government approach
	<p>achieve emissions budgets. This includes:</p> <ul style="list-style-type: none"> • Amending the NZ ETS to strengthen the incentive for gross emissions reductions and to manage the amount of exotic forest planting the NZ ETS drives • Updating NZ ETS unit supply and price control settings • Establishing an effective market governance regime for the NZ ETS as soon as possible • Continually improving the NZ ETS, including by: developing and implementing a plan for recycling proceeds from NZ ETS unit auctions into emissions reductions, implementing the legislated process for review and phase-out of industrial free allocation, providing more information to reduce uncertainty about adjustments to NZ ETS settings, and clarifying the role and avenues for voluntary mitigation in Aotearoa. 	<p>Government’s adoption of a net-based strategy and the decision to stop the ETS review.</p> <p>The Government recently announced it will reduce the ETS auction volumes by half over 2025-29, following advice from the Commission in 2024.</p> <p>At this relatively late stage, the Government’s influence over the role the ETS plays in EB1 is extremely limited. Officials’ assessment is there is still a very high probability that ETS-covered sectors will remain within the ETS cap for EB1.</p>
<p>10 - Transport</p>	<ul style="list-style-type: none"> • Reducing the reliance on cars (or light vehicles) and supporting people to walk, cycle and use public transport. Government needs to support this change with clear targets, plans to meet those targets, and substantial increases to funding. Local government plays an important role in changing how people travel, and it needs more support from central government to do the job well. This includes enabling them through legislation, removing regulatory barriers, and providing increased and targeted funding. • Rapidly adopting electric vehicles (EVs). Ambitious policies are needed to address supply and cost constraints, and bring more EVs into the country. Aotearoa should import more efficient vehicles until EVs are widely available and affordable. • Beginning work now to decarbonise heavy transport and freight. 	<p>Emissions from the transport system are covered by the NZ ETS and this limits the degree to which enabling transport policies directly reduces net emissions in the long run. Stable incentives and clear price signals through the scheme are important to deliver least-cost emissions reductions.</p> <p>There are transport sector-specific policies remaining in the plan to reduce emissions. These include the Clean Car Standard, Supercharging EV Infrastructure, research to advance the development and uptake of alternative low- and zero-carbon fuels for shipping, and several major public transport projects.</p>
<p>11 - Energy</p>	<ul style="list-style-type: none"> • Government to develop a comprehensive energy strategy 	<p>The Government has committed to providing the regulatory certainty and a credible, level</p>

Chapter	Advice from <i>Ināia tonu nei: a low emissions future for Aotearoa</i>	Summary of corresponding Government approach
	<p>including setting a system-wide renewable energy target and increased investment in energy efficiency.</p> <ul style="list-style-type: none"> • Government to develop this in collaboration with iwi/Māori and with communities, industries and local government. • Stopping the installation of new coal boilers and setting a timetable to phase out fossil fuel use in existing boilers. • Supporting innovation for decarbonising hard-to-abate industries, accounting for sector-specific circumstances and their interdependencies and the need for bespoke solutions requiring research and development. • Developing the policy approach in collaboration with iwi/Māori, industrial and manufacturing stakeholders. • Accelerating industry switching to low-emissions fuels for process heat and uptake of energy efficiency measures. A high NZ ETS price signal is central to delivering this, along with policies that reduce barriers related to access to capital, behaviour change and infrastructure access 	<p>playing field to enable private investment in energy through Electrify NZ and the Climate Strategy. Electrify NZ is a key pillar for ERP2, but work is already underway in EB1.</p> <p>Work to reduce energy emissions is continuing across focus areas 1-3 and 5 in the ERP1 energy chapter. This includes actions to improve energy efficiency for households and businesses, prepare the energy system for higher future demand, and reduce reliance on fossil fuels.</p> <p>The phase-out of coal burners and decarbonisation of hard-to-abate areas was primarily being delivered through GIDI, which was discontinued in early 2024. Industry emissions are in the NZ ETS cap, which limits the degree to which enabling policies directly reduce the quantity of net emissions in the long run. Prices will need to be high enough in the industry sector to make switching to low emissions alternatives economically preferable. See the assessment for chapter 5 - <i>Emissions Pricing</i> for more detail on the ETS.</p> <p>Although discontinued, actions such as GIDI will continue to contribute to EB1 as some of the abatement from the first few years of delivery has been “locked in”.</p>

Appendix 4: Additional stopped actions in ERP1

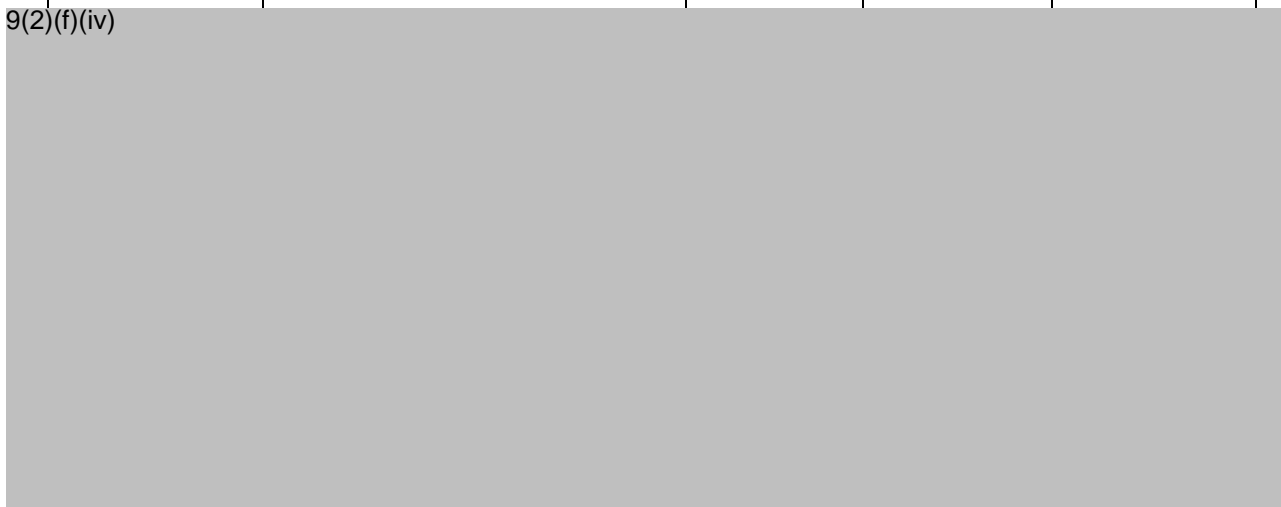
Appendix 4 includes information on the 15 actions that have stopped since the ERP2 discussion document was released in July 2024. Ministers have made decisions to discontinue these actions or the actions are currently pending Ministerial decisions to discontinue.

The table below provides agencies' assessment of the approximate lost abatement potential of the actions. These actions are not explicitly included in the ERP2 baseline or official projections, so the associated estimate of lost abatement is not anticipated to affect our projected ability to meet EB1 or future EBs. We will continue to monitor the impact of further adjustments as the Climate Strategy is embedded and Ministers implement the new approach in their respective portfolios.

Table 5 additional stopped actions in ERP1 since July 2024

ERP1 Chapter	Action	EB1 (kt CO2-e)	EB2 (kt CO2-e)	EB3 (kt CO2-e)
Chapter 3 – Equitable Transition	3.2.2a Support regions and industries to manage the transition	N/A	N/A	N/A
Chapter 3- Equitable Transition	3.3.2 Improve welfare system income adequacy	N/A	N/A	N/A

9(2)(f)(iv)



18(d)



ERP1 Chapter	Action	EB1 (kt CO2-e)	EB2 (kt CO2-e)	EB3 (kt CO2-e)
18(d)				
Chapter 16 – F-gases	16.2 Prohibit imports of pre-charged equipment.	1	10	20

ERP1 Chapter	Action	EB1 (kt CO2-e)	EB2 (kt CO2-e)	EB3 (kt CO2-e)
Chapter 16 – F-gases	16.3 Investigate prohibiting F-gases with high GWP.	10	200	200

Information in Appendix 4 refused under section 18(d) of the Act will be proactively released by the Ministry for Business, Innovation and Employment by 30 June 2025.



Aide Memoire: Attendance at the Primary Production Committee on the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – 22 August 2024

Date submitted: 15 August 2024

Tracking number: BRF-5187

Joint agencies: Ministry for Primary Industries

Security level: CLASSIFICATION

MfE priority: Medium

Actions sought from ministers		
Name and position	Action sought	Response by
To Hon Simon Watts Minister of Climate Change	Read before Primary Production Select Committee on Thursday 22 August 2024. Forward the briefing to Hon Todd McClay, Minister of Agriculture	22 August 2024

Actions for Minister's Office staff
Forward this briefing to Hon Todd McClay, Minister of Agriculture Return the signed briefing to Ministry for the Environment (ministerials@mfe.govt.nz)

Appendices and attachments
Appendix A: Emerging themes from submissions Appendix B: Information requests from the Primary Production Select Committee Appendix C: Back pocket questions and answers Appendix D: Primary Production Select Committee Members

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Arthur Ung	9(2)(a)	
Responsible Manager	Cheryl Moir	9(2)(a)	✓
Director	Mark Vink	021 176 2243	
Key contacts at Ministry for Primary Industries			
Responsible Manager	Beth Hampton	9(2)(a)	✓
Director	Jane Chirnside	9(2)(a)	

Minister's comments**Purpose**

1. This aide memoire provides information to support your attendance at the Primary Production Select Committee from 11.00 – 11.20am on Thursday 22 August 2024 to discuss the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Bill (the Bill).
2. The following material is appended for your information:
 - a. Appendix A: Emerging themes from submissions;
 - b. Appendix B: Information requests from the Primary Production Select Committee;
 - c. Appendix C: Back pocket questions & answers; and
 - d. Appendix D: Primary Production Select Committee Members.

Background

3. The Bill to remove agriculture obligations from the New Zealand Emissions Trading Scheme (NZ ETS) was introduced on Thursday, 20 June 2024 and referred to the Primary Production Select Committee (the Committee) on Tuesday, 25 June 2024. The Bill is required to be reported to the House by 1 November 2024.
4. To date, the Committee has undertaken the following activities:
 - a. 27 June - 28 July 2024: Received around 580 submissions following public consultation.
 - b. 25 July 2024: Initial briefing with officials on the Bill.
 - c. 8 August 2024: Conducted hearings of evidence from 13 submitters (from both individuals and organisations). The Climate Change Commission (the Commission), in response to an invitation from the Committee, also appeared in a closed session to discuss the Commission's work including previous advice on agriculture on this date.
2. Further hearings of evidence are being scheduled for Thursday 22 August 2024. The Chair of the Committee, Mark Cameron, has invited you to participate in a 20 minute hearing so that the Committee can discuss the Bill, and the associated Government policy, with you as the Member of Parliament responsible for the Bill. You are scheduled to appear 11.00 – 11.20am.
3. Officials from the Ministry for the Environment (MfE) and Ministry for Primary Industries (MPI) will be in attendance during this hearing. As discussed with your office, MfE and MPI officials will be available 10.30 – 11.00am Thursday 22 August 2024 for a pre-meet if this is desirable.

Potential points to raise at Select Committee

5. Based on our interactions to date, we expect the Committee will be interested in the policy rationale for the Bill and the wider climate change context, including the current understanding of, and action on, methane.

Legislative context

6. The Climate Change Response Act 2002 (CCRA) sets out the following domestic targets to reduce emissions:
 - a. Net zero emissions of all greenhouse gas (GHG) emissions other than biogenic methane by 2050.
 - b. 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.
7. The Committee has expressed interest in GHG metrics and values for different gasses, so you could also clarify that New Zealand's domestic biogenic methane target does not rely on the use of GHG metrics, rather, it requires a gross reduction in biogenic methane emissions relative to 2017 levels.
8. The biogenic methane target, which currently has a wide range, is under review. An independent review of the science of methane and the 2050 target for consistency with no additional warming from agricultural methane emissions will be completed by the end of the year. The Commission will also provide advice to the Government on New Zealand's 2050 target (including biogenic methane) by December 2024. The two reviews will give the Government a robust evidence base to use when it considers the 2050 target, and its response to the Commission's advice, next year.
9. To meet our domestic targets, the CCRA requires the Government to set emissions budgets and prepare emissions reduction plans that set out the plans to achieve those budgets. Emissions budgets cover all gases and sectors and are measured in terms of carbon dioxide equivalent (aggregated using the GHG metric GWP100, and AR5 conversion factors).
10. The Government is currently consulting on the second emissions reduction plan (ERP2), which must include the policies and actions New Zealand will take to meet the second emissions budget. You could highlight to the Committee that ERP2 accounts for agriculture being taken out of the NZ ETS – that is, it does not give rise to a 'gap' in our climate response from a sufficiency perspective, as other action is being taken.
11. Key actions in the agriculture chapter in ERP2 include:
 - a. Accelerating the development and commercialisation of mitigation tools and technologies to reduce on-farm emissions;
 - b. Developing a standardised methodology for estimating on-farm emissions, to support measurement by 2025; and
 - c. Commitment to a fair and sustainable pricing system for agricultural emissions by 2030.

Rationale for removing agriculture from the NZ ETS

12. This Bill supports the Government's coalition agreements and the National Party's manifesto commitment to keep agriculture out of the NZ ETS. You could also highlight that:
 - a. Pricing agricultural emissions through the NZ ETS would mean a single price is applied to all agricultural gases. This is inconsistent with the split-gas approach of New Zealand's legislated targets, where there is a separate target for biogenic methane.

- b. The farm level obligations could require up to 100,000 animal farmers to be registered, reporting, and paying for their emissions in the NZ ETS.¹ This could have disproportionate impacts on smaller farms (which face similar compliance costs to larger farms), and would significantly increase the number of participants in the scheme (currently there are about 4,700 participants).
 - c. The large increase in NZ ETS participants would also result in significant administrative and implementation costs. The Government's commitment to price agricultural emissions at the farm level outside of the NZ ETS by 2030 would mean that system changes made to price agriculture within the NZ ETS would be short-lived.
 - d. Pricing emissions at the processor level is unlikely to effectively incentivise farmers to directly reduce their on-farm emissions. This is because the emissions cost borne by the processors would likely be passed on to farmers without regard to each farmers' individual emissions efficiency.
13. Note, the Committee has questioned why agricultural nitrous oxide emissions, particularly from the use of synthetic fertiliser, should be removed from the NZ ETS.² This is on the basis that the above issues do not apply as strongly to nitrous oxide: it is a long-lived gas and the Commission has commented previously that fertiliser emissions could effectively be priced at the processor level through the NZ ETS. If raised, you could note:
- a. That the Government was clear in its commitment to taking agriculture out of the NZ ETS.
 - b. That you expect that the management of nitrous oxide emissions will be considered as part of the broader agriculture mitigation policies – and that you expect a coherent approach to be taken, including to best support farmers to manage their agricultural emissions footprint in a way that best suits their farm businesses.

Next steps

14. To further support your appearance at the Committee:
- a. Appendix A provides you with an overview of emerging themes from public submissions.
 - b. Appendix B provides you with the information requests from the Primary Production Select Committee (and responses provided).
 - c. Appendix C provides you with some further back pocket questions and answers.
 - d. Appendix D provides you with the list of the Primary Production Select Committee Members.
15. Officials from MfE and MPI are available for a pre-meet ahead of your appearance (this has been tentatively scheduled for 10.30 – 11.00am on Thursday 22 August 2024), and will be in attendance at the hearing.

¹ Currently under the CCRA, from 1 January 2025, fertiliser and animal processors will be required to pay for agricultural emissions. Animal farmers will be required to report their emissions from 1 January 2026, and pay for these emissions from 1 January 2027 (at which point surrender obligations for animal processors would cease).

² Nitrous oxide emissions from synthetic fertiliser makes up around 18 percent of agricultural nitrous oxide emissions. Around 68 per cent of nitrous oxide emissions come from livestock urine and dung.

Recommendations

It is recommended that you:

- a) **Agree** to forward the briefing to Hon Todd McClay – Minister of Agriculture.

YES / NO

- b) **Agree** to a pre-meet with MfE and MPI officials (ahead of your appearance) at 10.30 – 11.00am, Thursday 22 August 2024 to support your attendance.

YES / NO



Cheryl Moir
Manager
Market Development

Hon Simon Watts
Minister of Climate Change

/ / 2024

Appendix A: Emerging themes from submissions

1. The Select Committee received around 580 submissions from consultation on the Bill. There have been submissions from primary sector groups, environmental NGOs, and an iwi group (Ngāi Tai ki Tamaki Trust).
2. At this stage, officials have analysed around half of these submissions and the emerging themes include:

Almost half of submissions support the Bill for the following reasons:

- Agriculture's inclusion in the NZ ETS would significantly impact agricultural production and New Zealand's economy.
- New Zealand farmers are world leaders in producing carbon efficient agricultural products and its inclusion in the NZ ETS would shift agricultural production to less efficient countries, resulting in an increase in global emissions.
- The warming impact of biogenic methane needs to be better understood to inform actions on agricultural policies and climate change targets.

Around half of the submissions do not support the Bill, for the following reasons:

- Keeping agriculture in the ETS is necessary to enable New Zealand to achieve its climate change targets.
- The Bill is inconsistent with the reality of the climate crisis and the Government and all New Zealanders need to take urgent action to address the climate crisis.
- The Bill is retrogressive and would impact New Zealand's 'clean, green' reputation, and there is some concern that it may impact New Zealand's trade relations.

Appendix B: Information requests from the Primary Production Select Committee

1. The Select Committee has requested officials provide the following information. Officials response to the questions are also appended.

INFORMATION REQUEST	RESPONSE PROVIDED BY
<i>Initial briefing meeting – Thursday 25 July</i>	
1. The impact of the IPCC Sixth Assessment Report (AR6) on the 53 percent figure in the initial briefing (context slide 1), and implications of AR6 for consideration of methane.	2 August 2024
2. A diagram showing how the NZ ETS currently applies to different sectors/activities and how this will change under the Bill, and an explanation of how different gases are converted to CO2 equivalent.	31 July 2024
3. An overview of relevant modelling, including the effect the bill would have on emissions reductions plans (including ERP3), particularly in terms of tonnages and costs.	2 August 2024
4. How the costs of NZ ETS administration are currently managed, particularly by small businesses covered by the NZ ETS.	31 July 2024
5. Provide a summary of New Zealand's trade obligations regarding agricultural emissions.	2 August 2024
6. How feral animals are accounted for in the NZ Greenhouse Gas Inventory.	31 July 2024
7. Advice about currently available and upcoming or anticipated tools and technologies for emissions reductions in the agriculture sector, including possible timelines and reduction impacts, and information on costs, with particular reference to the six years to 2030.	2 August 2024
<i>Evidence Hearing – Thursday 8 August</i>	
8. Provide an overview of NDC1 and an explanation of the NDC gap and factors that influence it.	13 August 2024
9. How will we ensure any international cooperation has environmental integrity?	13 August 2024

Responses to initial briefing questions

Question 1. The impact of the IPCC Sixth Assessment Report (AR6) on the 53 percent figure in the initial briefing (context slide 1), and implications of AR6 for consideration of methane.

AR5 values are required to be used until the end of 2030

Reporting requirements for the post-2030 period under the Paris Agreement will come up for negotiation in 2027, aiming to conclude in time for a decision in 2028. This includes consideration of advice in AR6.

To convert methane and nitrous oxide emissions into a common metric, carbon dioxide equivalents (CO₂e), New Zealand's national greenhouse gas inventory reporting to the United Nations uses Global Warming Potential (GWP) values based on a 100-year time frame (GWP100) and the values set out in the Fifth Assessment Report (AR5). This approach was agreed in 2018 by the Conference of Parties to the Paris Agreement (CMA) and will apply until a decision to apply different metrics is agreed by the CMA.

The Sixth Assessment Report (AR6) was published in 2022, after this decision was taken, and has updated values for GWP100. While AR5 features a single GWP100 conversion factor of methane (28), AR6 has different values for biogenic methane (27.0) and fossil methane (29.8). The value for nitrous oxide under AR6 also changes from 265 to 273.

Implications of AR6

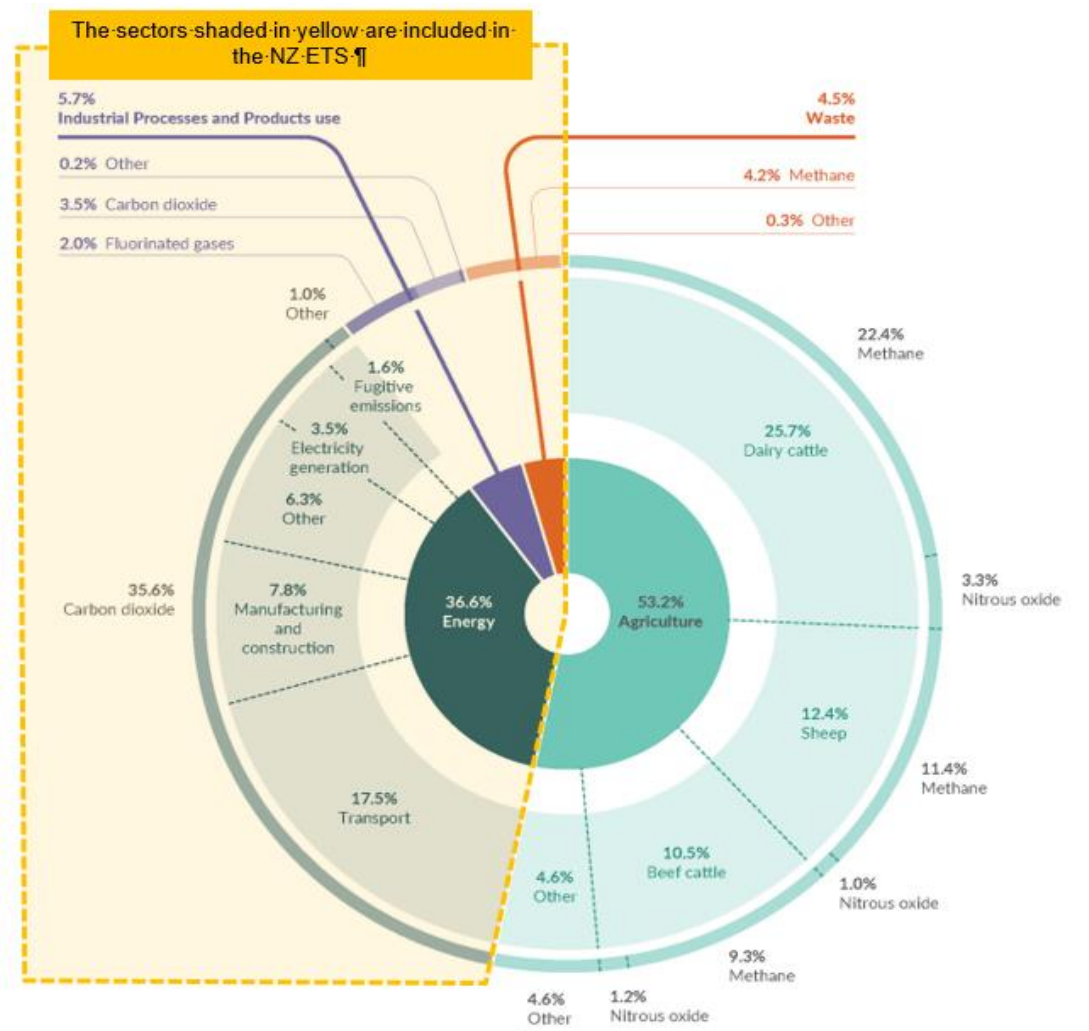
If the AR6 GWP100 value for biogenic methane was adopted for reporting post-2030, compared to the AR5 GWP100, and based on 2022 levels, New Zealand's value for biogenic methane in CO₂e would decrease by 3.6% and nitrous oxide would increase by 3.0%. Adoption of AR6 values would have a small impact on agricultural emissions' share of total emissions. Note that this change would apply to the entire time series covered by the inventory.

AR6 also includes a discussion on '*Comparing Long-lived with Short-lived Greenhouse Gases*' (Section 7.6.1.4, page 1014, of *Climate Change 2021: The Physical Science Basis*). This section discusses different types of metrics including different variants of GWP including GWP star (GWP*), global temperature-change potentials (GTP), combined GTP, and split gas targets. This advice will be considered by parties to the Paris Agreement as they reach agreement on post-2030 reporting requirements in 2027 and 2028.

Question 2. A diagram showing how the ETS currently applies to different sectors/activities and how this will change under the Bill, and an explanation of how different gases are converted to CO2 equivalent.

How the ETS currently applies

Figure 1: Gross greenhouse gas emissions percentages in 2022 by sector, category and gas type



The diagram shows the current proportion of different Greenhouse Gases (GHGs) from different sectors based on their converted carbon dioxide emissions using the GHG metric Global Warming Potential (GWP100) and conversion factors from the IPCC's Fifth Assessment Report [AR5].

The yellow box indicates which sectors currently face surrender obligations (that is, a price) in the NZ ETS.

Agriculture is currently outside the NZ ETS, and this will not change if the CCRA Amendment Bill is passed.³

Forestry is also covered by the NZ ETS as a growing forest can absorb carbon dioxide from the air. Registered NZ ETS forestry participants can receive units from the government for eligible forest land, and can earn units over time as the forest grows.

³ Current requirements for agricultural processors to report to the EPA (under the NZ ETS) will cease in accordance with the draft CCRA Amendment Bill.

These participants may also have to pay units if certain land is cleared or deforested. Owners of pre-1990 production forests become mandatory participants in the NZ ETS if land is deforested and converted to another land use.

How different gases are converted to CO2 equivalent

In New Zealand's Greenhouse Gas Inventory different GHGs are aggregated using the GHG metric GWP100. GWP100 is the required metric used at an international level for measuring countries' progress under the Paris Agreement when accounting for their NDCs and aggregating the non-carbon dioxide gases together in the reporting of national GHG emissions inventories under the UNFCCC.

New Zealand currently uses GWP100 conversion factors from the Intergovernmental Panel on Climate Change Fifth Assessment Report (AR5) as discussed in question 1.

Question 3. An overview of relevant modelling, including the effect the bill would have on emissions reductions plans (including ERP3), particularly in terms of tonnages and costs.

The Regulatory Impact Analysis prepared to inform the policy decisions taken by the Government relating to the Bill included a cost/benefit analysis. This showed that pricing emissions at a processor level in the NZ ETS has a small positive benefit (Benefit Cost Ratio of 1.24, Net Present Value of \$0.97 billion over the next 20 years). This benefit arises because the costs of reducing emissions in agriculture are lower than alternative ways of reducing emissions. In the case of including agriculture in the NZ ETS at processor level, the reductions were found to occur predominantly through land use change from sheep and beef farming to forestry.

Note the applicability of this analysis is limited, as under the CCRA, processor level pricing would be superseded by farm level surrender obligations in 2027. Amending the CCRA to remove agricultural processor level pricing will mean that the potential economic net benefit suggested by this modelling would be reversed. In addition, this cost/benefit analysis was originally conducted as part of officials' analysis of the He Waka Eke Noa process, so it is now a few years old and does not capture more recent methodological improvements to the estimation of agricultural greenhouse gases.

This modelling also found that including agriculture in the NZ ETS at processor level would reduce agricultural emissions by 16% by 2030. Note that the level of free allocation decreasing from 95% in 2025 to 90% in 2030, as specified currently in the CCRA, effectively doubles the NZ ETS price agricultural participants face. This is because participants would go from paying for 5 percent of their emissions, to paying for 10 percent of their emissions.

Under the CCRA, the Government is required to publish an emissions reduction plan for each emissions budget. The plan must outline the strategy and actions the Government will take across all sectors of the economy to meet emissions budgets, among other things. The recently released discussion document for the second emissions reduction plan (ERP2) takes account of the Government's proposal to prevent agriculture from entering the NZ ETS from 2025. Instead, it includes the introduction of an agricultural emissions pricing system no later than 2030.

The modelling conducted to support the consultation indicated the impact of that system would be to reduce emissions by 0.1 Mt CO₂-e in emissions budget 2 and 5.5 Mt CO₂-e in emissions budget 3⁴ (Table 10, Technical annex to the discussion document). These reductions are from uptake of mitigation driven by an agricultural pricing mechanism implemented on 1 January 2030. As no decisions have been taken regarding this pricing mechanism, it is modelled as a generic incentive on the uptake of mitigation.

⁴ ERP3 will detail the Governments' plan for meeting emissions budget 3.

Question 4. How the costs of NZ ETS administration are currently managed, particularly by small businesses covered by the NZ ETS.

Who is a participant

A participant is a person or entity who carries out an activity covered by the NZ ETS. Participation may be mandatory or voluntary depending on the activity. Participation can occur in different ways:

- Those whose activities release greenhouse gases have to surrender New Zealand emission unit (NZUs) or other eligible emission units to the Government. An example of this could be a company that mines natural gas, as this will emit greenhouse gases when it is used.
- Those whose activities remove greenhouse gases from the atmosphere, or from New Zealand, may earn NZUs from the Government. An example of this is owners of forests that absorb greenhouse gases, or a business that exports products containing hydrofluorocarbons.
- Some people and organisations receive NZUs from the Government. This is to reduce the financial impact of being part of the scheme. It is generally for sectors that face high costs as a result of the NZ ETS because they are emissions intensive.

The point of obligation in the NZ ETS (that is the participant in the scheme) is generally as far upstream in the supply chain as possible. This means most businesses in New Zealand are not required to be participants in the NZ ETS.

The Environmental Protection Authority (EPA) manages the administration of the NZ ETS. As at the end of June 2024 there are 4,726 participants (the majority of which are forestry participants).

The design of the NZ ETS system

The Climate Change Response Act specifies the activities that are included in the Scheme for each of the following industry sectors: forestry, liquid fossil fuels, stationary energy, industrial processes, synthetic greenhouse gases, agriculture and waste.

People carrying out the specified activities are required to participate in the Scheme. For example, the obligation to surrender NZ ETS units for liquid fossil fuels (such as petrol, diesel and aviation fuel) is placed on the companies importing the fuel, rather than on the drivers of fossil-fuelled vehicles. These emissions costs can be passed on to consumers of products through the supply chain to then influence behaviour to reduce emissions.

If agriculture were to enter the NZ ETS, the upstream principal would indicate the pricing should be applied at the processor level. However, this is unlikely to incentivise farmers to reduce their emissions. This is because processor level pricing is likely to be based on national averages of farming emissions – and so the actions of individual farmers to reduce their own emissions would not be rewarded. Effectively incentivising emissions reductions would require farm-level pricing, but that also means there would be a very large number of participants entering the NZ ETS (up to 100,000).

This would lead to a much higher administration costs for both the NZ ETS system overall (due to higher number of participants), as well as higher costs for each individual participant.

Non-forestry participants in the NZ ETS

There are no direct fees or charges for registering or reporting as a participant in the NZ ETS for non-forestry participants. Participants will incur indirect costs associated with the time and any external expertise required to support their involvement in the NZ ETS such as monitoring, calculating emissions, and buying units to surrender.

There are some direct processing costs charged if a participant voluntarily applies for an emission ruling about a participant's obligations. These fees (fixed and variable) are outlined in the Climate Change (Emissions Rulings: Fees and Charges) Regulations 2010.

Costs for forestry participants

Forestry participants face a fee for participation that is dependent on a number of factors such as size of hectares planted and type of forest. There are fees for services such as applying to register in the NZ ETS, applying for an emissions ruling, transferring responsibility for land in the NZ ETS, and submitting emissions returns.

As an example, the fees associated with registering post-1989 forest land varies from around \$562 for under 10 hectares to \$4,743 for over 500 hectares.

The government has recently announced a review into fees for NZ ETS forestry participants ([Government announces independent review of forestry ETS costs | Beehive.govt.nz](#)). The Government has also announced there will be no annual charge in the 2023/24 financial year for post-1989 forest land registered in the NZ ETS.

Cost to the regulator

EPA is a Crown Agent established under the Environmental Protection Authority Act 2011, they are responsible for operating NZ ETS. The work done by EPA in functional areas is covered by a mix of Crown funding and funding from charges and fees. Crown funding is provided through three appropriations in Vote Environment: EPA functions, Emissions Trading Scheme, and Exclusive Economic Zone major prosecutions.

Question 5. Provide a summary of New Zealand's trade obligations regarding agricultural emissions.

The obligations in New Zealand's Free Trade Agreements (FTAs) do not impose additional commitments on the agriculture sector in relation to the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill, and the Bill will not affect the ability of New Zealand agriculture sector exporters to access tariff preferences under FTAs.

New Zealand's most recent FTAs with the United Kingdom and European Union have included provisions on trade and climate change. These include commitments to promote mutual supportiveness between trade and climate policies, promote emissions trading and facilitate the removal of obstacles to trade and investment in goods and services of particular relevance for climate change mitigation and adaptation.

The New Zealand-United Kingdom Free Trade Agreement (UK FTA) contains an article on Sustainable Agriculture which requires both Parties to take measures to, and promote efforts to, reduce greenhouse gas emissions from agricultural production.

The New Zealand-European Union Free Trade Agreement (EU FTA) includes obligations that require New Zealand and the EU to "effectively implement" the Paris Agreement and to "refrain from

any action or omission that materially defeats the object and purpose of the Paris Agreement". However, the EU FTA does not change or expand the underlying Paris Agreement commitments.

These FTAs require and encourage cooperation on emissions trading and carbon markets with our trading partners, but do not prescribe particular approaches.

More detail on EU FTA and UK FTA

EU FTA: The Sustainable Food Systems chapter of the EU FTA includes commitments relating to cooperation between New Zealand and the EU and it is not subject to the dispute settlement mechanism in the EU FTA. By providing the Sub-committee established under the chapter with the discretion to establish its own priorities, the chapter ensures cooperation activities can reflect changing understandings of food systems and domestic settings over time.

UK FTA: The focus of the commitments in the Environment chapter are actions to address environmentally harmful subsidies; support for global initiatives including climate change, fisheries management, biodiversity protection, and the transition to a circular economy; and cooperation to advance policies on matters of mutual interest to New Zealand and the UK. The Climate Change Response (ETS Agricultural Obligations) Amendment Bill does not affect these commitments.

Other New Zealand FTAs also include environmental provisions, but they are usually focused on cooperation.

Question 6. How feral animals are accounted for in the NZ Greenhouse Gas Inventory.

Direct emissions from wild or feral ruminants such as wild goats, and deer are not accounted for in the inventory (possums and other monogastric feral animals emit very little methane and are also not accounted for in the inventory).

The guidance from the Intergovernmental Panel on Climate Change states that emissions should only be considered from animals under domestic management.

We are not aware of any country that reports emissions from non-domesticated animals in their national GHG Inventory.

The indirect impacts of wild animals grazing on forests and activities such as pest management are not explicitly accounted for under the land use, land-use change, and forestry sector of the Inventory. However, if these types of activities are having a tangible impact on forest growth, they may be indirectly captured through the assumptions used in the forestry accounting and physical observations required to estimate removals.

Question 7. Advice about currently available and upcoming or anticipated tools and technologies for emissions reductions in the agriculture sector, including possible timelines and reduction impacts, and information on costs, with particular reference to the six years to 2030.

Within the draft second emissions reduction plan (ERP2) officials made the following assumptions based on consulting a range of people involved in mitigation research.

- Methane inhibitors: 45% efficacy, available 2028 with peak adoption for dairy 69% by 2041 and for beef 15% by 2047. The cost is assumed to be \$65 to \$77 per tonne CO₂e reduced.

- Low-emissions feeds for dairy cattle: 8% efficacy, available from 2024 with peak adoption 6% by 2035.
- EcoPond™ for dairy: 92% efficacy, available from 2025 with peak adoption 3% by 2037. The cost is assumed to be \$244 per tonne CO₂e.
- Nitrification inhibitors for dairy: 17% efficacy, available from 2030 with peak adoption 1% by 2045.
- The efficacy of low-methane genetics for sheep, beef and dairy cattle increases through time, improvements in this trait are slow but permanent and cumulative. The cost is expected to be \$2 to \$20 per tonne CO₂e reduced.

These uptake levels are driven by an agricultural pricing mechanism implemented on 1 January 2030. As no decisions have been taken regarding this pricing mechanism, it is modelled as a generic incentive on the uptake of mitigation. Uptake prior to 1 January 2030 is expected to be limited.

Responses to evidence hearing questions

An overview of NDC1

Nationally determined contributions (NDCs) are each country's effort towards delivering on the goals of the Paris Agreement, including keeping global average temperature well below 2 degrees while pursuing efforts to limit the temperature increase to 1.5 degrees.

NDCs are required to be communicated every five years. They need to reflect a country's highest possible ambition and must be a progression on their previous NDC. Countries have committed to their first NDCs, which cover the period 2021-2030, and next year will be required to communicate their second NDC, for the period 2031-2035.

New Zealand's first NDC is a 50 per cent reduction of net emissions below our gross 2005 level by 2030, and is managed as a provisional emissions budget of 571 MtCO₂-e over the 2021-2030 period. New Zealand's domestic emissions are projected to be 672 MtCO₂-e over this same period, assuming we meet emissions budgets one and two (EB1 and EB2).

Note that the 571 MtCO₂-e budget under NDC1 is provisional. It will change as New Zealand's greenhouse gas (GHG) inventory data is updated across the NDC period, and will only be finalised when the inventory data for 2021-2030 is published.

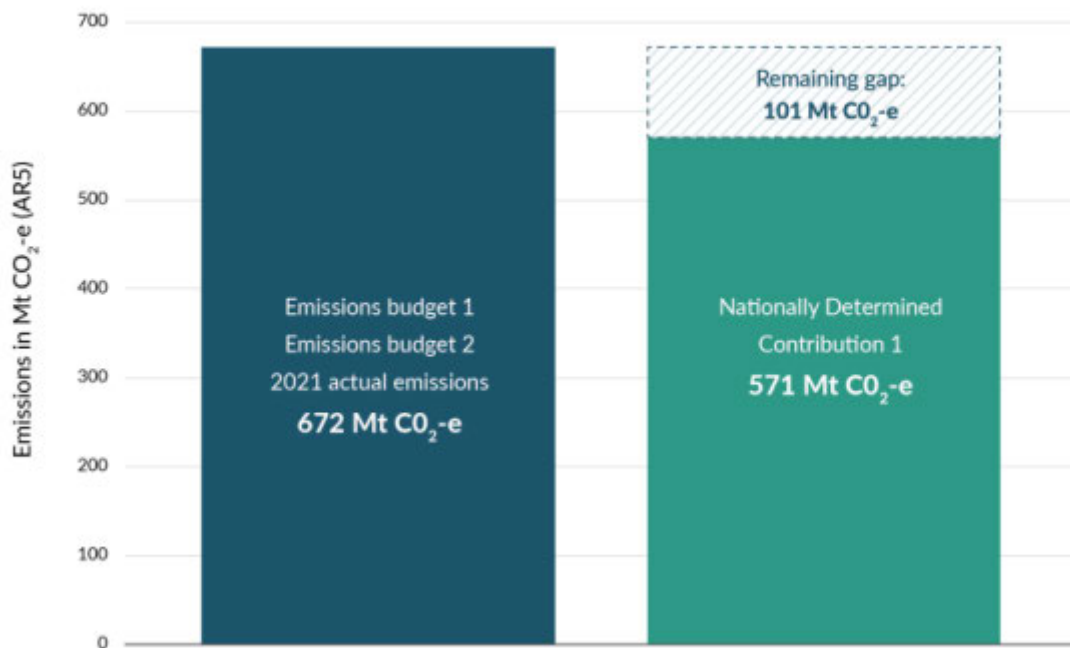
As we have noted previously, AR5 values are required to be used until the end of 2030 – i.e., the end of the NDC1 period. Decisions on reporting requirements for the post-2030 period under the Paris Agreement, which will come up for negotiation in 2027, will not have an impact on NDC1. Any impacts on NDC2 are not known at this time

An explanation of the NDC gap and factors that influence it.

As noted above, New Zealand's domestic emissions covering 2021-2030 are currently expected to be higher than our target under NDC1. This results in an "NDC gap" – the difference between projected emissions over the period and the provisional NDC emissions budget. This is illustrated in Figure 0.1 from the discussion document on the Second Emissions Reduction Plan (ERP2)⁵:

⁵ Note the ERP2 discussion document outlines the proposed policies and strategies to meet EB2. For the avoidance of doubt, as part of this, it takes account of the Government's proposal to prevent agriculture from entering the NZ ETS from 2025.

Figure 0.1: New Zealand’s climate change targets and scale of required emissions reductions (2021–30)⁵



The NDC gap is subject to change over the NDC period because of methodological updates. The methodology used to construct New Zealand’s GHG inventory is periodically reviewed, resulting in changes to historical data for 2005 and 2020 that will impact the provisional NDC1 budget.

The mechanisms available to close this gap are overachievement (that is greater abatement and/or sequestration than required) of New Zealand’s emissions budgets and international cooperation. The Government has expressed its intention to meet New Zealand’s NDC1 through prioritising domestic action. The Minister of Climate Change is the lead Minister for this work.

Chapter 7 of the Climate Economic and Fiscal Assessment, produced by the Treasury and the Ministry for the Environment, provides some scenario analysis on the potential cost of purchasing offshore mitigation toward New Zealand’s NDC1 – available at: <https://www.treasury.govt.nz/sites/default/files/2023-04/cefa23.pdf>

How will we ensure any international cooperation has environmental integrity?

New Zealand plays an active role in the negotiations of Article 6 of the Paris Agreement under which the rules for buying and selling offshore mitigation are established. New Zealand seeks to advance rules that ensure transparency and environmental integrity. The rules include robust accounting to avoid double counting as well as environmental and social safeguards.

Appendix C: Back pocket Questions & Answers








1. The following back-pocket Q&As relate to previous topics discussed at the Committee. These include:
 - a. The impact of the IPCC Sixth Assessment Report (AR6) on New Zealand's agricultural emissions profile.
 - b. An overview of New Zealand's First Nationally Determined Contribution (NDC1) and an explanation of the NDC gap and factors that influence it.
 - c. Overview of nitrous oxide emissions from synthetic fertiliser use.

<p>NZ agricultural emissions profile and AR5 and AR6</p>	
<p>What is the potential difference in New Zealand’s agricultural emissions profile from using AR6?</p>	<ul style="list-style-type: none"> • The Sixth Assessment Report (AR6) was published in 2022 and has updated values for GWP100. Compared to AR5, the value for biogenic methane changes from 28 to 27 and for nitrous oxide from 265 to 273. • If the AR6 GWP100 value for biogenic methane was adopted for reporting post-2030, compared to the AR5 GWP100, New Zealand’s value for biogenic methane in CO2e would decrease by 3.6% and nitrous oxide would increase by 3.0%. Note that this change would apply to the entire time series covered by the inventory. • This would not have a substantial impact on the percentage of total agricultural emissions relative to gross emissions (e.g. in 2022, total agricultural emissions would be 52.6% of gross emissions using AR6 values instead of 53.2% using AR5).
<p>Why is the short-term effect of methane not considered in our climate change target?</p>	<ul style="list-style-type: none"> • Methane is a powerful but short-lived GHG that accounts for approximately one third of net global warming since the Industrial Revolution. • The latest report from the IPCC (AR6) states that limiting global warming to 1.5°C or 2°C involves reaching net-zero carbon dioxide emissions in the 2050s or 2070s, along with deep reductions of other GHGs (including methane). • Lower ambition of global emissions reductions in methane would require achieving net-zero carbon dioxide at an earlier date and greater emissions reductions in other GHGs to achieve the goals of the Paris Agreement. • Under the CCRA New Zealand adopted a split-gas approach to the 2050 domestic target based on scientific evidence that biogenic methane, as a short-lived gas, does not have to reduce to zero to limit global warming to 1.5°C. • New Zealand’s domestic 2050 biogenic methane target requires a gross reduction in biogenic methane emissions and was not set using GHG metrics (e.g., GWP100). • The Government has established an independent panel to review the methane science and provide advice on what our domestic 2050 biogenic methane target should be, consistent with the principle of no additional warming. • The panel will report back to the Government by the end of the year. Its work will complement the Climate Change Commission’s review of the 2050 targets this year and will inform the Government’s response to the Commission’s advice in 2025.

New Zealand's NDC1	
What is New Zealand's NDC1?	<ul style="list-style-type: none"> • New Zealand's first NDC is a 50 per cent reduction of net emissions below our gross 2005 level by 2030, and is managed as a provisional emissions budget of 571 MtCO₂-e over the 2021-2030 period. New Zealand's domestic emissions are projected to be 672 MtCO₂-e over this same period, assuming we meet emissions budgets one and two (EB1 and EB2). • Note that the 571 MtCO₂-e budget under NDC1 is provisional. It will change as New Zealand's GHG inventory data is updated across the NDC period, and will only be finalised when the inventory data for 2021-2030 is published.
How will the Government close New Zealand's "NDC gap"?	<ul style="list-style-type: none"> • New Zealand's domestic emissions covering 2021-2030 are currently expected to be higher than our target under NDC1. This results in an "NDC gap" – the difference between projected emissions over the period and the provisional NDC emissions budget. • The mechanisms available to close this gap are overachievement (that is greater abatement and/or sequestration than required) of New Zealand's emissions budgets and international cooperation. • The Government has expressed its intention to meet New Zealand's NDC1 through prioritising domestic action.
What is the impact of this Bill on meeting ERP2?	<ul style="list-style-type: none"> • ERP2, which we are consulting on at the moment, must be sufficient to meet EB2. It includes taking agriculture out of the NZ ETS – we've accounted for this change in the plan. • Achieving Target 9 requires us meeting emissions budget one and two – which this Government is committed to doing
Agricultural nitrous oxide emissions	
What percentage of agricultural emissions come from synthetic nitrogen fertiliser?	<ul style="list-style-type: none"> • Total emissions from synthetic nitrogen fertiliser (including CO₂ from urea) contributed 3.8 per cent of agricultural emissions in 2022. <p><i>Nitrous oxide</i></p> <ul style="list-style-type: none"> • Nitrous oxide emissions are a long-lived gas and is part of our 2050 net zero target. It is currently estimated to comprise about 9% of New Zealand's emissions – and agriculture is the largest contributor (in 2022, it contributed over 90%). Dairy is the key contributor to nitrous oxide emissions. • Synthetic nitrogen fertilisers make up around 18% of nitrous oxide emissions from agriculture emissions. • Dung and urine make up a majority (68%) of nitrous oxide emissions within the agriculture sector.

<p>What type of synthetic nitrogen fertiliser is used in the agricultural sector?</p>	<ul style="list-style-type: none"> • Urea, which is made up of nitrogen and has the highest quick release nitrogen content of any solid fertiliser. It is also the most common form of nitrogen fertiliser used. Use of urea emits both nitrous oxide and a small amount of carbon dioxide. • Nitrogenous fertilisers, which mix nitrogen with other compounds such as sulphur, phosphate, magnesium, and potassium. • Urea fertiliser coated with urease inhibitor, which maximises nitrogen available for plant uptake reducing the amount of nitrogen needed and leading to less nitrous oxide being emitted.
<p>What are the NZ ETS obligations related to fertiliser use?</p>	<ul style="list-style-type: none"> • Agricultural processors include manufacturers and importers of synthetic fertiliser containing nitrogen; and farm-level participants would include persons that “purchase, other than for on-selling, synthetic fertiliser containing nitrogen for application to land”. • For the avoidance of doubt, the Bill proposes to remove these obligations.
<p>How many agricultural processors import or manufacture synthetic fertiliser containing nitrogen?</p>	<ul style="list-style-type: none"> • There are currently 11 participants that are in the NZ ETS under the activity “<i>Importing or manufacturing synthetic fertilisers containing nitrogen</i>”. This means that they are currently required to report their emissions to the EPA. • Examples include Ballance Agri-Nutrients Ltd, Ravensdown Ltd, PGG Wrightsons Ltd. • Farm-level obligations for synthetic fertiliser use does not automatically ‘turn on’ by 2026, instead the Minister of Climate Change would need to submit an Order in Council to shift the obligations from processors to farmers.

Appendix D: Primary Production Select Committee Members

	<p>Chairperson <u>Cameron, Mark</u> ACT Party, List</p>		<p>Deputy - Chairperson <u>Anderson, Miles</u> National Party, Waitaki</p>		<p>Member <u>Abel, Steve</u> Green Party List</p>
	<p>Member <u>Luxton, Jo</u> Labour Party, List</p>		<p>Member <u>Redmayne, Suze</u> National Party, Rangitikei</p>		<p>Member <u>Tangaere-Manuel, Cushla</u> Labour Party, Ikaroa-Rāwhiti</p>
	<p>Member <u>Wedd, Catherine</u> National Party, Tukituki</p>				



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

Date submitted: 6 September 2024

Tracking number: BRF-5217

Sub Security level: CLASSIFICATION

MfE priority: Medium

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Provide feedback on or approve the draft Cabinet paper and response – content and format	9 September 2024

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

Appendices and attachments
<ol style="list-style-type: none"> Draft Cabinet paper: Response to the Climate Change Commission's Emissions Reduction Monitoring Report Government Response to the Climate Change Commission 2024 Monitoring Report: Emissions Reductions Summary of the Commission's sub-sector findings and agency commentary

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Mel Rae	9(2)(a)	
Executive Director	Lisa Daniell	022 124 9568	✓

Minister's comments

Draft response to the Climate Change Commission's Emissions Reduction Monitoring report

Key messages

1. On 16 July, you received the inaugural annual Emissions Reduction Monitoring Report (ERM Report) from the Climate Change Commission (the Commission), as required under the Climate Change Response Act 2024 (the Act) [BRF-4996 refers].
2. You must present a response to the ERM Report to the House of Representatives by 16 October, as required under section 5ZK(4) of the Act. In July 2024, you agreed to take a high-level approach to this response, which would acknowledge the Commission's report, provide an overarching strategic narrative on the Government's climate change priorities, and respond to the key findings [BRF 4870 refers].
3. The Climate Change Chief Executives Board (CCIEB) Unit has coordinated a draft Cabinet paper and response that follows your agreed approach and is consistent with the obligations in the Act (see appendices 1 and 2). The Commission's findings are also being considered as part of developing policies for ERP2.
4. The response outlines the Government's strategy for reducing emissions and the progress made in implementing the first emissions reduction plan (ERP1). It includes an overview of the Commission's report, how New Zealand is tracking towards meeting our targets and budgets, and comments on key findings. This is informed by input from agencies on the Commission's sector-specific commentary (see appendix 3).
5. Key findings in the ERM somewhat align with the Government's published actual and projected emissions, that is, gross emissions overall have been declining since 2019 in response to policy efforts and external factors, and we are currently on track to meet the first emissions budget (EB1) with existing measures [BRF-4996 refers].
6. The ERM report diverges from government monitoring and reporting in some areas. These are outlined in the draft Cabinet paper and response attached. The Commission's assessment of progress is based on its own 2022 demonstration path, which the Commission uses as a benchmark for tracking progress. It reflects judgements by the Commission about a durable path to the 2050 target consistent with the areas required to be considered under the Act.
7. As noted in BRF-4996, the Commission's findings were based on available data and information up to April 2024 (including data from the CCIEB March 2024 quarterly report), so do not reflect the latest Government projections or the proposed approach set out in the Government's Climate Strategy and ERP2 discussion document. The Commission's report does not, therefore, emphasise the Government's net-based, least cost approach, including being technology-led and relying on a credible emissions trading scheme (ETS), complemented by policies that reduce barriers to investment in emissions reductions and removals.
8. As well as responding to the Commission's report, the Act also provides for the Government's response to note any amendments made to ERP1. You initiated the process to formally amend ERP1 in July, by publicly consulting through the ERP2 discussion document on the Government's revised approach and the actions that are

being discontinued. The draft response notes this process is underway. Any formal amendment to ERP1 will be published later this year in parallel with the publication of ERP2, as discussed at your meeting with officials on 19 August.

9. We are seeking your feedback on or approval of the attached Cabinet paper and response ahead of Ministerial consultation on the material.

Recommendations

10. We recommend that you:

- a. **note** the requirements in the Climate Change Response Act for you to respond to the Climate Change Commission's Emissions Reductions Monitoring report (ERM) within three months, with a report that:
- i. sets out the response to the ERM Report and recommendations;
 - ii. describes the progress made in implementing the current emissions reduction plan; and
 - iii. notes any amendments to that plan.

EITHER:

- b. **provide feedback** on the draft Cabinet paper and response by 9 September (see appendix 1 and 2).

Yes | No

OR

- c. **approve** the draft Cabinet paper and response by 9 September ahead of Ministerial consultation (see appendix 1 and 2).

Yes | No

- d. **agree** to undertake ministerial consultation on the draft Cabinet paper and response from 16 – 20 September, five working days.

Yes | No

- e. **agree** to lodge the Cabinet paper and response by 26 September for CBC to consider on 30 September, and Cabinet on 14 October 2024.

Yes | No

- f. **note** that you need to present the response to the House of Representatives by 16 October 2024, at which point it will be made publicly available.

Signatures



Lisa Daniell
Executive Director
Climate Change Chief Executives Board
5 September 2024

Hon Simon WATTS
Minister of Climate Change

Date:

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

Purpose

1. This briefing seeks your feedback on, or approval of, the attached draft Cabinet paper and response to the Climate Change Commission's (the Commission) Emissions Reduction Monitoring Report (ERM Report).

Background

2. On 16 July, you received the inaugural Emissions Reduction Monitoring Report (ERM Report) from the Commission, as required under the Climate Change Response Act (the Act). These reports will be prepared on an annual basis (BRF-4996 refers).
3. Under the Act, you are required to provide a response to the Commission's report within three months (by 16 October 2024) that:
 - i sets out your response to the report and recommendations;
 - ii describes the progress made in implementing the current emissions reduction plan (ERP1); and
 - iii notes any amendments to that plan (s5ZK(4)).

Response to the Commission's ERM Report

4. The CCC's ERM Report includes the following four key findings [BRF-4996 refers]:
 - i Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
 - ii Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
 - iii There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*
 - iv Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*
5. These findings are underpinned by detailed analysis using indicators to measure real-world progress, sector-based monitoring maps to connect policies to outcomes and policy scorecards, analysis of ERP1 policies, and historical data and data gaps.

6. The attached draft Cabinet paper and response set out the assessment of these findings, informed by the CCIEB regular reports and agency review of the ERM Report. The Commission’s findings are also being considered as part of developing policies for ERP2.

Assessment of the key findings

7. Overall, officials consider the ERM Report to be a thorough assessment of progress being made to reduce emissions, and the challenges and opportunities for New Zealand, both now and into the future.
8. Our initial assessment is that the Government’s reporting to date broadly aligns with the first two key findings of the ERM Report: that gross emissions have been declining since 2019 in response to policy efforts and external factors, and that we are currently on track to meet EB1 with existing measures.
9. The Commission notes risks to achieving EB1, including deforestation levels, dry years and rising transport emissions. These risk factors were also noted in the CCIEB March and May quarterly reports. The Commission also found there are significant risks to meeting EB2 and EB3, and the 2030 biogenic methane target, although they did not have access to proposed ERP2 policies when making this assessment. As set out in the ERP2 discussion document (and Table 1 below), the central estimate of current interim projections show that EB2 is achievable, assuming the strategies and actions outlined in the ERP2 discussion document are implemented as proposed. There is greater uncertainty about our ability to meet EB3.

Table 1: Target 9 projections and interim (including ERP2 proposed policies) emissions projections as at July 2024

Emissions budget limits	Target 9 projections (with existing measures, without proposed ERP2 policies)	Interim projections at July 2024 for ERP2 Discussion Document – with proposed ERP2 policies (central estimate*)	Uncertainty for interim projections (central estimate)
First emissions budget 290 Mt CO ₂ -e	284.0 Mt CO ₂ -e	284.0 Mt CO ₂ -e	±4 Mt CO ₂ -e
Second emissions budget 305 Mt CO ₂ -e	307.1 Mt CO ₂ -e	303.3 Mt CO ₂ -e	±18 Mt CO ₂ -e
Third emissions budget 240 Mt CO ₂ -e	Not yet reported	257.4 Mt CO ₂ -e	±29 Mt CO ₂ -e

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

10. The main points of deviation between the Government’s projections and the Commission’s ERM report mainly relate to the certainty and risks of meeting the second and third emissions budgets (2026-2030 and 2031-2035 respectively). Given the timing of the Commission’s report, it could not include the latest Government projections or proposed

ERP2 policies. Instead, it used its own demonstration path¹ to assess progress (this is a benchmark tool that reflects judgements by the Commission about a durable path to the 2050 target consistent with the areas required to be considered under the Act).

11. Given the timing of the Commission's ERM Report, it was sensible for the Commission to use the demonstration path to assess progress made. As such, the response seeks to maintain a balanced and objective approach to the findings to recognise the limitations of this timing for the Commission. The next ERM Report in 2025 will be informed by the Government's strategy and the published ERP2.
12. As policies for ERP2 are refined and finalised, the emissions projections will also be refined and updated. It is unlikely these updated projections will be available in time to be included in the final response (due to be lodged later this month). Revised projections may change the assessment of how New Zealand is tracking towards meeting the emissions budgets soon after this response is made public. We can provide communications support to manage this if the projections show a significant deviation from what was included in the response.

Adopting a net based approach and the role of the Emissions Trading Scheme

13. The change in approach to meeting emissions budgets and targets between this Government and the previous administration has been a key factor in shaping the response to the Commission's findings, particularly as this Government's Climate Strategy was not available to the Commission at the time of preparing its report.
14. The ERM report reinforces the Commission's view, which continues to be (as in previous advice in December 2023) that the ETS cannot be relied on to ensure emissions budgets will be met. While the ETS cannot drive set abatement within an emissions budget period, the Government's overall approach is centered on taking a price-led, net-based, and least cost approach that involves restoring confidence in the ETS for all participants.
15. The response to the Commission's report focuses on the net-based approach this Government is taking to meeting emissions budgets, including using the ETS as the main tool to drive emissions reductions and removals. Together with emissions pricing, there is a clear role for policies that allow the ETS to work better and support the early adoption of emerging technologies. However, the ETS is agnostic as to where reductions and removals occur across the sectors it covers. Therefore, when assessing the Commission's sector-specific findings, any progress made, and future potential reductions in a particular sector, should be considered in the context of economy-wide emissions reductions. Appendix 3 includes additional detail on the Commission's sector-specific findings and agencies' response.

¹ The Commission has used its 2022 demonstration path to gauge the pace of progress to reduce emissions in different areas, and to inform its assessment of challenges and opportunities. This demonstration path is grounded in meeting the 2050 target and reflects judgements by the Commission on a durable path consistent with the areas required to be considered under the Act. It informed the development of ERP1, including for the establishment of sub-targets for different sectors, and have a focus of driving reductions in gross emissions as well removals.

Delivering an equitable transition

16. The Commission notes there is a lack of clarity about how the Government plans to monitor and manage potential impacts of emissions reduction policy and to leverage opportunities to improve the lives of New Zealanders. They note the delay in delivering an equitable transition strategy and that many of actions associated with equitable transition in ERP1 have been delayed.
17. The Government has discontinued the equitable transitions strategy, as a separate strategy is not considered to be needed to understand and address distributional impacts. This work will instead be included in ERP2.
18. The ERP2 discussion document includes interim modelling on the expected equity impacts of policies in the plan, and outlines the existing support provided by the Government that will help those affected by emissions reduction measures. It also shows that the Government is approaching climate change in a way that will meet our climate targets while minimising the costs to New Zealanders.
19. The Government is also continuing to improve our understanding of possible impacts through further modelling, analysis and through feedback in the ERP2 consultation and finalisation period, all of which will inform decisions on whether additional supports are required.

Next steps

20. As outlined in the previous briefing [BRF 4996 refers], the timeline to deliver the response to the Commission's ERM report is set out in Table 2.

Table 2: Timeline to deliver the response to the Commissions ERM Report

Timeframe	Action
16 – 20 September	Ministerial consultation on Cabinet paper and response to ERM report
26 September	Cabinet paper lodged with ERM response appended
30 September	Cabinet paper for CBC consideration
14 October	Cabinet approval date
15 October (16 October latest)	ERM Report response presented to House of Representatives

21. As discussed in BRF-4996, Ministerial consultation is proposed to be shortened to five working days to allow for competing priorities for Ministerial consultation around ERP2 and parliamentary recess in early October.
22. If you have feedback on the Cabinet paper and response, officials will update the materials and then work with your office to deliver on the timeframes outlined above. We will also develop key messages to support any enquiries you may receive after tabling the response. A press release is not being developed, as has been discussed between your office and Ministry communications staff.

Appendix 1: Draft Cabinet paper: Response to the Climate Change Commission's Emissions Reduction Monitoring Report (attached)

Policy and Privacy

CLASSIFICATION

Office of the Minister of Climate Change

CBC - Cabinet Business Committee

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

Proposal

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

Relation to government priorities

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

Executive Summary

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

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

- 7 Some findings in the ERM Report, however, do differ from government reporting. Key points of deviation mainly relate to the certainty and risks of meeting the second and third emissions budgets (2026-2030 and 2031-2035 respectively).
- 8 I am now seeking approval of my response to the Commission's ERM Report (see Appendix 1), and agreement to present it to the House of Representatives by 16 October 2024 as required by the Act.

Background

- 9 The Act legislates New Zealand's domestic emissions reduction targets. These are:
 - 9.1 Net zero emissions of all greenhouse gas (GHG) emissions other than biogenic methane by 2050; and
 - 9.2 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.
- 10 Domestic emissions budgets act as stepping-stones, or interim targets, to reaching our 2050 emissions reduction targets. An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period. For each emissions budget period, there must be an emissions reduction plan in place that sets out the policies and strategies for meeting the emissions budget.
- 11 The Commission is required to independently monitor and report on the Government's progress towards reducing emissions. The Commission's annual report must include:
 - 11.1 measured emissions and measured removals for the most recent year of the emissions budget period for which data is available from the New Zealand Greenhouse Gas Inventory; and
 - 11.2 the latest projections for current and future emissions and removals; and
 - 11.3 an assessment of the adequacy of the emissions reduction plan and progress in its implementation, including any new opportunities to reduce emissions. (s5ZK)(1) and (2))
- 12 On 16 July 2024, I received the inaugural ERM Report from the Commission. Under the Act I am required to provide a report in response within three months of receiving the report (by 16 October 2024), that:
 - 12.1 sets out my response to the report and recommendations;

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

- 12.2 describes the progress made in implementing the current emissions reduction plan (ERP1); and
- 12.3 notes any amendments to that plan (s5ZK(4)).
- 13 The Climate Change Chief Executives Board (the Board)² also provides regular reporting to Ministers on progress towards emissions budgets and Government's Target 9, and six-monthly reports on progress made across agencies implementing ERP1. These reports, and the Government's strategy and proposals for the second emissions reduction plan (ERP2), have been used to inform my response to the ERM Report. The Commission's findings are also being considered as part of developing policies for ERP2, which will be published later this year.

Responding to the Climate Change Commission report and recommendations

The key findings of the ERM Report

- 14 As required under the Act, the Commission's ERM Report presents its assessment of the progress being made towards achievement of EB1 (2022–2025), EB2 (2026–2030) and EB3 (2031–2035), and progress towards the 2050 target, and to assess the adequacy of ERP1 and progress in its implementation.
- 15 The Commission published the ERM Report using publicly available data and information on government policies until the end of April 2024, including available monitoring reports from the Board. The ERM Report contains four key findings:
- 15.1 *Key finding 1: Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
- 15.2 *Key finding 2: Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
- 15.3 *Key finding 3: There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*
- 15.4 *Key finding 4: Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*
- 16 The key findings are underpinned by a wider set of detailed findings, which identify the risks to government at the sector level. Note that the biogenic methane target only applies to the agricultural and waste sectors. The proposed response to these findings is provided in Appendix 1. More details on the assessment of the findings are provided in Appendix 2.

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

High-level assessment

- 17 Government projections to date broadly align with the first two key findings of the Commission's ERM Report that:
- 17.1 gross emissions overall have been declining since 2019 due to policy changes and external factors, and
 - 17.2 we are currently on track to meet EB1 albeit with some uncertainty, which is inherent in the use of projections and due to factors outside of government control, such as dry year impacts on hydro flows or the rate of deforestation.
- 18 Key points of deviation mainly relate to the certainty and risks of meeting EB2 and EB3, and include:
- 18.1 The Commission states there are significant risks to meeting EB2 and EB3 and indicate a need to strengthen policies in response. The central estimate of the government's July 2024 interim projections shows that EB2 is achievable with proposed ERP2 policies, and that achieving EB3 is within the range of uncertainty.
 - 18.2 The Commission states there are significant risks to meeting the 2030 biogenic methane target. The central estimate of the government's projections suggest that we will just meet the 2030 target, but exceeding the target is within the range of uncertainty.
- 19 For its assessment, the Commission compared data against benchmarks from the Commission's 2022 demonstration path to gauge the pace of progress in different areas.³ This is sensible as the demonstration path was used to inform the previous government's approach to ERP1. This government's Climate Strategy with its revised approach to meeting emissions budgets and targets, and the government's interim projections of July 2024 were not available to the Commission at the time of its report.
- 20 We are taking a net-based approach to meeting emissions budgets, with the New Zealand Emissions Trading Scheme (ETS) as the main tool to reduce emissions and increase removals. Together with emissions pricing, there is a clear role for policies that allow the ETS to work better and support the early adoption of emerging technologies. The ETS is agnostic about where reductions and removals occur across the sectors the ETS covers. Therefore, the response gauges progress made, and the future potential reductions, in a particular sector in the context of economy-wide emissions reductions, when assessing the sector findings made in the ERM Report.

Implementation progress and amendments proposed to the first emissions reduction plan

- 21 The government's response is required to outline implementation progress of the current ERP, and note any amendments made to that plan. The ERP1 was published in 2022 and sets out climate change policies and strategies for meeting EB1.
- 22 Overall, implementation progress for ERP1 is mixed. The Board's most recent implementation monitoring data for the period ending 30 June 2024, shows that of the

³ The demonstration path reflects judgements by the Commission about a durable path to the 2050 target consistent with the areas required to be considered under the Act.

305 actions, more than half are either complete or actively being implemented, though a small number of actions have not yet started to be implemented.

- 23 However, 13 percent of actions have been discontinued⁴, as they do not align with the current Government's approach to meeting emissions budgets or climate change priorities or were stopped by the previous Government.
- 24 The government's interim projections (also included in the ERP2 discussion document) reflected the impact of ERP1 policy changes that can be modelled. They show that these changes to actions are not expected to materially impact our ability to meet EB1. Progress to date to reduce emissions and the remaining ERP1 actions are projected to be sufficient for New Zealand to stay on track.
- 25 With the change in approach to meeting emissions budgets, and the volume of actions that have been discontinued from ERP1, I undertook to consult with the public (through the discussion document on ERP2) on formally amending ERP1 as provided for in the Act (section 5ZI(3)). I intend to bring any decision to formally amend ERP1 to Cabinet alongside the final ERP2 approval later this year.

Implementation

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

Cost-of-living Implications

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

Financial Implications

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

Legislative Implications

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

Impact Analysis

Regulatory Impact Statement

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

Climate Implications of Policy Assessment

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

Population Implications

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

⁴ As have been made available in discussion document on ERP2.

Human Rights

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

Consultation

- 34 Agencies were consulted on the response to the Commission's report.

Communications

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

Proactive Release

- 36 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** the Climate Change Response Act 2002 (the Act) requires the Climate Change Commission (the Commission) to independently monitor and report annually on the Government's progress towards meeting the Act's 2050 target, progress against emissions budgets and emissions reduction plans (ss5ZJ, 5ZK).
- 2 **Note** on 16 July 2024, I received the Commission's inaugural Emissions Reduction Monitoring Report (ERM report). The Act requires that no later than three months after receiving the report (by 16 October), I must present to the House of Representatives and make publicly available a report that (s5ZK(4)):
 - 2.1 Sets out the Minister's response to the report and recommendations;
 - 2.2 Describes the progress made in implementing the current emissions reduction plan; and
 - 2.3 Notes any amendments to that plan.
- 3 **Note** the four key findings of the ERM Report outlined in this paper, and the assessment and response to the key findings outlined in Appendix 2.
- 4 **Approve** the report and response to the ERM Report, attached as Appendix 1.
- 5 **Agree** that I present the response to the ERM Report to the House of Representatives by 16 October, at which point it will be made publicly available on the Ministry for the Environment's website.

- Note** that ongoing monitoring and reporting on progress to reduce emissions, including tracking to emissions budgets and reporting on Target 9, will be provided by the Climate Change Chief Executives Board's regular reporting to the Climate Priorities Ministerial Group.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

DRAFT

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

(see attached report)

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

Assessment of the ERM Report key findings

- 1 Government projections to date broadly align with the first two key findings of the Commission's ERM Report that:
 - 1.1 gross emissions overall have been declining since 2019 as a response to policy changes and external factors, and
 - 1.2 we are currently on track to meet the first emissions budget (EB1) although with some uncertainty, which is inherent in the use of emissions projections and can in large part be influenced by factors outside of government control, such as dry years affecting hydro inflows or macro-economic and demographic conditions.
- 2 When assessing the ability to meet future emissions budgets and targets, the uncertainty in projections increases as is expected when modelling projections further into the future. However, based July 2024 interim emissions projections, the central estimate shows that EB2 is achievable, assuming policies in the ERP2 discussion document are implemented as proposed. The interim projections also show achieving EB3, with the proposed ERP2 policies, is within the range of uncertainty (while acknowledging this is highly uncertain).
- 3 The central estimates of the projections suggest that biogenic methane emissions will just meet the 2030 target, but exceeding the target is within its uncertainty range. The ERP2 discussion document proposes similar technology-based approaches to reducing biogenic methane emissions, which somewhat aligns with the Commission proposed additional policies to target these emissions.
- 4 The ERM Report identified five opportunities for further emissions reductions to meet emissions budgets and targets. For a number of these areas, the Government already has work underway, such as looking at options to bring online more renewable electricity generation, making better use of gas capture systems (in particular the Commission identify landfills and geothermal power stations), and improving the charging network to incentivise the uptake of low and zero emissions vehicles.

Assessment of the key sector and sub-sector findings

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

- 7 The Commission's report reiterates advice from their earlier advice on ETS settings, particularly around the size of the surplus stockpile, uncertainty over post-1989 foresters' behaviour, and the inability of the ETS to guarantee an emissions outcome.
- 8 Agencies agree that the NZ ETS cannot guarantee an emissions outcome during a given period such as an emissions budget, due to the Government's inability to control the timing of surrender of stockpiled NZUs. Recent NZ ETS settings decisions address this risk and provide a very high probability that NZ ETS emissions will be within the estimated NZ ETS cap for both the second and third emissions budgets.
- 9 The NZ ETS is limited in its ability to drive achievement of the third emissions budget on its own. Other policies and measures expected through the finalisation of ERP2 and development of ERP3 will be required to ensure the achievement of the third emissions budget.
- 10 The Government is taking a net-based approach to meeting emissions budgets so progress in a particular sector should be read in the context of achieving emissions reductions across the economy at least cost.
- 11 The Commission assessment shows the agriculture and transport sectors having the largest risks for not delivering emissions reductions, and insufficient action to reduce emissions in these sectors will put the second and third emissions budgets at risk. Both sectors are central to the Government's climate strategy.
- 12 The Commission views agriculture as a high-risk sector for meeting EB2, EB3 and the 2030 methane target. Overall, the agriculture sector has been given a 'significant risks' rating in the Commission's scorecard system. The Government is taking a technology-based approach and has made a long term substantial financial commitment to accelerating the development of new agricultural greenhouse gas mitigation tools and technologies. Budget 2024 committed \$419m over the next four years, with \$105m per annum from 2028/2029. This includes building on and enhancing the core R&D through the long-term commitment to the New Zealand Agricultural Greenhouse Gas Research Centre research programme, and a minimum 10-year commitment to invest in AgriZero.
- 13 The Commission also views transport as a high-risk sector for EB2 and EB3. This is based on the assessment that current policy tools on their own are unlikely to drive a shift to lower-carbon modes of transport and to decarbonise freight and aviation. Alongside this is a risk that uptake of low and zero emissions light vehicles will fall behind benchmark levels due to reduced policy support. This is consistent with the ERP2 discussion document modelling, which projected less transport sector abatement than in the Commission's path. This follows from the Government's approach to climate change of using the ETS as the primary lever to reduce net-emissions, including being agonistic about where abatement comes from.
- 14 The Commission saw value in sending a clear signal on applying road user charges (RUC) to petrol vehicles. This would reduce a risk that new RUC for EVs and plug-in hybrids would disincentivise uptake of these vehicles. As part of the Revenue Action Plan, the Minister of Transport has indicated the light vehicle fleet will transition to RUC, and away from fuel tax, by as early as 2027.
- 15 Regarding the Commission's findings on aviation, these are consistent with the ERP2 Discussion document, which noted that under an ETS-first approach to reduce emissions, it is assumed that hard-to-abate sectors like aviation and shipping will

decarbonise later than other sectors where decarbonisation technologies are more mature.

Differences in Data and modelling approach

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

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

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

Appendix 2: Draft report: Government response to the Climate Change Commission report 2024 Monitoring Report: Emissions Reductions (attached)

Government response to the Climate Change Commission report 2024

Monitoring Report: Emissions reductions

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Introduction

The Climate Change Response Act 2002 (the Act) provides the framework by which New Zealand develops and implements clear and stable policies that contribute to global efforts to limit global average temperature increase, and allow New Zealand to prepare for, and adapt to the effects of climate change.

The framework sets New Zealand's domestic long-term emissions reductions targets to 2050, and provides for a series of interim targets, or 5-year emissions budgets to be set as 'stepping stones' towards to the 2050 target.

The Climate Change Commission (the Commission) has an independent role to regularly monitor and report on progress towards meeting an emissions budget and the 2050 target. Part of this role is to produce an annual monitoring report that includes:¹

- how the country's emissions and removals are tracking,
- the latest projections for current and future emissions and removals, and
- as assessment of the adequacy of the Government's current emissions reduction plan and its implementation.

The Government welcomes the Commission's inaugural Emissions Reduction Monitoring Report (ERM Report), received in July this year.²

On receipt of the ERM Report, the framework requires the Minister of Climate Change to present a report to the House of Representatives that:³

- sets out the response to the ERM Report and recommendations; and
- describes the progress made in implementing the current emissions reduction plan; and
- notes any amendments to that plan.

This report forms the Government's response to those requirements.

¹ Climate Change Response Act 2002 sections 5ZJ and 5ZK

² [Monitoring report: Emissions reduction \(July 2024\)](#) » [Climate Change Commission \(climatecommission.govt.nz\)](#)

³ Climate Change Response Act 2002 section 5ZK(4)

New Zealand's climate change targets and emissions budgets

New Zealand has legislated domestic emissions reduction targets under the Act:

- Net zero emissions of all greenhouse gas (GHG) emissions other than biogenic methane by 2050; and
- 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.

Domestic emissions budgets act as stepping-stones, or interim targets, to reaching our 2050 emissions reduction targets. An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period.

The net emissions permitted for the relevant emissions budget periods are expressed in megatonnes of carbon dioxide equivalent (Mt CO₂e). The first three emissions budgets were published in May 2022 and are presented in table 1 below.

Table 1: New Zealand's first three emissions budgets

Budget period	2022–25	2026–30	2031–35
All gases, net (AR5)	290 Mt CO ₂ e	305 Mt CO ₂ e	240 Mt CO ₂ e
Annual average	72.5 Mt CO ₂ e	61 Mt CO ₂ e	48 Mt CO ₂ e

At least 12 months prior to the start of an emissions budget period, the Government must publish an emissions reduction plan that sets out the policies and strategies for meeting the emissions budget.⁴

The first emissions reduction plan (ERP1) was published in May 2022 for the first emissions budget period, which finishes at the end of 2025. At the time of preparing this response, the Government has recently concluded its public consultation on the second emissions reduction plan to meet the second emissions budget (2026-2030).

Government's strategy to reduce emissions

The Government is committed to meeting New Zealand's domestic climate change targets. We must reduce net emissions to play our part in preventing additional global warming. New Zealand can maximise the opportunities that come from the transition to a net zero economy.

Our climate strategy is about New Zealand reaching its economic, social and environmental potential by taking proactive steps to reduce net greenhouse gas emissions.

⁴ Climate Change Response Act 2002 section 5ZI and 5ZG(1).

The strategy focuses on five pillars:



This government's approach to deliver on New Zealand's emissions reduction goals is a least-cost, net-based approach, using effective and efficient policies. We will use a technology-led approach to allow production to increase as our emissions come down, and will rely on a credible emissions trading scheme (ETS), complemented by policies that reduce barriers to investment in emissions reductions and removals.

Government Target 9

In April 2024, Cabinet set nine government targets, to focus the public sector on achieving improved results in health, law and order, work, housing and the environment. Target 9 is reduced net greenhouse gas emissions, and aligns with the first and second emissions budgets, and the 2050 net zero target:

On track to meet New Zealand's 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025 and 305 megatonnes from 2026 to 2030.

How is New Zealand tracking to meet the targets and budgets?

The Government regularly monitors progress toward meeting the first and second emissions budgets in order to keep New Zealand on track to meet its domestic climate change targets⁵ and Target 9.

By meeting our short-term emissions budgets and laying the foundations for future budgets, we can reach and sustain net zero emissions by 2050. Emissions projections are inherently uncertain and emissions are influenced by variables beyond the Government's control. These variables include external factors such as dry/wet years affecting hydro inflows, commodity prices; advancements in emissions measurement (methodology); and the implementation of emissions reduction policies.

The most recent Target 9 Report includes emissions projections that are based on existing policies and actions to reduce emissions. The interim emissions projections (published in the July 2024 Discussion Document for consultation as part of developing the second emissions reduction plan (ERP2)) account for the additional abatement that could be achieved if the proposed ERP2 policies and actions were implemented as proposed. Both these projections (provided in table 2 below) indicate we can meet the first emissions budget.

⁵ The Government has committed to providing an up-to-date evidence base for biogenic methane, and commenced an independent review of the methane science and targets for consistency with 'no additional warming'.

Table 2: Target 9 projections and interim (including ERP2) emissions projections as at July 2024

Emissions budget limits	Target 9 projections (with existing measures, without proposed ERP2 policies)	Interim projections at July 2024 for ERP2 Discussion Document – with proposed ERP2 policies (central estimate*)	Uncertainty for interim projections
First emissions budget 290 Mt CO2-e	284.0 Mt CO2-e	284.0 Mt CO2-e	±4 Mt CO2-e
Second emissions budget 305 Mt CO2-e	307.1 Mt CO2-e	303.3 Mt CO2-e	±18 Mt CO2-e
Third emissions budget 240 Mt CO2-e	N/A	257.4 Mt CO2-e	±29 Mt CO2-e

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

The findings from the interim emissions projections above, and Target 9 indicators show that sectoral emissions numbers can fluctuate but are projected to drop over time. System indicators show that the economy is decarbonising, and that slower than usual economic growth could limit short term emissions (as has been experienced historically). Looking ahead to the next quarter, leading indicators suggest there may be more coal consumption emissions in the short term, but lower emissions from decreasing livestock numbers.

Officials expect to refine their understanding of the abatement impact of ERP2 policy proposals throughout the rest of the year and will provide further analysis for the final ERP2, which must be finalised by the end of 2024.

Implementation of the first emissions reduction plan

The Act requires the Minister of Climate Change to prepare and publish emissions reduction plans, setting out the policies and strategies for meeting each emissions budget. The first emissions reduction plan (ERP1) was released in May 2022, and covers the first emissions budget period (2022 to 2025).

The Climate Change Chief Executives Board (the Board)⁶ monitors and reports to Ministers every six months on progress made by agencies responsible for implementing actions in ERP1, informed by data and commentary supplied by agencies. Updates on progress towards emissions budgets and the delivery of key priority areas are provided by the Board on a regular basis. All progress reports are published on the Board's website.⁷

[The Board's most recent monitoring of ERP1 implementation was for the period ending 30 June 2024. Implementation progress has been mixed. Of the 305 actions, more than half are either complete or actively being implemented, though a small number of actions have not yet started to be implemented. However, 13 percent of actions have been discontinued, as they do not align with the current Government's approach to meeting emissions budgets or climate change priorities, or were stopped by the previous Government. A further 20 percent of actions are currently on-hold, awaiting Ministerial

⁶ The Board was established in 2022, under the Public Service Act 2020, as an interdepartmental executive board. It provides oversight of the Government's response to climate change. The Board is chaired by the Secretary for the Environment, and comprises eight members, supported by the Deputy Solicitor-General. The Board advises the Minister of Climate Change and the cross-Ministerial governance group, the Climate Priorities Ministerial Group.

⁷ [Climate Change Chief Executives Board | Ministry for the Environment](#)

decisions or direction as to alignment with the Government’s Climate Strategy.] **We will update before lodgement.**

Completed actions include updating electricity demand and generation scenarios; publishing the ‘approved list’ of smart EV chargers that meet specifications for connectivity and efficiency; and completing research on the need for, and implementation of, additional market mechanisms to accelerate the transition to a highly renewable energy system.

Interim projections show that the potential cumulative effect of those ERP1 actions that have been discontinued are not expected to materially affect our ability to meet the first emissions budget (refer Table 2 above). As such, our current assessment is that ERP1 remains sufficient to meet the first emissions budget.

The second emissions reduction plan (ERP2) is due to be released by the end of 2024. This will set out the pathway and the actions we will take to meet the second emissions budget and our 2030 domestic climate change targets. Work will then begin on the implementation of ERP2 to ensure momentum and effort is maintained towards meeting the targets and budgets.

Amendments made to the first emissions reduction plan

The government is undertaking a process to formally amend ERP1⁸. Public consultation on the change in approach to meeting the first emissions budget was included in the July 2024 Discussion Document for ERP2. Consideration is currently being given to the submissions received through that public consultation, and to the relevant findings contained in the Commissions ERM Report for EB1. Any formal amendments to ERP1 following that consideration are expected to be published later this year.

⁸ As provided in the Climate Change Response Act 2002 section 5Z1(3)

Response to the Climate Change Commission's emissions reduction monitoring report

The Government welcomes the Climate Change Commission's inaugural Emissions Reduction Monitoring Report (ERM Report). The Commission is required to independently monitor and report annually on the Government's progress towards meeting the 2050 target, progress against emissions budgets and emissions reduction plans. The Commission's report is timely and is being considered as part of the development of the second Emissions Reduction Plan.

Overview of the ERM report

The Commission has developed a framework for emissions reduction monitoring that focuses on outcomes, looking for early signals of change and taking a long-term systems view. This includes:

- Assessment of progress on emissions reductions using the Commission's 2022 demonstration path as a benchmark.
- Historical data to report progress towards meeting emissions budgets, supported by wider real-world indicators.
- Assessment of government plans and policies using a 'policy scorecard' to assess key sectors.

The ERM Report contains four key high-level findings (supported by detailed analysis) including:

1. *Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
2. *Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
3. *There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*
4. *Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*

The key findings are then underpinned by more detailed analysis and findings on matters such as:

- Indicators to measure real-world progress
- Sector-based monitoring maps to connect policies to outcomes
- Analysis of ERP policies and plans
- Data gaps
- Opportunities to work towards New Zealand's climate goals.

Data and modelling differences between the ERM Report and recent government reporting

There are some differences in the data used by the Commission and their modelling approach to what has been used in government reporting.

The Commission used publicly available emissions data and information on government policies current up to April 2024, and based its assessment of progress using that data against its benchmark demonstration path (originally developed for ERP1). Due to its timing, the Commission's report was unable to include the proposed policies or July government interim emissions projections provided in the discussion document on the second emissions reduction plan (ERP2), which was released on 18 July. This government's Climate Strategy with its revised approach to meeting emissions budgets and targets also was not available to the Commission at that time.

As such, it was logical for the Commission to gauge the pace of progress against its demonstration path given it was used as a plausible path to inform the previous government's approach to ERP1.

How New Zealand is tracking towards meeting the targets and budgets

Adopting a net-based approach and the role of the ETS

As mentioned above, the Commission used its 2022 demonstration path against which it then assessed progress in different sectors against an anticipated level of abatement (focused on driving gross emissions reductions in sectors). Alternatively, the government is now taking a net-based approach to meeting emissions budgets. That is, we need to balance emissions reductions and removals to achieve lower overall emissions.

Emissions pricing through the ETS is the main tool to determine where and how to reduce emissions and increase removals at the least cost across the sectors in the scheme. The ETS aims to incentivise private investment in reducing emissions and removing carbon. Current and expected future NZ ETS prices help inform today's investment decisions; these will be key to reaching our targets.

The ERM Report reinforces the Commission's view which continues to be (as in previous advice in December 2023) that the ETS cannot be relied on to ensure emissions budgets will be met. While the ETS cannot drive set abatement within an emissions budget time period, the Government's overall approach is centered on taking a price-led, net-based, and least cost approach that involves restoring confidence in the ETS for all participants. The Government's ETS settings decisions, such as those made in August 2024, will continue to rely on the assessment of the likelihood of achieving emissions targets and supporting investor confidence. Together with emissions pricing, there is a clear role for policies that allow the ETS to work better and support the early adoption of emerging technologies.

The ETS is agnostic as to where the reductions and removals occur across the sectors included. Therefore, progress made, and the future potential reductions in a particular sector, will be considered in the context of economy-wide emissions and removals.

Meeting the first emissions budget

The first emissions budget requires net emissions to not exceed 290 Mt CO₂-e for the period 2022-2025. The government's 2024 Greenhouse Gas Inventory, released on an annual basis, states that gross emissions peaked in 2006 and have been declining between 2019 and 2022.

The Commission have found that available emissions data and projections are consistent with the first emissions budget being met, with a central estimate of net emissions of 287 Mt CO₂-e for the period 2022-2025, (with an uncertainty range of 283.1-292.4 Mt CO₂-e). This broadly aligns with the government's projections (see table 2 above), that indicate we are currently on track to meet the first emissions budget (EB1).

Sources that contribute to uncertainty identified by the Commission include assumed deforestation levels and agricultural production levels, which if these sit at the high end of the assumed range, could see the emissions budget exceeded. These are then coupled with the additional uncertainty that can arise from external factors, such as those indicated in the earlier section on projections.

Meeting the second and third emissions budget

The Commission has provided assessments of sectors, predominantly based around sector progress towards meeting future budgets. When assessing the ability to meet future emissions budgets and targets, the uncertainty in projections increases - as is inherent when modelling projections further into the future.

The government's July 2024 interim modelling projections indicate that New Zealand can meet the second emissions budget of 305 Mt (outlined in table 2), assuming policies proposed in the ERP2 discussion document are implemented. There is greater uncertainty about our ability to achieve EB3 but that modelling still shows it is possible to achieve the emissions budget (with proposed policies from the ERP2 Discussion Document).

The Commission found that the agriculture and transport sectors show the largest risks for not delivering against the benchmark emissions reduction from the Commission's demonstration pathway, and insufficient action to reduce emissions in these sectors will put the second and third emissions budgets at risk. Both of these sectors are central to this government's climate priorities, and the government continuing to strengthen policies to meet future budgets, including those proposed in the ERP2 discussion document.

For agriculture, there is an important role for policies to reduce these emissions, which are outside the ETS cap. The government is taking a technology-led approach to reducing agricultural emissions, including making a long term substantial financial commitment to accelerating the development of new agricultural greenhouse gas mitigation tools and technologies in partnership with the private sector. It has also committed to implementing a fair and sustainable emissions pricing system for agricultural emissions by 2030.

The government has also included a mix of transport policies in the ERP2 discussion document including removing barriers to EV uptake, decarbonising heavy vehicles, and supporting public transport use.

The Commission's analysis suggests that the current renewable energy build path will meet or exceed their demonstration path benchmark. This government is focused on doubling renewable energy, including by reducing consenting barriers and improving market settings to enable investment in renewable electricity generation.

Meeting the 2030 and 2050 biogenic methane targets

The biogenic methane targets only apply to the agricultural and waste sectors where this gas is emitted. The Commission views agriculture as a high-risk sector for EB2, EB3 and the 2030 methane target.

The Commission's assessment that New Zealand is at risk of not meeting the 2030 and 2050 biogenic methane components of the 2050 target somewhat aligns with the government's own findings. Central estimates from the ERP2 discussion document suggest that biogenic methane emissions will just meet the 2030 target, but exceeding the target is within its uncertainty range. For the 2050 target, the top of the target range is within the projection range, though the central projection places emissions close to 3 Mt CO₂e above the upper limit of the 2050 biogenic methane target range.

The Commission views agriculture as a high-risk sector for EB2, EB3 and the 2030 methane target. In May 2024, Statistics New Zealand revised the 30 June 2022 animal numbers downwards and this will result in agricultural emissions being revised downwards. In addition to the points above on this government's approach to agricultural emissions, the Commission's assessment did not include subsequent policies and strategies released after April 2024 related to reducing biogenic methane and nitrous oxide from livestock and fertilisers.

Meeting the 2050 target

The Commission acknowledges New Zealand has flexibility in how it meets its emissions budgets and the 2050 target. However, it notes the flexibility is limited by real-world feasibility constraints, particularly in the short term. For example, the impact additional forest planting can make to meeting the second emissions budget (for 2026–2030) is low because the growth of carbon removal is slow in the early stages of new plantings. This highlights the lag that often occurs between action and impact.

The ERM Report identifies that removing barriers that limit the effectiveness of emissions pricing will help deliver cost-effective and durable climate action. Barriers like access to capital, and to systems, infrastructure and incentives that make it difficult for people to choose low emissions options.

This government's climate strategy outlines our long-term approach to deliver and sustain net zero emissions by 2050 at least cost to households and businesses, to government and to society. Emissions pricing through the ETS is the main tool to deliver this. The ETS will allow participants to discover where they can reduce net emissions at the least cost across the sectors in the scheme.

The Government understands that complementary policies have an important role alongside the ETS, particularly with the critical role of technology in the transition to low emissions and New Zealand being a 'technology taker'. This is why the Government is prioritising policies that make it cheaper or easier for businesses and households to reduce net emissions – for example, through research and development, removing regulatory barriers or addressing market failures such as lack of information.

Conclusion

The Government thanks the Commission for its inaugural ERM Report, and the thorough assessment and analysis undertaken to monitor and report on how New Zealand is tracking to meet its emissions targets and budgets. For most of the key findings, these broadly align the government's monitoring and reporting, including the ongoing need to closely monitor and manage progress within the constraints and uncertainty that exist when transitioning to net-zero emissions by 2050.

At the time of preparing this response, the Government has recently concluded its public consultation on the second emissions reduction plan to meet the second emissions budget (2026-2030). The Commission's findings, in particular, those focused on strengthening policies to meet future emissions budgets and the 2030 and 2050 targets, will be considered in the suite of upcoming decisions for how the second emissions reduction plan will help us transition for the first time between emissions budgets, and the plans to achieve them.

DRAFT

Appendix 3: Summary of the Commission’s sub-sector findings and agency commentary

Sub-sector	Commission’s assessment	Agency commentary on the findings
ETS	<p>The NZ ETS cannot be relied on to assure that the second emissions budget (for 2026–2030) and third emissions budget (for 2031–2035) will be met. There is significant uncertainty about how many New Zealand Units will be available for use by emitters over the coming emission budget periods, due to existing surplus NZUs in the market and due to NZ design features. This means the scheme does not provide certainty over the quantity of emissions from sectors and the sources it covers.</p>	<p>The Commission’s report reiterates advice from their earlier advice on ETS settings, particularly around the size of the surplus stockpile, uncertainty over post-89 foresters’ behaviour, and the inability of the ETS to guarantee an emissions outcome.</p> <p>Agencies agree that the NZ ETS cannot guarantee an emissions outcome during a given period such as an emissions budget, due to the Government’s inability to control the timing of surrender of stockpiled NZUs. Recent NZ ETS settings decisions address this risk and provide a very high probability that NZ ETS emissions will be within the estimated NZ ETS cap for both the second and third emissions budgets.</p> <p>The NZ ETS is limited in its ability to drive achievement of the third emissions budget on its own. Other policies and measures expected through the finalisation of ERP2 and development of ERP3 will be required to ensure the achievement of the third emissions budget.</p>
Transport	<p>The Commission identified transport (along with agriculture) to be at most risk of not achieving the reductions in the Commission’s 2022 demonstration path. For EB1, the Commission noted the 2023 provisional transport emissions were lower than the demonstration path, however, the gap has narrowed.</p> <p>The report discusses passenger transport, freight, and aviation policies. For passenger transport, it noted a risk that uptake of low and zero emissions light vehicles will fall behind benchmark levels due to reduced policy support. The</p>	<p>The Commission saw significant risk to achieving the EB2/EB3 transport reductions in its demonstration path. This is consistent with the ERP2 discussion document modelling, which projected less transport sector abatement than in the Commission’s path. This follows from the Government’s approach to climate change of using the ETS as the primary lever to reduce net-emissions, including being agonistic about where abatement comes from.</p> <p>The Government reviewed the Clean Car Standard in 2024 and amended the targets to align with Australia. These changes will ensure the Standard emissions targets are stringent enough for</p>

Sub-sector	Commission's assessment	Agency commentary on the findings
	<p>Commission considered the Clean Car Standard (CCS) to be a credible policy tool but recommended continually tightening its targets.</p> <p>For freight transport, the Commission noted the importance of reducing the high capital cost of purchasing low and zero emissions heavy vehicles. The Clean Heavy Vehicle Grant scheme was a credible tool for addressing this, but more was needed to unlock greater abatement from this segment.</p> <p>On aviation, the Commission noted that reducing the emissions intensity of aviation would be difficult without addressing barriers to the increased use of sustainable aviation fuels. It noted there is a risk that reductions in aviation emissions would be limited over EB2 and EB3.</p>	<p>New Zealand to receive a supply of clean vehicles, but not too stringent that importers cannot meet the targets, leading to higher vehicle prices.²</p> <p>The Commission saw value in sending a clear signal on applying road user charges (RUC) to petrol vehicles. This would reduce a risk that new RUC for EVs and plug-in hybrids would disincentivise uptake of these vehicles. As part of the Revenue Action Plan, the Minister of Transport has indicated the light vehicle fleet will transition to RUC, and away from fuel tax, by as early as 2027.³</p> <p>Regarding the Commission's findings on aviation, these are consistent with the ERP2 Discussion document, which noted that under an ETS-first approach to reduce emissions, it is assumed that hard-to-abate sectors like aviation and shipping will decarbonise later than other sectors where decarbonisation technologies are more mature.</p>
Agriculture	<p>The Commission assessed that the absence of a confirmed emissions pricing system or alternative policy measures to incentivise reductions in agricultural emissions creates a risk to meeting EB2 and EB3.</p> <p>They note that enabling regulations and securing long-term funding for research and development are important to supporting commercialisation of mitigation technologies.</p>	<p>Under the July 2024 interim projections included in the draft ERP2, agriculture is on-track to meet the 2030 biogenic methane target. However, feedback from ERP2 consultation, modelling improvements, and further policy decision will likely adjust these projections. Official projections later in 2024 will provide more guidance on whether agriculture is on-track to meet the 2030 biogenic methane target.</p>

²Government aligns Clean Car Importer Standard with Australia to reduce vehicle prices for Kiwis, <https://www.beehive.govt.nz/release/government-aligns-clean-car-importer-standard-australia-reduce-vehicle-prices-kiwis>

³ Revenue Action Plan to support delivering infrastructure sooner, <https://www.beehive.govt.nz/release/revenue-action-plan-support-delivering-infrastructure-sooner>

Sub-sector	Commission's assessment	Agency commentary on the findings
	<p>The Commission also notes the complexities around Māori collective land ownership structures and governance that affect the ability of landowners to raise capital to enable on-farm practice changes and on-farm mitigations.</p> <p>The Commission considers that leveraging the National Adaptation Plan action on improving water availability and security could help enable increased land use diversification and reduce emissions.</p> <p>The Commission noted that “Restrictive regulation, such as barriers in the Agricultural Compounds and Veterinary Medicines Act 1997, and uncertain future research and development funding could delay commercial availability of mitigation technology”.</p>	<p>Statistics New Zealand revised 30 June 2022 animal numbers downwards in May 2024 and this will result in historical agricultural emissions being revised downwards. The Government's projections in the draft ERP2 accounts for this revision.</p> <p>The Government is taking a technology-based approach and has made a long term substantial financial commitment to accelerating the development of new agricultural greenhouse gas mitigation tools and technologies. Budget 2024 committed \$419m over the next four years, with \$105m per annum from 2028/2029. This includes building on and enhancing the core R&D through a long-term commitment to the New Zealand Agricultural Greenhouse Gas Research Centre research programme, and a minimum 10-year commitment to invest in AgriZero.</p> <p>The Commission has indicated the risk of failure of research and development (R&D) to deliver emissions reduction. While there is always a risk that investment in any R&D could fail, there are a number of approaches that MPI, AgriZero and NZAGRC are taking to reduce that risk, such as investment decisions using a prioritisation framework to maximise the chance of success and a R&D pipeline comprising a diversified portfolio of investments which is continuously monitored.</p> <p>Although the Commission refers to the term “restrictive regulation” to describe regulatory pathways, for the ACVM Act this could be interpreted as negative towards the regulatory system; the Commission has not justified this statement. In 2021 the then Government decided that inhibitors (including methane ones) required regulatory oversight to manage their risks such as food safety, for trade and animal welfare. In addition, when the</p>

Sub-sector	Commission's assessment	Agency commentary on the findings
		<p>MPI undertook public consultation on this matter, most of the 27 submitters supported increased regulatory oversight, including those from several primary industry sectors. Most submitters also supported some level of validation of efficacy based on scientific evidence.</p> <p>There is significant work is underway to ensure the regulatory pathways for mitigation technologies are fit for purpose, such as:</p> <ul style="list-style-type: none"> • work to streamline regulatory approvals under the ACVM Act and the Environment Protection Authority's (EPA) Hazardous Substances and New Organisms Act 1996 (HSNO Act). This includes: <ul style="list-style-type: none"> ▪ Updated ACVM Act efficacy guidance to clarify that a product can have a non-specific, qualitative emission reduction claim. ▪ Exploring exemptions for low-risk inhibitors, expedited approval routes for inhibitors approved by overseas competent authorities. <p>The Ministry for Regulation has commenced a review on the approval process for new agricultural and horticultural products under the ACVM and HSNO Acts. This review includes, but is not limited to, Inhibitor products. The review is intended to be concluded by the end of 2024, and recommendations, including any proposals for change will be considered by Cabinet and actioned from early 2025.</p>

Sub-sector	Commission's assessment	Agency commentary on the findings
Energy and industry	<p>Electricity: The Commission's analysis suggests that the current renewable energy build path will meet or exceed their demonstration path benchmark. They note the favourable market conditions for investment in generation from renewable energy sources. The Commission assess that there are moderate risks that current regulatory settings may not provide sufficient incentives or permit the level of investment and innovation needed in transmission and distribution networks.</p>	<p>The Government's goal is to double renewable energy by 2050. The Government will deliver this through Electrify NZ, which includes a series of reforms to make it easier and cheaper to consent, build and maintain renewable electricity generation, as well as electricity distribution and transmission, and create a new regulatory regime for offshore wind. This is supported by other work underway to bolster energy security, improve energy efficiency, and deliver a smarter electricity system.</p>
	<p>Industry: The Commission found no significant risks for this sector⁴ to contribute towards EB1-EB2, but some moderate risks to contributing to EB3. Areas they note for attention are barriers relating to capital cost and access to low-cost financing. The Commission also notes high costs for connection to the electricity network, high network charges, and first-mover disadvantage could deter the switch from fossil fuels.</p>	<p>While the Government's focus is on using the ETS to drive net emissions reduction across the economy, it is also taking steps to ensure market confidence and remove barriers to investment through Electrify NZ and RMA reform. Increasing the availability of renewable electricity will support industrial users' confidence to switch to clean electricity for their energy needs. Increased market confidence along with the expected increase in electricity demand are expected to unlock private investment.</p>

⁴ Industry is coupled with energy as the focus is to reduce emissions and energy use in industry such as manufacturing, building and construction.

Sub-sector	Commission's assessment	Agency commentary on the findings
	<p>Buildings: The Commission assess there are moderate risks in current policies and plans to deliver operational emissions reductions from buildings in line with meeting emissions budgets. They note the existing regulatory system does not sufficiently support or require emissions reductions in new or existing buildings. They also note that continued high upfront capital cost and information barriers can prevent the uptake of energy-efficient products and practices.</p>	<p>The Government's overarching priority for the building and construction portfolio is to make it easier and cheaper to build in New Zealand.</p> <p>The Government is developing a refreshed work programme to make it easier and cheaper to build green buildings and support climate resilience. The work programme will focus on empowering people to make informed decisions and take voluntary action by:</p> <ul style="list-style-type: none"> • supporting emissions reduction from existing buildings • improving publicly available data and tools • removing regulatory barriers • providing guidance on building resilience. <p>The Government is committed to reducing both operational and embodied emissions from buildings, and recommend the Commission consider broadening their focus to include embodied emissions in future reporting.</p>

Sub-sector	Commission's assessment	Agency commentary on the findings
Forestry	<p>The Commission note the high uncertainty around afforestation levels for 2025 and beyond, influenced by policy uncertainty around the NZ ETS and wider policies affecting the forestry sector. They suggest there is a need to further incentivise native afforestation.</p> <p>They note particular risks around deforestation of post-1989 forests not registered in the NZ ETS.</p> <p>They also note the uncertainty about the real effects on achieving the emissions budgets and target of major events, such as Cyclone Gabrielle, and that a further understanding and transparency about the extent to which accounting methods affect if and how major storms affect target accounting results, will assist in future monitoring of the issue.</p>	<p>The latest 2024 government forestry projections used for ERP2 consultation included the latest historical data from the 1990 – 2022 GHG inventory, and findings sourced from the latest 2023 intentions survey/report. Due to timing constraints, the Commission's Monitoring report used the government's 2023 GHG forestry projections, while only noting these latest reports and findings.</p> <p>The Commission correctly notes that the amount of 2021/22 deforestation reported in this year's inventory is higher than that projected. The deforestation estimates in the latest inventory report are modelled, rather than being actuals. Actual levels of deforestation for 2021/22 are unknown and will only be realised once the next national mapping is completed (undertaken every 5 years or so). None-the-less, deforestation does play a big part in emissions budgets and target achievement, so ensuring we have the right balance in supporting our existing forests, plus incentivising new forests, is important. By encouraging afforestation through appropriate incentives and boosting wood processing (such as to restore price stability and confidence in the ETS), the Government will seek to restore confidence in forestry and wood processing.</p>
Waste	<p>The Commission notes the 2023 Waste Strategy provides useful target benchmarks relevant to monitoring against the emission reduction plan. They also note that enabling household-level organic waste diversion will help achieve the Waste Strategy target but note moderate risks remain with the delivery of organic waste diversion infrastructure across the broader organic waste stream, as well as risks associated</p>	<p>The Commission's reporting on waste aligns to both their advice on ERP1 and the previous Government's approach to ERP1. From that perspective, the monitoring report is largely fair and accurate when it comes to waste. However, this approach includes reference to the New Zealand waste strategy and its targets. The New Zealand waste strategy target for biogenic methane abatement is non-statutory. While the strategy target is broadly aligned to the Commission's very ambitious</p>

Sub-sector	Commission's assessment	Agency commentary on the findings
	<p>with establishing legislation necessary to achieve high levels of organic waste diversion.</p> <p>They note the installation of landfill gas capture systems at non-municipal landfill sites would further enable emissions reductions and that a strategic waste and resource recovery infrastructure plan could be established to address all spectrums of the waste stream.</p> <p>They also note uncertainty around current emissions estimates.</p>	<p>demonstration pathway for waste sector abatement (as this sector along with agriculture are responsible for meeting the biogenic methane targets), it is not a legislated target.</p>



Climate
IEB UNIT

Briefing: Final Cabinet paper and response to the Climate Change Commission's emissions reduction monitoring report

Date submitted: 25 September 2024

Tracking number: BRF-5342

Sub Security level: Classification

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 CBC on 30 September	26 September
To Hon Nicola WILLIS Associate Minister of Climate Change	Note the attached talking points to support the discussion at CBC on 30 September	26 September

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"> Clean version of Cabinet paper and response to the Climate Change Commission's emissions reduction monitoring report Tracked change copy of Cabinet paper and response to the Climate Change Commission's emissions reduction monitoring report Table of consultation feedback received Talking points to support Cabinet Business Committee

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal author	Mel Rae	9(2)(a)	
Chief Advisor, CCIEB Unit	Jane White	9(2)(a)	✓
Executive Director, CCIEB unit	Lisa Daniell	022 124 9568	

Appendix 1 is refused under section 18(d) of the Act as it is already publicly available at: <https://environment.govt.nz/assets/publications/2024-MfE-Response-to-CCC2.pdf>

Minister's comments

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Purpose

1. This briefing provides you the final Cabinet paper and government response to the Climate Change Commission's (Commission's) first emissions reduction monitoring report, attached at Appendix 1 (See appendix 2 for tracked changed versions since Ministerial and agency consultation). The final documents incorporate minor feedback received through consultation, as detailed in Appendix 3.

Discussion

2. You have recently concluded Ministerial consultation on the draft Cabinet paper and Government response to the Commission's first emissions reduction monitoring report. In parallel, officials undertake agency consultation on the draft Cabinet paper and response.
3. These papers are to be lodged with Cabinet office for CBC to consider on 30 September. The next scheduled Cabinet date is 14 October, ahead of the statutory deadline to table the report within three months of receiving the report, by 16 October.¹
4. The briefing also provides talking points to support the discussion at CBC (see Appendix 3). Officials understand Minister Willis will be presenting the paper due to upcoming travel for Minister Watts.
5. No proactive press release is planned when the response is tabled in the House. Ahead of the response being considered by Cabinet on 14 October, Officials will provide your office with a formatted version of the response for tabling and publishing, and key messages and Questions and Answers to support any reactive communication support required.

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

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 CBC to consider on 30 September (see Appendix 1).
- Yes | No
- b. **note** the talking points provided with this briefing to support the presentation of the papers at CBC (see Appendix 4)
 - c. **note** that the next available Cabinet date is 14 October, with the government response required to be tabled in the House of Representatives by 16 October.

Signatures

pp. 

Lisa Daniell
 Executive Director
Climate Change Chief Executives Board
25 September 2024

Hon Simon WATTS
Minister of Climate Change
 [Date]

Hon Nicola WILLIS
Associate Minister of Climate Change
 [Date]

Appendix 2: Tracked change version of Cabinet paper and response to the Climate Change Commission's emissions reduction monitoring report

(see attached papers)

Policy and Privacy

Classification

Office of the Minister of Climate Change

CBC - Cabinet Business Committee

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

Proposal

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

Relation to government priorities

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

Executive Summary

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

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

7 Some findings in the ERM Report, however, do differ from Government reporting. Key points of deviation mainly relate to the certainty and risks of meeting the second and third emissions budgets (2026-2030 and 2031-2035 respectively), and include:

7.1 The Commission states there are significant risks to meeting EB2 and EB3 and indicate a need to strengthen policies in response. The central estimate of the Government's July 2024 interim projections shows that EB2 is achievable with proposed ERP2 policies, and that achieving EB3 is within the range of uncertainty.

7.2 The Commission states there are significant risks to meeting the 2030 biogenic methane target. The central estimate of the Government's July 2024 interim projections suggest that we may meet the 2030 target, but exceeding the target is within the range of uncertainty.

78 I am now seeking approval of my response to the Commission's ERM Report (see Appendix 1), and agreement to present it to the House of Representatives by 16 October 2024 as required by the Act.

Background

89 The Act legislates New Zealand's domestic emissions reduction targets. These are:

8.19.1 Net zero emissions of all greenhouse gas (GHG) emissions other than biogenic methane by 2050; and

8.29.2 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.

910 Domestic emissions budgets act as stepping-stones, or interim targets, to reaching our 2050 emissions reduction targets. An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period. For each emissions budget period, there must be an emissions reduction plan in place that sets out the policies and strategies for meeting the emissions budget.

4011 The Commission is required to independently monitor and report on the Government's progress towards reducing emissions. The Commission's annual report must include:

40.111.1 measured emissions and measured removals for the most recent year of the emissions budget period for which data is available from the New Zealand GHG Inventory; and

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

~~40.211.2~~ the latest projections for current and future emissions and removals; and

~~40.311.3~~ an assessment of the adequacy of the emissions reduction plan and progress in its implementation, including any new opportunities to reduce emissions (s5ZK(1) and (2)).

~~44.12~~ On 16 July 2024, I received the inaugural ERM Report from the Commission. Under the Act I am required to provide a report in response within three months of receiving the report (by 16 October 2024), that:

~~44.112.1~~ sets out my response to the report and recommendations;

~~44.212.2~~ describes the progress made in implementing the current emissions reduction plan (ERP1); and

~~44.312.3~~ notes any amendments to that plan (s5ZK(4)).

~~4213~~ The Climate Change Chief Executives Board (the Board)² also provides regular reporting to Ministers on progress towards emissions budgets and Government's Target 9, and six-monthly reports on progress made across agencies implementing ERP1. These reports, and the Government's strategy and proposals for ERP2, have been used to inform my response to the ERM Report. The Commission's findings are also being considered as part of developing policies for ERP2, which will be published later this year.

Responding to the Climate Change Commission report and recommendations

The key findings of the ERM Report

~~4314~~ As required under the Act, the Commission's ERM Report presents its assessment of the progress being made towards achievement of EB1 (2022–2025), EB2 (2026–2030) and EB3 (2031–2035), and progress towards the 2050 target, and to assess the adequacy of ERP1 and progress in its implementation.

~~44.15~~ The Commission published the ERM Report using publicly available data and information on Government policies until the end of April 2024, including available monitoring reports from the Board. The ERM Report contains four key findings:

~~44.115.1~~ *Key finding 1: Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*

~~44.215.2~~ *Key finding 2: Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*

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

~~44.315.3~~ *Key finding 3: There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*

~~44.415.4~~ *Key finding 4: Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*

~~4516~~ The key findings are underpinned by a wider set of detailed findings, which identify the risks to Government at the sector level. Note that the biogenic methane target only applies to the agricultural and waste sectors. The proposed response to these findings [and the requirements in the Act](#) is provided in Appendix 1. ~~More details on the assessment of the findings are provided in Appendix 2.~~

High-level assessment

~~4617~~ Government's [July 2024 interim emissions projections](#)³ ~~to date~~ broadly align with the first two key findings of the Commission's ERM Report that:

~~46.417.1~~ gross emissions overall have been declining since 2019 due to policy changes and external factors, and

~~46.217.2~~ we are currently on track to meet EB1 albeit with some uncertainty, which is inherent in the use of projections and due to factors outside of Government control, such as dry year impacts on hydro flows or the rate of deforestation.

~~4718~~ Key points of deviation mainly relate to the certainty and risks of meeting EB2 and EB3, and include:

~~47.418.1~~ The Commission states there are significant risks to meeting EB2 and EB3 and indicate a need to strengthen policies in response. [As Minister of Climate Change, I have a legal duty to ensure emissions budgets are met.](#) The central estimate of the Government's July 2024 interim projections shows that EB2 is achievable with proposed ERP2 policies, and that achieving EB3 is within the range of uncertainty. [ERP2 will be the vehicle to further ensure there is a plan to meet EB2.](#)

~~47.218.2~~ The Commission states there are significant risks to meeting the 2030 biogenic methane target. [Again, ERP2 will be the vehicle to further ensure there is a plan to meet the 2030 methane target. The central estimate of the government's projections suggest that we will just meet the 2030 target, but exceeding the target is within the range of uncertainty.](#)

~~4819~~ For its assessment, the Commission compared data against benchmarks from the Commission's 2022 demonstration path to gauge the pace of progress in different areas.⁴ This is sensible as the demonstration path was used to inform the previous Government's approach to ERP1. This Government's Climate Strategy with its revised

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

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

approach to meeting emissions budgets and targets, and the Government's interim projections of July 2024 were not available to the Commission at the time of its report.

20 [The Government response uses the July 2024 interim emissions projections to inform its assessment. Updated projections and modelling is being prepared to support the publication of ERP2 later this year, which will take into account the impact of the final ERP2 policy package. As much of the abatement that can be achieved in EB1 \(to end of 2025\) is largely 'locked in', draft updated data indicates we remain on track to meet EB1 and officials do not anticipate this is likely to change in the updated projections.](#)

1921 We are taking a net-based approach to meeting emissions budgets, with the New Zealand Emissions Trading Scheme (NZ ETS) as the main tool to reduce emissions and increase removals. Together with emissions pricing, there is a clear role for policies that allow the NZ ETS to work better and support the early adoption of emerging technologies. The NZ ETS is agnostic about where reductions and removals occur across the sectors the NZ ETS covers. Therefore, the response gauges progress made, and the future potential reductions, in a particular sector in the context of economy-wide emissions reductions, when assessing the sector findings made in the ERM Report. [More details on the assessment of the Commission's findings are provided in Appendix 2.](#)

Implementation progress and amendments proposed to the first emissions reduction plan

2022 The Government's response is required to outline implementation progress of the current ERP, and note any amendments made to that plan. The ERP1 was published in 2022 and sets out climate change policies and strategies for meeting EB1. [Many of the ERP1 actions are exploratory in nature or related to developing strategies and plans. Not all are expected to contribute directly to emissions abatement.](#)

2123 Overall, implementation progress for ERP1 is mixed. The Board's most recent implementation monitoring data for the period ending 30 June 2024, shows that of the 305 actions, more than half are either complete or actively being implemented, though a small number of actions [\(4 percent, or 11 actions\)](#) have not yet started to be implemented.

2224 However, 13 percent of actions (41 actions) have been discontinued.⁵ [Two percent of the actions \(Six actions\)](#) were discontinued by the previous Government and [41% \(35 actions\)](#) have been discontinued by the current Government as they do not align with the Government's approach to meeting emissions budgets or climate change priorities, [or had no impact on emissions abatement.](#)

2325 The Government's July 2024 interim projections [\(also included in the ERP2 discussion document\)](#) reflected the impact of ERP1 policy changes that can be modelled. They show that these changes to actions are not expected to materially impact our ability to meet EB1. Progress to date to reduce emissions and the remaining ERP1 actions are projected to be sufficient for New Zealand to stay on track [for EB1, and officials do not anticipate this is likely to change in updated projections.](#)

2426 With the change in approach to meeting emissions budgets, and the volume of actions that have been discontinued from ERP1, I undertook to consult with the public (in July 2024 through the discussion document on ERP2) on formally amending ERP1 as

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

provided for in the Act (section 5ZI(3)). I intend to bring any decision to formally amend ERP1 to Cabinet alongside the final ERP2 approval later this year.

Implementation

2527 No direct implementation requirements associated with the publication of this report.

Cost-of-living Implications

2628 No direct cost of living implications are expected as a result of the publication of this report.

Financial Implications

2729 No direct financial implications are expected as a result of the publication of this report.

Legislative Implications

2830 No direct legislative implications are expected as a result of the publication of this report.

Impact Analysis

Regulatory Impact Statement

2931 The report in response to the Commission's ERM Report does not require a RIS.

Climate Implications of Policy Assessment

3032 There will be no direct emissions impacts from the publication of the report. Decisions on changes to individual climate change policies will include a CIPA where required.

Population Implications

3133 There will be no direct population implications from the publication of this report.

Human Rights

3234 There are no inconsistencies between this report and the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Consultation

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

3336 The Department of the Prime Minister and Cabinet has been informed.

Communications

3437 The attached report will be presented to the House of Representatives by 16 October, at which point it will be made publicly available through the Ministry for the Environment's website. I do not intend to issue a press release.

Proactive Release

3538 I intend to proactively release this paper and associated Cabinet committee papers and minutes within 30 business days of final decisions being confirmed by Cabinet, subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

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

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

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

(see attached report)

DRAFT

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

Assessment of the ERM Report key findings

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

Assessment of the key sector and sub-sector findings

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

climate targets. This will give participants confidence that investments to reduce emissions will be rewarded.

- 7 The Commission's report reiterates advice from their earlier advice on NZ ETS settings, particularly around the size of the surplus stockpile, uncertainty over post-1989 foresters' behaviour, and the inability of the NZ ETS to guarantee an emissions outcome. [Post-1989 forest NZ ETS registrations increased in 2022/23 and the high current level of NZ ETS participation reduces the likelihood of deforestation for these forests because of the requirement to repay units received following deregistration. Deforestation of post-1989 forests not registered in the NZ ETS is also not expected to exceed projections. Introducing a mechanism to control deforestation of post-1989 forests not registered in the NZ ETS is not currently being proposed and would need to be carefully considered so that it minimises any infringement on private property rights.](#)
- 8 Agencies agree that the NZ ETS cannot guarantee an emissions outcome during a given period such as an emissions budget, due to the Government's inability to control the timing of surrender of stockpiled NZUs. However, recent changes to NZ ETS settings will ensure New Zealand has a more credible market. The Government has committed to aligning the NZ ETS with New Zealand's climate targets and to giving participants confidence that their investments to reduce emissions will be rewarded. The Government agreed to reduce the number of units available between 2025 and 2029, from 45 million to 21 million. This will provide a very high probability that NZ ETS emissions will be within the estimated NZ ETS cap for both the second and third emissions budgets.
- 9 The NZ ETS is limited in its ability to drive achievement of the third emissions budget on its own. Other policies and measures expected through the finalisation of ERP2 and development of [ERP3 the subsequent plan](#) will be required to ensure the achievement of [the third emissions budget EB3](#).
- 10 The Government is taking a net-based approach to meeting emissions budgets so progress in a particular sector should be read in the context of achieving emissions reductions across the economy at least cost.
- 11 The Commission assessment shows the agriculture and transport sectors having the largest risks for not delivering emissions reductions, and insufficient action to reduce emissions in these sectors will put the second and third emissions budgets at risk. [Both sectors are central to the Government's climate strategy.](#)
- 12 The Commission views agriculture as a high-risk sector for meeting EB2, EB3 and the 2030 methane target. Overall, the agriculture sector has been given a 'significant risks' rating in the Commission's scorecard system. The Government is taking a technology-based approach and has made a long term substantial financial commitment to accelerating the development of new agricultural GHG mitigation tools and technologies. Budget 2024 committed \$419m over the next four years, with \$105m per annum from 2028/2029. This includes building on and enhancing the core R&D through the long-term commitment to the New Zealand Agricultural Greenhouse Gas Research Centre research programme, and a minimum 10-year commitment to invest in AgriZero.
- 13 The Commission also views transport as a high-risk sector for EB2 and EB3. This is based on the assessment that current policy tools on their own are unlikely to drive a shift to lower-carbon modes of transport and to decarbonise freight and aviation. Alongside this is a risk that uptake of low and zero emissions light vehicles will fall

behind benchmark levels due to reduced policy support. This is consistent with the ERP2 discussion document modelling, which projected less transport sector abatement than in the Commission's path. This follows from the Government's approach to climate change of using the NZ ETS as the primary lever to reduce net-emissions, including being agonistic about where abatement comes from.

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

Differences in Data and modelling approach

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

Emissions budget limits	Target 9 projections -with existing measures, without proposed ERP2 policies (central estimate*)	Interim projections - with proposed ERP2 policies (central estimate*)	Uncertainty for interim projections
First emissions budget 290 Mt CO ₂ -e	284.0 Mt CO ₂ -e	284.0 Mt CO ₂ -e	±4 Mt CO ₂ -e
Second emissions budget 305 Mt CO ₂ -e	307.1 Mt CO ₂ -e	303.3 Mt CO ₂ -e	±18 Mt CO ₂ -e
Third emissions budget 240 Mt CO ₂ -e	N/A	257.4 Mt CO ₂ -e	±29 Mt CO ₂ -e

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

Appendix 3: Table of consultation feedback received

You undertook Ministerial consultation (and in parallel agency consultation). The following table outlines key feedback and changes made to the Cabinet paper and 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
Outline to Ministers the use of July 2024 interim projections, that these are currently being updated as the ERP2 policies are being finalised and are subject to change. Cabinet will see updated projections in coming months when considering ERP2 Confirm using the July interim projection and why.	Improved text to outline this in the Cabinet paper for Ministers (paragraph 20).
MPI sought to provide more clarification to the risk raised by the Commission on possible deforestation of post-1989 forests not registered in the NZ ETS.	Updated text in Appendix 2 on response to post-1989 forestry (paragraph 7).
Government response	
Feedback	Changes
The Response had too much introductory-natured content up front before it got into the key components of the report.	Removed or relocated some of the upfront section on the legislative requirements to better place it in context for why it is relevant to the report.
The Response could better outline why July 2024 interim projection are used, and that projections are subject to change later in 2024 with the release of ERP2.	Expanded the text that outlines the data differences between what was available to the Commission and government interim projections.

Appendix 4: Talking points for Cabinet Committee

- Today I'm seeking, on behalf of the Minister of Climate Change, Cabinet Committee's agreement to the attached response to the Climate Change Commission's emissions reduction monitoring report.
- Minister of Climate Change received the Climate Change Commission's first emissions reduction monitoring report in July we need to respond publicly within three months – by 16 October.
- The response is not a line-by-line response to the Commission's recommendations but centres on the Government's Climate Strategy and the five pillars within this that we will be delivering.
- It also sets out the most recent emissions projections and where these differ from the Commission's as the Government's most recent projections include proposed policies for the second Emissions Reduction Plan. *[Detail if needed: Response uses July 2024 Government projections. Commission only had data up until April 2024. The Government will also provide updated projections when the ERP2 is finalised later this year].*
- We agree with the Commission's finding that emissions have been tracking down since 2019.
- The Commission notes significant risks with achieving the second and third emissions budgets. Minister Watts is working with Ministers to finalise the policy package for the second emissions reduction plan. The projected abatement impact of proposed policies shows the second emissions budget is achievable but tight.
- Achieving the third budget remains more uncertain and Ministers are considering additional options to reduce this risk.
- The Commission will provide these monitoring reports annually to which we must respond.

Additional background information

- The Commission provided a comprehensive monitoring report. The Commission made four key findings, informed by publicly available data as at April this year, and through assessing the progress made towards reducing emissions against its '2022 demonstration path', a pathway it developed as a plausible means to achieving the climate budgets and targets.
- The response uses the government's July 2024 interim emissions projections to inform the assessment of the Commission's findings. This set of government projections were used to inform the discussion document on the second emissions reduction plan, or ERP2, released for consultation in July this year.
- These interim projections are currently being updated by Officials as the second emissions reduction plan is being finalised. As such the numbers are subject to change, particularly for the second and third emissions budgets (2026-2030 and 2031-2035) and also the 2030 biogenic methane target. Ministers will get these updated projections in the coming months with the material to approve the final ERP2.

- Key points I want to note for CBC in the response are:
 - The government response to the Commission's report is not line by line or in the detail, rather it focuses on the key findings. It has been considered by agencies, both for this high-level response, and also as part of ERP2, which is where effort of agencies and ministers is focused presently.
 - The Government largely agrees/aligns with the first two of the four key findings in the report: that gross emissions have been tracking down from 2019-2022 (due to a mix of policy and external drivers); and that projections have New Zealand on track to meet first emissions budget (albeit with some risks).
 - On the Commission's third key finding, it considers the second and third emissions budget are at significant risk. Our government is currently finalising the policy package for the second emissions reduction plan to meet the second emissions budget and contribute to the third budget. With the projected abatement impact of proposed ERP2 policies, government considers the second emissions budget is achievable, but tight and with a high degree of uncertainty, and that the third budget is more highly uncertain.
 - It is worth noting that meeting the first and second emissions budgets is one of the Government's public sector targets. The first quarterly report on Targets (as at June 2024) found emissions budget 1 is on track. Emissions budget 2 interim projections are giving confidence the target can be achieved if the proposed policies in the ERP2 discussion document are implemented.
 - On the fourth key finding, the Commission considers the 2030 biogenic methane target is at significant risk of not being met, along with the 2050 targets. The government's July 2024 interim projections show that both the 'net zero' target for long-lived gases and the 2050 methane target fall within the range of uncertainty. The central projection suggested emissions may just meet the 2030 methane target. However, our central estimate falls short for the 2050 targets. The government is committed to reducing biogenic methane and nitrous oxide from livestock and fertiliser, which are not covered by the emissions trading scheme. The ERP2 (and subsequent plans) provides the opportunity to put actions in place that will help to get on track for future emissions budgets and targets. As I mentioned, Ministers will receive updated projections with ERP2.
- The Minister of Climate Change is seeking Cabinet agreement to the Response attached to the Cabinet paper, and to this Response being tabled in the House of Representatives by 16 October in line with the statutory deadline.



Aide Memoire

To Hon Simon Watts, Minister of Climate Change

From Amy Tisdall, Acting Executive Director, Climate Change Chief Executives Board Unit

Date 10 October 2024

Subject BRF-5452: Aide memoire: Communications support for the release of the response to the Climate Change Commission's emissions reduction monitoring report

Purpose

1. To provide supporting material for Cabinet Committee, and any enquiries received relating to the government response to the Climate Change Commission's (Commission's) first emissions reduction monitoring report (ERM report).

Discussion

2. You received the ERM report from the Commission on 16 July. You are required to table a response in the House of Representatives by 16 October 2024.¹ Cabinet is considering the response and its release on Monday 14 October, following CBC approval on 30 September 2024 [BRF-5342 refers]. Talking points for Cabinet are attached if needed (see Appendix 1).
3. After the response is tabled, it will be made publicly available on the Ministry for the Environment's (MfE) website along with an accompanying news story. As discussed with your Office, no proactive press release is planned when the response is tabled in the House, and a reactive approach is being taken for media and stakeholder queries.
4. If any media enquiries are received, the MfE communications team will support you. A set of high-level key messages and reactive Q&As are provided in Appendix 2.
5. The formatted response is attached for your reference (see Appendix 3). A final file, with updated cover image, will be provided to your Office on Monday 14 October as the version for tabling in the House of Representatives and for the MfE website.

Next Steps

6. Following Cabinet approval on Monday 14 October, the final response to the ERM report needs to be tabled in the House by Wednesday 16 October 2024. We have confirmed with the Office of the House that the response is a Parliamentary paper. 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 (either Tuesday 15 or Wednesday October). We will work with your Office on this process.
7. The response will be made publicly available on the MfE website once it has been tabled.

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

Appendix 1: Talking points for Cabinet Committee

- Today I'm seeking Cabinet's agreement to the attached response to the Climate Change Commission's first annual emissions reduction monitoring report. CBC approved the response on 30 September.
- I received the Commission's emissions reduction monitoring report in July. We need to respond publicly within three months – by 16 October.
- The response is not a line-by-line response to the Commission's recommendations. It centres on the Government's Climate Strategy and the five pillars within this that we will be delivering, and the Commission's four key findings.
- It sets out the most recently available emissions projections and where these differ from the Commission's. The Government's most recent projections include proposed policies for the second emissions reduction plan. *[Detail if needed: Response uses July 2024 Government projections. Commission only had data up until April 2024. The Government will also provide updated projections when the ERP2 is finalised later this year].*
- We agree with the Commission's finding that emissions have been tracking down since 2019, and that New Zealand is on track to meet the first emissions budget.
- The Commission notes significant risks with achieving the second and third emissions budgets, but this assessment was based on the data available to the Commission in April this year.
- We are finalising the policy package for ERP2 as the plan to meet the second emissions budget. The projected abatement impact of proposed policies shows the second emissions budget is achievable.
- Achieving the third budget remains more uncertain and I will continue to work with Ministers to consider additional options to reduce this risk.

Appendix 2: Support for post-release enquiries

Key messages

- The Government thanks the Climate Change Commission for its inaugural emissions reduction monitoring report.
- The Commission's report is timely as we finalise the second emissions reduction plan and consider amendments to the first emissions reduction plan before the end of the year.
- The response is framed in the context of the Government's Climate Strategy and the five pillars within this that we will be delivering against. It is not intended to be a line-by-line response to the Commission's advice.
- The response uses the Government's July 2024 interim emissions projections, which is the most recently available information on progress toward meeting our emissions budgets. Due to timing, the Commission only had data up until April 2024 available to use in its assessment. Similarly due to timing, the Government's Climate Strategy wasn't available in time for the Commission to consider as part of its monitoring report.
- While the Commission's exact numbers for emissions projections differ from Government figures, many of the findings are broadly aligned with Government findings. This includes that gross emissions have been tracking down since 2019, and that New Zealand is on track to meet the first emissions budget, which ends at the end of 2025.
- The Commission noted significant risks with achieving the second and third emissions budgets, but this was based on the data available up to April 2024. More recent projections (accounting for policies consulted on via the ERP2 discussion document) show we are on track to meet the second emissions budget. The final ERP2 will be published in December and confirm the impact of policies.
- Achieving the third budget remains more uncertain and Ministers are considering additional options to reduce this risk.

Additional information

- The Commission's report contained four key findings:
 1. Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.
 2. Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.
 3. There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.
 4. Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.

- While the government has more up-to-date data and information to model later emissions budgets, we also acknowledge, as does the Commission, that projections are inherently uncertain, and become increasingly so for timeframes further in the future.
- The Commission's findings focused on strengthening policies to meet future emissions budgets and the 2030 and 2050 targets. Officials have considered relevant findings from the Commission's report in the development of ERP2 policies. In particular the role of the ETS, and policies that will complement a well-functioning ETS.
- The Government's response to the Commission's report also provides an update on progress toward implementing the first emissions reduction plan. As of 30 June 2024, more than half of the 305 actions in the first emissions reduction plan are either complete or underway. Some actions have also been discontinued by this government and the previous government.
- The public were consulted on amending the first emissions reduction plan as part of recent consultation on the second emissions reduction plan. Decisions on this are expected before the end of the year.

Back pocket Q&A

When you released ERP2 consultation, you said we were on track to meet the second emissions budget, but the monitoring report said we weren't. What's right?

All projections and modelling about our climate change targets reflect a moment in time, providing a snapshot of how we are tracking based on the information available at a particular point.

The Commission must produce reports based on timelines set by the Climate Change Response Act. There is a cut-off point after which no other new information or changes in circumstances can be included in the assessment.

To assess current emissions reduction policies and plans, the Commission could only use data and Government policies up until April 2024. Projections are updated regularly and as part of consultation on the second emissions reduction plan in July, an interim set of projections were developed using more up-to-date information than what the Commission had access to.

The Government's projections showed it will be possible to meet the second emissions budget with the additional proposals outlined during consultation on the second emissions reduction plan. The second emissions reduction plan will also include an assessment on how the final policies will help us to meet the second emissions budget.

Is the Government concerned that we don't seem to be on track to meet the third emissions budget and our longer-term targets?

We are making cost-effective decisions now to set up New Zealand to further electrify, use increased levels of renewable energy and bring in technologies that will reduce emissions as they become available. The choices and actions New Zealanders make over the coming years will set us up for success in the third emissions budget period.

Our modelling and emissions projections are less certain the further out we look. The proposals outlined in the discussion document on the second emissions reduction plan set us up to meet the second emissions budget. They also set us up to make choices so that we can meet the third

emissions budget. The Government will have to publish a third plan by the end of the decade, which must, by law, set out the plan for achieving the third budget.

One of the Commission's findings was that there is a lack of clarity about how the Government will monitor and manage impacts on different communities throughout New Zealand. You cancelled the Equitable Transitions Strategy, so how will this be achieved?

The first ERP includes an equitable transition chapter, which sets out the overarching strategy and supporting actions and policies to manage transition impacts. This included, but was not limited to, the action to develop an equitable transition strategy. Broader chapters in the first ERP also contained actions to manage the impacts of sector specific policies, many of which also remain.

We're addressing impacts in the first emissions budget period by continuing to progress other relevant actions from the first ERP. These will be complemented by existing universal supports, including inflation-indexed government financial assistance and income support system, government employment services, and the tax bracket adjustment.

Looking forward to future emissions budgets, the strategy to mitigate the impacts of the transition in EB2 will be included within the second emissions reduction plan. This will show how different groups are affected and the Government support that is available for them.

The Commission produced a 300+ page report, and the Government's response is less than 15 pages – did you take it seriously?

We have considered the findings in the Commission's monitoring report in the context of this government's climate strategy and approach to reducing emissions. Officials from across agencies considered both the key findings and detailed analysis which informed the response. A number of the Commission's findings relate to the second emissions budget and beyond. These findings are being considered as part of work to finalise and publish the second emissions reduction plan.

The Commission lacked confidence in the ability to meet the methane targets set out in legislation. Agriculture isn't in the ETS, and the government has delayed the introduction of pricing for agricultural emissions. Is the government confident it can meet these targets?

The second emissions reduction plan (and subsequent plans) provide an opportunity to put actions in place that will help to get on track for future emissions budgets and targets, including the methane targets.

The government is committed to reducing biogenic methane and nitrous oxide from livestock and fertiliser, which are not covered by the emissions trading scheme.

The Government is taking a technology-led approach to agricultural emissions reduction and has committed significant funding to accelerating the development of new agricultural greenhouse gas mitigation tools and technologies. Budget 2024 committed \$419m over the next four years, with \$105m per annum from 2028/2029. This includes building on and enhancing the core R&D through a long-term commitment to the New Zealand Agricultural Greenhouse Gas Research Centre (NZAGRC) research programme, and a minimum 10-year commitment to invest in AgriZero. While there is always a risk that investment in any R&D could fail, there are a number of approaches that MPI, AgriZero and NZAGRC are taking to reduce that risk, such as investment decisions using a prioritisation framework to maximise the chance of success and a R&D pipeline comprising a diversified portfolio of investments that are continuously monitored.

You have consulted on stopping a number of actions from the first emissions reduction plan. Why would the government be stopping actions when there is a risk of not meeting emissions budgets?

The Government consulted on the impacts that might arise from removing some actions from the first emissions reduction plan. Some of these decisions were made by the previous Government. The July interim projections show that the proposed changes to the first plan are not expected to materially impact our ability to meet the first emissions budget and that we remain on track to meet the first emissions budget.

Appendix 3: Formatted version of the government response

- See pdf attached -

Appendix 3 refused in full under section 18(d) of the Act as it is already publicly available at: <https://environment.govt.nz/assets/publications/CCCE-Board/Government-response-to-the-Climate-Change-Commission-emissions-reduction-monitoring-report.pdf>



Briefing: ERP2 - first drafts of plan and Cabinet paper

Date submitted: 10 October 2024

Sub Security level: **CLASSIFICATION**

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Provide feedback on the appended documents.	14 October

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
1. Appendix 1: Draft final ERP2 Out of scope
2. Appendix 2: Draft Cabinet paper
3. Appendix 3: Draft ERP1 amendment
4. Appendix 4: Case study exemplar Out of scope

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Freya Farrar		
Responsible Manager	Stephen Goodman	9(2)(a)	✓
General Manager	Hemi Smiler		

Minister's comments

Out of scope

[Redacted]

Amending the first emissions reduction plan

13. We have included in the Cabinet paper approval for amendments to ERP1 [BRF-5025], as you directed. The amendment will formally remove the 41 discontinued actions that were included in the ERP2 public consultation material. The draft ERP1 amendment document is attached at Appendix 3.

14. In an earlier briefing on the ERP1 amendment [BRF-5025], officials signalled a further 15 actions have been stopped by Ministers since the ERP2 discussion document was released. These 15 actions are not in scope of the amendment and not proposed to be formally removed from ERP1. 9(2)(f)(iv)

Out of scope

[Redacted]

[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

[Redacted]

Appendix 1: Draft final ERP2

Appendix 2: Draft Cabinet paper

Appendix 3: Draft ERP1 amendment

Policy and Privacy

CLASSIFICATION

Office of the Minister of Climate Change

ECO - Cabinet Economic Policy Committee

New Zealand's second emissions reduction plan: finalising and publishing the plan

Proposal

- 1 Out of scope [Redacted]
- 2 [Redacted]
- 3 This paper also seeks agreement to the amendment to the first emissions reduction plan (ERP1) (Appendix 2).

Relation to government priorities

- 4 The proposals in this paper are consistent with the climate commitments in the National-Act and National-New Zealand First Coalition Agreements. They are also consistent with New Zealand's recently published Climate Strategy, which sets out how the Government will achieve its climate goals.

Executive Summary

- 5 Out of scope [Redacted]
- 6 [Redacted]

Out of scope [Redacted]

- 7 [Redacted]
- 8 [Redacted]
- 9 [Redacted]

Out of scope

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

9(2)(h)

15 Out of scope

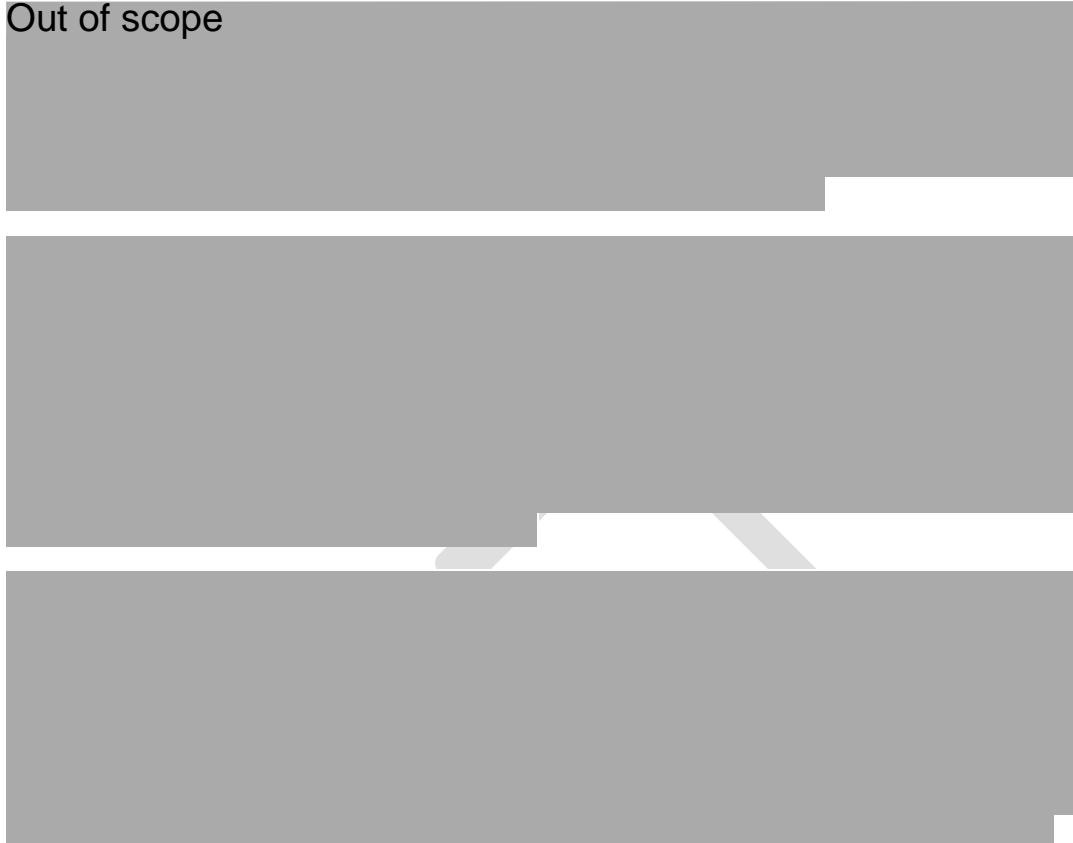
- [Redacted]

Amending ERP1

17 I also seek agreement in this paper to the amended first emissions reduction plan (ERP1). The first emissions budget period and ERP1 are in place until the end of 2025. Cabinet has previously noted the extent of changes to ERP1 requires the plan to be amended, to present an updated record of our plan to meet EB1. New Zealand is on track to keep emissions within the EB1 limit, even accounting for the amendment to ERP1.

¹ Section 5X (4).

Out of scope



Amending ERP1

- 55 In June 2024, Cabinet noted that as a result of our change in approach to meeting emissions budgets (set out in our Climate Strategy), work has stopped on 35 actions in ERP1 as they are not aligned with the Government's approach for meeting the emissions budgets. Six actions were also stopped by the previous administration. Cabinet noted that the extent of these changes to ERP1 requires the plan be amended to present an updated record of our current plan to meet EB1, and agreed to consult on the impact of those changes through the ERP2 discussion document [CBC-24-MIN-0064 refers],
- 56 In line with the provisions of the Act², I have considered the submissions received from public consultation on the impact of the 41 discontinued actions. I have also considered the Climate Change Commission's policy advice on meeting EB1³ on matters relevant to the ERP1 areas most impacted by the discontinued actions.
- 57 I am confident the amended ERP1 remains sufficient to achieve EB1. The ERP2 baseline projections account for from the impacts of stopping the 41 discontinued ERP1 policies and indicate we will remain within the EB1 limit of 290 MT CO₂-e (with a central emissions estimate of 284.5 Mt CO₂-e ±4 Mt).

² Section 5Z1(3) requires that when an amendment is undertaken, and is more than minor or technical, I must publicly consult on the amendments to the plan and consider the Commission's original policy advice on EB1.

³ Part 2 of its 2021 report, *Ināia tonu nei: a low emissions future for Aotearoa*, and relevant findings from its 2024 advice *Monitoring report: Emissions reduction*

Out of scope

■ [Redacted]

[Redacted]

■ [Redacted]

■ [Redacted]

Consultation

71 Public consultation of the draft plan and amending ERP1 took place from 17 July to 25 August. Consultation included 41 events or discussions with stakeholders including many Post-Settlement Governance Entities. The Ministry received 1,836 written submissions, including 153 from children and from a wide range of groups and demographics (including community groups and non-governmental groups, business and industry stakeholders, NZ ETS market participants, young people, Iwi and Māori, academics).

72 Out of scope [Redacted]

■ [Redacted]

74 [Placeholder – list of agencies that were consulted on this paper]

Out of scope

■ [Redacted]

■ [Redacted]

Proactive Release

- 77 I propose that this paper is proactively released on the Ministry for the Environment's website after the plan has been agreed and published, subject to redactions in keeping with the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

- 1 Out of scope [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- 7 Out of scope [Redacted]
- 8 **Note** that in June 2024, Cabinet noted the extent of changes to ERP1 and the change in approach to meeting New Zealand's climate targets requires ERP1 to be updated to present an accurate record of our current approach to meet EB1 [CBC-24-MIN-0064 refers];
- 9 **Note** I intend to formally amend the first emissions reduction plan to better align with the Government's new approach as attached in Appendix 2, including to remove the 41 discontinued actions that were set out in the ERP2 discussion document;
- 10 **Authorise** that I present the ERP1 amendment to the House of Representatives alongside the final ERP2, and to then make it publicly available;

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change



Te Kāwanatanga o Aotearoa
New Zealand Government

Aotearoa New Zealand's first emissions reduction plan:

Amendment 2024

DRAFT

Note – we anticipate this being in report format, but not on CCIEB template. Using template as an example for layout and working with MfE publications for final format

Disclaimer

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- all references to websites, organisations or people not within the Ministry are for convenience only and should not be taken as endorsement of those websites or information contained in those websites nor of organisations or people referred to.

Acknowledgements

Insert acknowledgements here if required.

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Te Kāwanatanga o Aotearoa
New Zealand Government

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Introduction

The Climate Change Response Act 2002 (the Act) provides the framework by which New Zealand develops and implements clear and stable policies that contribute to global efforts to limit global average temperature increase, and allows New Zealand to prepare for, and adapt to the effects of climate change.

The framework sets New Zealand’s domestic long-term emissions reductions targets to 2050, and provides for a series of interim targets, or 5-year emissions budgets, to be set as ‘stepping stones’ towards the 2050 target.

For each emissions budget period, the Act requires that there is an emissions reduction plan in place that sets out the policies and strategies to meet the emissions budget. The focus for the first emissions reduction plan (published in May 2022) is meeting the first emissions budget (2022-2025). The Act also provides for those plans to be amended during the emissions budget period to maintain their currency.

This document is the 2024 amendment to New Zealand’s first emissions reduction plan. It is designed to be read in conjunction with the original plan, and the associated Table of Actions.

New Zealand’s climate change targets and emissions budgets

New Zealand has legislated domestic emission reduction targets under the Act:

- reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050
- reduce emissions of biogenic methane to 24–47 per cent below 2017 levels by 2050, including to 10 per cent below 2017 levels by 2030.

An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period (expressed in megatonnes of carbon dioxide equivalent (Mt CO₂e)). Table 1 sets out NZ’s first three emissions budgets.

Table 1: New Zealand’s first three emissions budgets

Budget period	2022–25	2026–30	2031–35
All gases, net (AR5)	290 Mt CO ₂ e	305 Mt CO ₂ e	240 Mt CO ₂ e
Annual average	72.5 Mt CO ₂ e	61 Mt CO ₂ e	48 Mt CO ₂ e

The focus for the first emissions reduction plan is meeting the first emissions budget, which is 290Mt Co₂-e. The Government is also focused on ensuring New Zealand is well positioned to meet future emissions budgets.

The Government is committed to meeting our domestic climate change targets and emissions budgets. In April 2024, the Government reinforced this commitment in one of the Prime Minister’s public service targets - Target 9:

On track to meet New Zealand’s 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025 and 305 megatonnes from 2026 to 2030.



What is a tonne of emissions?

One tonne of carbon dioxide equivalent (CO₂-e) is 1,000 kg of emissions. One megatonne (Mt) is 1 million tonnes of emissions. For scale: one tonne of emissions is roughly equivalent to nine trips from Auckland to Wellington in the average car (total of 5,847kms). One Mt would be this multiplied by one million.

In July 2024, the Government launched its Climate Strategy, an ambitious plan aimed at reducing the impacts of climate change and preparing for its future effects. Five pillars will inform our pathway to responding to a changing climate:



This Government's approach to delivering New Zealand's emissions reduction goals seeks to reduce net emissions at least cost using effective and efficient policies that do not negatively impact on the productivity of New Zealand's key industries. This approach will be technology-led and will rely on a credible emissions trading scheme, complemented by policies that reduce barriers to investment in emissions reductions and removals.

Our new approach to reduce net emissions

Since setting the first emissions budget in 2022, the context in which we are delivering the plan has evolved. We have also learned from the first two years of delivery and have adjusted the approach where it was needed.

In embedding the new approach to achieving our climate goals, several actions from the first emissions reduction plan have been discontinued because they do not align with the Government's approach. Some actions have been discontinued because they do not effectively contribute to our emissions budgets, and some actions were stopped by the previous administration. The list of discontinued actions can be found in Appendix 1.

The purpose of amending the first emissions reduction plan is to ensure it reflects this Government's approach to meeting the first emissions budget, and the necessary revisions to policies and actions that have been discontinued to better align with the government's Climate Strategy for the remainder of the first emissions budget period (to the end of 2025).

In amending the Plan, we have considered the Climate Change Commission's advice for meeting the relevant emissions budget (*Ināia tonu nei: a low emissions future for Aotearoa (2021)*), and consulted on

the impacts of the new approach and amended plan for meeting that emissions budget.¹ We will continue to take an agile approach to delivering the first emissions reduction plan and, where needed, changes will be made to ensure ongoing alignment with the Climate Strategy and to ensure the first emissions budget is met.

We are continuing to make progress towards our emissions budgets

The latest ERP2 baseline projections (as at 25 September 2024) indicate we are projected to meet the first emissions budget (see Table 2 below). These 9 (as at June 2024). They also account for the policies and actions proposed to be include in the second emissions reduction plan, developed to meet the second emissions budget period (2026-2030). [\[hyperlink to ERP2\]](#)

Table 2: ERP2 projections with new measures (net emissions) as at 25 September 2024

Emissions budget limits	Interim projections at 25 September 2024 including ERP2 policies (central estimate*)	Uncertainty for 25 September 2024 interim projections (central estimate)
First emissions budget 290 Mt CO2-e	284.5 Mt CO2-e	±4 Mt CO2-e
Second emissions budget 305 Mt CO2-e	Tbc before Ministerial consultation	Tbc before Ministerial consultation
Third emissions budget 240 Mt CO2-e	Tbc before Ministerial consultation	Tbc before Ministerial consultation

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

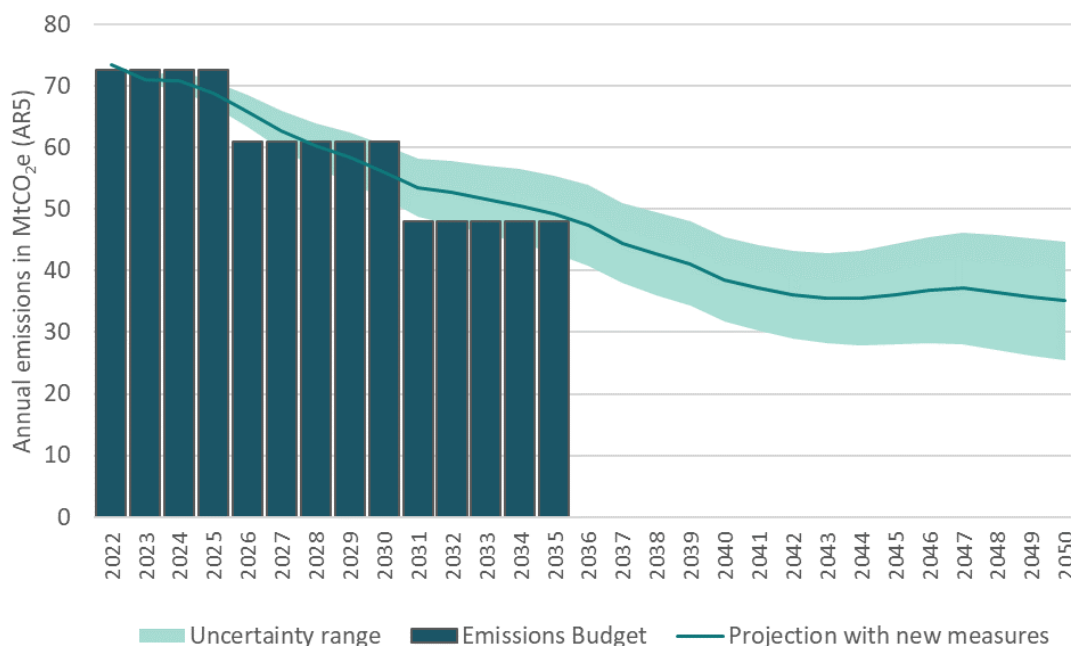
We use uncertainty ranges to represent a range of possible futures and provide Government with an assessment of confidence about our progress². The upper limit of the uncertainty range for the first emissions budget brings us to within 2 Mt CO2-e of the budget but remains within the limit. Based on this range, the Government is confident that we are on track to meet the first emissions budget.

Figure 1 presents our projected emissions reduction pathway for the first three emissions budgets, based on final ERP2 projections. It shows that we are projected to meet the first and second emissions budget. The third emissions budget is within the projected range, but the central estimate is above the budget limit.

Figure 1: Interim emissions projections and uncertainty range (2022–50) using target accounting
 TBC updated graph - to be inserted before Ministerial consultation

¹ Climate Change Response Act 2002 section 5Z(3)(a) provides that, when an amendment is undertaken, and that amendment is more than minor or technical, the same process as that of preparing an emissions reduction plan is followed.

² Our projections have shown us that they are impacted by three key factors: changes to underlying/external factors such as population growth and GDP, rainfall levels; methodological improvements such as the science and how emissions are measured; and policy design and implementation. External factors and methodological changes can drive substantive shifts in how we are tracking towards emissions budgets.



Because projections are based on assumptions made about the future, they become less accurate the further out the projections. Figure 1 shows we are currently not on track to achieve net zero by 2050. The Government is committed to reducing net emissions of all greenhouse gases (except biogenic methane) to zero by 2050 and this will be done through a series of emissions budgets and future emissions reduction plans.

The second emissions reduction plan (ERP2) includes confirmed policies and strategies for the second emissions budget (2026-2030) onwards.

Embedding our new approach

We are nearly three years into delivering New Zealand’s first emissions reduction plan. The Climate Change Chief Executive Board’s most recent Quarterly Report on progress was for the period 1 January - 30 June 2024 and summarises the challenges and successes of implementing the first emissions reduction plan and national adaptation plan. Implementation progress to date has been mixed. Of the remaining actions, 65% are either complete or actively being implemented, 24% are on hold, 8% are closed, and 3% (or 7 actions) have not yet started.

Completed actions include: implementing the Healthy Homes Standards, establishing the Centre for Climate Action on Agricultural Emissions, and implementing additional market mechanisms to accelerate the transition to a highly renewable energy system.

In delivering the first emissions reduction plan, we have faced challenges that have informed this amendment and how we will continue to deliver the Plan going forward. In the early stages, supply chain constraints driven by Covid-19 and later, Cyclone Gabrielle and the Auckland flooding, caused delivery delays across several sectors. Worsening inflation and the cost-of-living crisis has meant some actions have been paused or discontinued to ease cost pressure on households (e.g. the previous government cancelling the sustainable biofuels obligation in February 2023). These challenges have reinforced the need to reduce the number of policies the Government is implementing and to prioritise those that deliver cost-effective abatement.

We are continuing to deliver the amended first emissions reduction plan through a set of cross cutting and sector-specific work programmes. The areas with the greatest shift in approach are Transport

(chapter 10), Equitable Transition (chapter 3), Emissions Pricing (chapter 5), and Energy (chapter 11). Implementing the new approach for the remainder of the first emissions budget will see a renewed emphasis on action to enable renewable energy investment and development, universal support mechanisms to mitigate the impact of the transition on individuals and households, and work to recognise more sources of removals for EB2 and future budgets.

Embedding the climate strategy in future emissions budgets and getting started with ERP2 actions

The Government's revised approach will also be implemented through the second emissions reduction plan. As the second emissions reduction plan contains initiatives from the Government's manifesto commitments and Coalition Agreements, work is beginning on some of these in 2024/25 - ahead of the second emissions budget period formally commencing on 1 January 2026.

These include restoring confidence in the New Zealand Emissions Trading Scheme (NZ ETS), enabling electrification through *Electrify NZ* commitments to help achieve our objective to double renewable energy, delivering more public EV chargers, and enabling technology research and development to reduce agricultural emissions.

How to read the amended plan

This document is designed to be read in conjunction with the original first emissions reduction plan and the associated Table of Actions, which can be found on the Ministry for the Environment website [\[insert hyperlink to original ERP1 documents\]](#). More detailed information about the actions that have been removed from the first emissions reduction plan is provided in Appendix 1.

Appendix 1: Table of ERP1 removed actions

Below are the actions being removed from the first emissions reduction plan, organised by chapter, as at 30 June 2024.

Equitable transition (Chapter 3)

Actions for delivery	Lead
3.2.1 Develop an equitable transition strategy.	MBIE/MSD
3.2.2b Support regions and industries to manage the transition.	MBIE/MSD
3.2.3 Implement the Just Transition Partnerships Programme.	MBIE
3.3.1 Develop an income insurance scheme.	Government, BusinessNZ, New Zealand Council of Trade Unions

Emissions pricing (Chapter 5)

Actions for delivery	Lead
5.2.1 Adjust the NZ ETS to drive a balance of gross and net emissions reductions.	MfE
5.2.3 Assess how the NZ ETS can support indigenous biodiversity.	MfE

Funding and finance (Chapter 6)

Actions for delivery	Lead
6.1 Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process.	TSY

Planning and infrastructure (Chapter 7)

Actions for delivery	Lead (support)
7.5 Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.	Kāinga Ora (HUD, Waka Kotahi, MOT, MfE, Te Waihangā)

Research, science, innovation and technology (Chapter 8)

Actions for delivery	Lead
8.1.1 Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.	Cross government

Actions for delivery		Lead
8.2	Te Ara Paerangi Future Pathways science-system reform programme.	MBIE

Circular economy and bioeconomy (Chapter 9)

Actions for delivery		Lead (support)
9.1	Commence a Circular Economy and Bioeconomy Strategy.	MBIE
9.4	Support businesses moving to circular economy models.	MBIE

Transport (Chapter 10)

Actions for delivery		Lead
10.1.1.6	Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	MOT
10.1.2	Set sub-national VKT reduction targets for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) by the end of 2022.	MOT
10.1.2	Revise Waka Kotahi's national mode shift plan (Keeping Cities Moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode shift required in urban areas.	Waka Kotahi
10.1.2	Develop VKT reduction programmes for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives.	Waka Kotahi/local government
10.1.2	Support initiatives to increase the uptake of e-bikes.	MOT
10.1.4	Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	MOT
10.2.1	Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024.	MOT/Waka Kotahi
10.2.1	Establish whether the Clean Vehicle Discount can be extended to other vehicle classes.	MOT
10.2.2	Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.	MOT
10.2.2	Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.	MOT
10.2.2	Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.	MOT
10.3.5	Implement the Sustainable Biofuels Obligation, which requires liable fuel suppliers to reduce the total emissions of the fuels they supply by a set percentage each year through the deployment of biofuels (in blended or neat form).	MOT/MBIE
10.4.1	Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan.	MOT

Energy and industry (Chapter 11)

Actions for delivery	Lead
11.1.1 Provide rebates for energy efficient equipment.	MBIE/EECA
11.2.2 Investigate options for dry-year electricity storage through the New Zealand Battery Project.	MBIE
11.2.2 Ban new fossil-fuel baseload generation.	MBIE
11.3.1 Develop a gas transition plan.	MBIE
11.4.1 Set an action plan for decarbonising the industrial sector.	MBIE
11.4.1 Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.	MBIE/EECA
11.4.1 Fund further decarbonisation of industry and heat through expansion of the GIDI.	MBIE/EECA
11.4.1 Provide grant funding for commercial space and water heating and high efficiency electrical equipment.	MBIE/EECA
11.4.1 Finalise and implement the Advanced Manufacturing Industry Transformation Plan.	MBIE
11.4.1 Develop a mandatory energy and emissions reporting scheme.	MBIE
11.5.1 Monitor progress towards the aspirational renewable electricity target.	MBIE

Agriculture (Chapter 13)

Actions for delivery	Lead
13.1.1 An emissions pricing mechanism is developed, and agricultural emissions are priced by 1 January 2025.	MPI
13.1.2 All producers will have emissions reports by the end of 2022 and a farm plan in place by 2025.	MPI
13.3.1 Develop further climate-focussed extension and advisory services.	MPI

Forestry (Chapter 14)

Actions for delivery	Lead (support)
14.1.1a Ensure regulatory settings deliver the right type and scale of forests, in the right place.	MPI (MfE)
14.4.1 Develop forestry and wood processing industry transformation plan (ITP).	MPI

Briefing: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Material to support the Second Reading

Date submitted: 31 October 2024

Tracking number: BRF-5476

Security level: CLASSIFICATION

Actions sought from ministers	
Name and position	Action sought
To Hon Simon WATTS Minister of Climate Change	<p>Agree, in consultation with the Minister of Agriculture as appropriate, to arrange dates and times with the Office of the Clerk of the House of Representatives to progress the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill through final stages to Royal Assent.</p> <p>Forward a copy of this briefing to the Minister of Agriculture.</p>

Appendices and attachments
<ol style="list-style-type: none"> Appendix A: Primary Production Committee Report on the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill. Appendix B: Draft Second Reading Speech. Appendix C: Draft Second Legislative Statement.

Key contacts at Ministry for the Environment			
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Responsible Manager	Cheryl Moir	9(2)(a)	✓
General Manager	Mark Vink	021 176 2243	

Appendix A is refused under section 18(d) of the Act as it is already publicly available at: <https://www.legislation.govt.nz/bill/government/2024/0062/latest/whole.html>

Appendix C is refused under section 18(d) of the Act as it is already publicly available at: https://www.nzlii.org/nz/legis/bill/_ls/ccrtsaoabtrls1094/

Briefing: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Material to support the Second Reading

Purpose

1. This briefing provides you with material to support the Second Reading on the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill and sets out next steps to progress the Bill.
2. In preparation for Second Reading scheduled for week commencing 5 November, we have attached:
 - a. **Appendix A:** Primary Production Select Committee Report,
 - b. **Appendix B:** draft Second Reading Speech, and
 - c. **Appendix C:** draft Second Legislative Statement.

Background

3. The Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill (the Bill) was considered by the Primary Production Committee (the Committee) from 1 July – 24 October 2024. The Committee reported back to the House of Representatives on Thursday, 24 October 2024. The Committee recommended by majority that the Bill be passed without amendment.
4. The Ministry for the Environment and the Ministry for Primary Industries joint Departmental Report also recommended that the Bill be progressed without amendment.
5. Public submissions on the Bill opened on 1 July 2024 and closed on 28 July 2024. During the submissions process the Committee received a total of 581 submissions. Approximately 65% of total submissions supported the Bill, 30% opposed the Bill, and 5% of submissions were uncertain or out of scope.
6. We last provided you an update with the draft Departmental Report on Thursday, 5 September. The key arguments in support of the Bill raised by submissions included: emissions leakage, NZ ETS is not fit for agriculture, agriculture is an important sector, methane science and target considerations, consistency with split gas approach, and impact on competition.
7. Key arguments raised by submissions against the Bill included: climate change concerns, fairness and equity, NZ ETS is a sufficient framework, retaining NZ ETS obligations, climate change targets, international reputation and market access, and Crown obligations under Te Tiriti o Waitangi | the Treaty of Waitangi.

8. The purpose of this Bill is to remove agriculture from the NZ ETS, and given the Government's emission reduction commitments, including those set out in the draft Second Emissions Reduction Plan, officials do not recommend any changes to the Bill.
9. Officials provided both written and oral advice to the Committee to support their deliberations. All written advice provided to the Committee has now been published and is available on the New Zealand Parliament website, [link here](#).

Primary Production Committee Report

10. The Committee's report (the Report) includes differing views from both the Labour Party and the Green Party of Aotearoa New Zealand.
11. The Labour Party's differing views on the Bill were articulated during the First Reading Speech, throughout Committee deliberations, and in the Committee's Report. In the Report these views include:
 - a. The Bill exacerbates climate change impacts and is at odds with our international obligations to reduce emissions;
 - b. The Bill may "jeopardise" New Zealand's free trade agreements;
 - c. There needs to be an innovative replacement policy proposal that will give farmers certainty, and this Bill does not provide that; and
 - d. The Government has communicated a broader plan of pricing agricultural on-farm emissions by 2030, but this is a challenging timeframe to meet. The Government's reliance on technology to reduce methane emissions has time, affordability, and scale issues for farmers.
12. The Green Party of Aotearoa New Zealand's differing views on the Bill were also articulated during the First Reading Speech, throughout Committee deliberations, and in the Committee's Report. In the Report these views include:
 - a. Agriculture is a significant contributor to New Zealand's emissions profile; therefore, it is inequitable to the other sectors of the economy that the agricultural sector continues to be exempt from emissions pricing;
 - b. The Bill removes incentives for farm-based emissions management and recording and understanding of emissions;
 - c. The Bill undermines New Zealand's climate change targets and obligations, and therefore will have adverse impacts to the country's international reputation; and
 - d. Removing agriculture from the NZ ETS implies either more rapid and disruptive future action or decoupling New Zealand from the global commitment to climate action.
13. Officials will provide further information to support you in the Committee of the Whole House stage in response to these differing views.

Next steps

14. Progressing the Bill to law requires the following stages:
 - a. Second Reading (scheduled week commencing 5 November),
 - b. Committee of the Whole House,
 - c. Third Reading, and
 - d. Royal Assent.
15. We understand that the Second Reading is likely to occur next week, however the dates for the remaining steps are yet to be scheduled. Officials have discussed with your office, and understand that your office will lead on scheduling in coordination with the Minister of Agriculture and the Office of the Clerk of the House of Representatives.
16. The Bill needs to be passed by the end of this year to prevent surrender obligations for agricultural activities taking effect (currently legislated for 1 January 2025) and ensure that agriculture is removed from the NZ ETS in accordance with priority 11 in the Government's quarterly plan.
17. We have provided a draft Second Reading Speech and a draft Second Legislative Statement to support you at the Second Reading stage, see **Appendix B** and **Appendix C**.
18. Officials remain available to support your Office as required and are working on preparations for the Committee of the Whole.

Recommendations

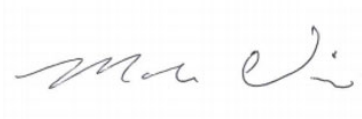
19. It is recommended that you:
 - a. **Agree**, in consultation with the Minister of Agriculture as appropriate, to arrange dates and times with the Office of the Clerk of the House of Representatives to progress the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill through final stages to Royal Assent.

YES / NO

- b. **Forward** a copy of this briefing to the Minister of Agriculture.

YES / NO

Signatures



Mark Vink
General Manager, Markets
31/10/2024

Hon Simon WATTS
Minister of Climate Change
[Date]

Appendix B: Draft Second Reading Speech

Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Second Reading Speech

Mr speaker, I move that the *Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill* (the Bill) is read a second time.

Mr speaker, agriculture is an essential part of the New Zealand economy and contributor to the world economy. The agricultural sector will play an important role in achieving the Government's goal of doubling the value of our exports over the next decade. The sector is critical: In the year to 31 March 2024, the food and fibre sector accounted for 80.9 percent of New Zealand's merchandise exports in the year to 31 March 2024. Over the last 10 years, food and fibre exports have grown on average by 3.6 percent per year whereas other merchandise exports have grown by 1.6 percent.

One-in-seven New Zealanders work in the food and fibre sector, and that this figure increases to one-in-four in some regional economies.

Our relationships with our trading partners are linked to the economic prosperity of this country. New Zealand remains committed to its international obligations, which I wish to emphasise this Bill is consistent with. We are committed to meeting our climate obligations – and this Bill does not affect that.

The Second Emissions Reduction Plan, which outlines how New Zealand will meet emissions budget two [and puts us on track to 2050], accounts for taking agriculture out of the New Zealand Emissions Trading Scheme. This plan will be published by the end of this year. Future emissions reduction plans will outline the policies and strategies New Zealand will take to meet future emissions budgets.

This Bill amends the Climate Change Response Act 2002 to remove agricultural activities from the New Zealand Emissions Trading Scheme.

The Climate Change Response Act currently requires agricultural processors to pay for fertiliser and livestock emissions from 1 January 2025. Under the current legislation, animal farmers would begin reporting their on-farm emissions from 1 January 2026 and paying for those emissions from 1 January 2027.

Economic modelling commissioned by Officials suggests that requiring agricultural processors to pay for their emissions under the emissions trading scheme would have a negative impact on both farm production and farm revenue.

If agricultural processors are required to pay for on-farm emissions, this could lead to a trickle down of costs directly onto farmers, regardless of their emission efficiency rates.

The requirement for farmers to report and pay for their emissions would likely require up to 100,000 animal farmers to be registered and begin reporting and paying for their emissions under the New Zealand Emissions Trading Scheme. This would have disproportionate

adverse impacts on small farmers and would significantly increase the number of participants in that scheme, which could disrupt the operation of the scheme.

In summary, the current system would result in additional administrative, implementation, and compliance costs to our domestic agricultural sector.

This Bill presents an opportunity for a new pathway forward.

In the Speech from the Throne, the Governor-General reinforced this Government's commitment to reduce emissions and to implement a fair and sustainable pricing system for on-farm agricultural emissions by 2030.

To fulfil this commitment this Government has prioritised policy to keep agriculture out of the emissions trading scheme as part of both the Coalition Government's Quarter 2 and Quarter 4, Action Plan for New Zealand.

The return of this Bill is another step towards delivering on the commitment to develop a fair and sustainable pricing system for agriculture that reduces emissions without sending production offshore.

Mr Speaker, despite the urgency to amend the Climate Change Response Act by 1 January 2025, we have had a rigorous four month Select Committee process that scrutinised this Bill.

I want to acknowledge my Ministerial colleague the Honourable Todd McClay, Minister of Agriculture who I have worked closely with on this Bill alongside Officials from both agencies.

It is important to hear and consider the feedback from the sector, organisations and wider public.

Members of the Select Committee listened to views on the Bill receiving submissions from groups, organisations and individuals from across New Zealand.

The Committee received 581 submissions and 26 oral submissions during the consultation process for the Bill.

Of these total submissions approximately two-thirds were supportive of the Bill, with the remainder one-third being against the Bill.

Mr Speaker, after careful consideration of the submissions and advice from Officials, the Primary Production Committee recommended by majority that this Bill be passed without amendment.

Submissions did not identify any unintended consequences, administrative errors, or inconsistencies with the Government's policy intent that require amendment. The Bill, as drafted, gives effect to the Government's objective to remove agriculture from the NZ ETS, and has been factored into the Government's wider emissions reduction strategy, including consideration of the Second Emissions Reduction Plan

As I have previously announced, this Bill support the Government's broader plan to keep agriculture out of the New Zealand Emissions Trading Scheme.

This Bill will enable us to pave a new way forward working alongside the sector, iwi Māori, and the public to fairly and sustainably manage agricultural emissions. Mitigation technology, and this Government's focus on getting tools into the hands of farmers, will play a key part in this.

Accordingly, I commend this Bill to the House and look forward to the next stage of debating this Bill in the Committee of the Whole House.

ENDS

DRAFT



Briefing: Approval to lodge the second emissions reduction plan

Date submitted: 30 October 2024

Tracking number: BRF-5538

Sub Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Note revised emission projections contained in this briefing Make a revised assessment on whether ERP2 will meet EB2. Subject to assessment, lodge the Cabinet paper, emissions reduction plan, technical annex, and amendment to the first emissions reduction plan	31 October 2024

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
1. Summary of Ministerial and departmental feedback Out of scope
2. New Zealand's second emissions reduction plan 2026-30 Out of scope
3. Second emissions reduction plan: technical annex Out of scope
4. Cabinet Paper (Clean) - New Zealand's second emissions reduction plan: finalising and publishing the plan
5. Cabinet Paper (Tracked) - New Zealand's second emissions reduction plan: finalising and publishing the plan
6. Updated distributional impacts Out of scope
7. New Zealand's first emissions reduction plan: Amendment 2024.

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Daniel Rimmer		
Responsible Manager	Stephen Goodman		✓
General Manager	Hemi Smiler		

Minister's comments

Approval to lodge the second emissions reduction plan

Key messages

1. Out of scope [Redacted]

Out of scope [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

ERP1 amendment

- 6. We seek approval to lodge for Cabinet Economic Policy Committee (ECO) the amendment to the first emissions reduction plan (ERP1). This can then be prepared alongside the final ERP2 for tabling in the House, publication and gazettal.
- 7. The ERP1 amendment has been revised to reflect the updated modelling and projections for ERP2. For the first emissions budget period, the uncertainty band has been updated with the upper range now sitting above the emissions limit of 290 Mt. However, based on the central estimate of 284.1 Mt, our assessment remains that even with the amendments to ERP1, EB1 can still be met.
- 8. We received no feedback from consultation with Ministers or agencies on the ERP1 amendment content integrated into the ERP2 Cabinet paper. We note the amendment itself was inadvertently omitted from being circulated with the material for Ministerial consultation. As the amendment is a collation of the decisions of portfolio Ministers to discontinue work, is consistent with the material in the ERP2 discussion document, and

agencies have been involved in the development of the amendment, we have appended the document here to progress with Cabinet consideration. As the amendment is a collation of the decisions of portfolio Ministers to discontinue work, is consistent with the material in the ERP2 discussion document, and agencies have been involved in the development of the amendment, we have appended the ERP1 amendment here to progress to Cabinet.


Recommendations

We recommend that you:

- a. **Out of scope** [Redacted]

- h. **note** the updated projections information in this briefing to inform your assessment of whether the amended ERP1 will meet EB1
- i. **approve** New Zealand’s first emissions reduction plan: Amendment 2024
Yes | No
- j. **agree** to lodge the ERP1 amendment for the ECO Cabinet Committee on 6 November
Yes | No

Signatures



Stephen Goodman
Manager Mitigation Policy
Climate Change Mitigation
Date 30 October 2024

Hon Simon WATTS
Minister of Climate Change
Date

Approval to lodge the second emissions reduction plan

Purpose

- 1. Out of scope [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- 4. This briefing also provides you with the revised amendment to the first emissions reduction plan for your final consideration and approval to lodge for ECO alongside the ERP2.

Out of scope

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Approving the ERP1 amendment

24. On 20 October 2024, you agreed to progress with a formal amendment to the first emissions reduction plan (ERP1) covering 2022 to 2025, and to integrate this into the ERP2 Cabinet process [BRF-5025 refers]. The scope of the formal amendment is limited to removing the 41 discontinued actions consulted on through the July ERP2 discussion document. The amendment is provided in Appendix 7.
25. The key update to the revised ERP1 amendment is to the projections, because of the modelling changes as outlined above. As a result, the upper limit now sits above the EB1 emissions limit (now 1.1 Mt above as opposed to 2 Mt below). The central estimate, however, has not changed. Our assessment remains that the amended ERP1 is sufficient to meet EB1, based on the central estimate. The ERP1 amendment has been reworded to reflect this.
26. Inadvertently, the ERP1 amendment document was omitted from the recent Ministerial consultation on the draft ERP2 Cabinet paper and accompanying material. The scope of the amendment reflects the collation of the decisions of portfolio Ministers to discontinue work and is consistent with the material approved by Cabinet for the ERP2 discussion document. Additionally, the ERP1 amendment has been developed and consulted on with agencies following public consultation. The ERP2 Cabinet paper that was consulted on had been updated to include the ERP1 amendment section. No comment or concerns were raised by Ministers or agencies. As such, we seek your approval to continue progressing the ERP1 amendment through Cabinet alongside ERP2.

Next steps

27. Following your approval, we will lodge the ERP2 materials on Thursday 31 October. This will include the ERP1 amendment.
28. We will provide talking points for ECO early next week. Key dates and milestones are outlined below:

Date	Milestone
31 October	Lodgement
6 November	ECO
11 November	Cabinet
November-December	Development of public facing materials, At a Glance version
w/c 9 December	Publication, tabling, and gazetting of ERP2 and amended ERP1

Appendices

Out of scope

Out of scope

4. Cabinet Paper - New Zealand's second emissions reduction plan: finalising and publishing the plan

Out of scope

6. New Zealand's first emissions reduction plan: Amendment 2024.

Policy and Privacy

CLASSIFICATION

Office of the Minister of Climate Change

ECO - Cabinet Economic Policy Committee

New Zealand's second emissions reduction plan: finalising and publishing the plan

Proposal

1. Out of scope [Redacted]
- [Redacted]
3. This paper also seeks agreement to the amendment to the first emissions reduction plan (ERP1) (Appendix 3).

Relation to government priorities

4. The proposals in this paper are consistent with the climate commitments in the National-Act and National-New Zealand First Coalition Agreements. They are also consistent with New Zealand's recently published Climate Strategy, which sets out how the Government will achieve its emissions budgets and targets.

Executive Summary

5. Out of scope [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Amending ERP1

17. I also seek agreement in this paper to amend ERP1, by removing 41 actions from that plan (paragraphs 55 to 58 below). The first emissions budget period (EB1) and ERP1 are in place until the end of 2025. Cabinet has previously noted the extent of changes to ERP1 requires the plan to be amended to present an updated record of our plan to meet EB1 [CBC-24-MIN-0064 refers]. New Zealand is on track to keep emissions under the EB1 limit of 290 Mt CO₂-e, based on the central projections estimate of 284.1 Mt CO₂-e, ±7 Mt, even accounting for amendments to ERP1.

Background

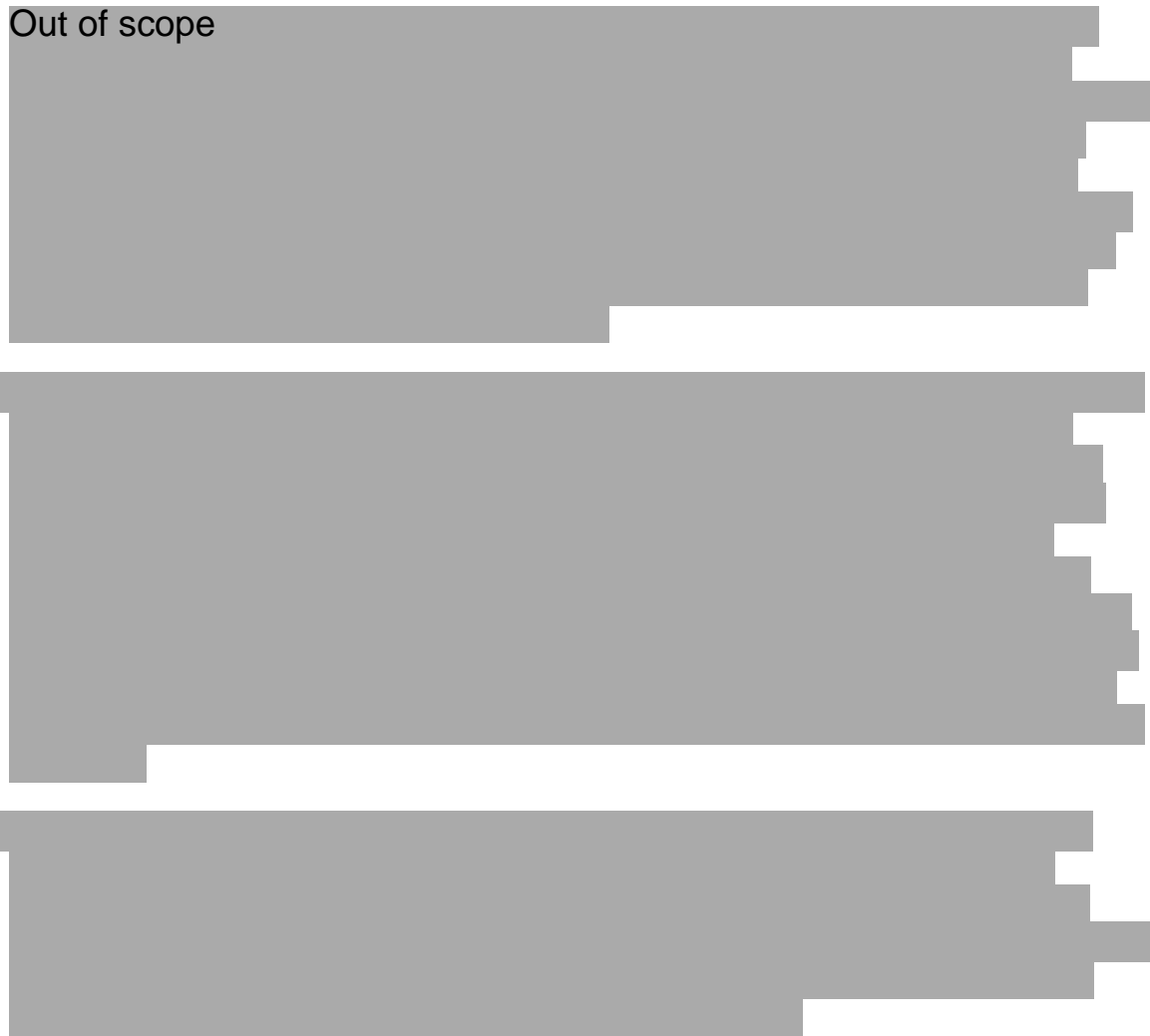
18. New Zealand’s Zero Carbon Framework sets out:

- 18.1 domestic emissions reduction targets (the 2050 target);
- 18.2 emissions budgets that act as stepping stones to the 2050 target; and
- 18.3 a requirement to publish emissions reductions plans that set out the policies and strategies needed to achieve emissions budgets.

19. Out of scope

[Redacted content]

Out of scope



Amending ERP1

56. In June 2024, Cabinet noted that work has stopped on 35 actions in ERP1 as they are not aligned with the Government’s approach for meeting emissions budgets as set out in the Government’s Climate Strategy. Six actions were also stopped by the previous Government. Cabinet noted that the extent of these changes to ERP1 requires the plan be amended to present an updated record of our plan to meet EB1, and agreed to consult on the impact of these changes through the ERP2 discussion document [CBC-24-MIN-0064 refers].
57. In line with the provisions of the Act,³ I have considered the submissions received from public consultation on the impact of the 41 discontinued actions. I have also considered the Climate Change Commission’s policy advice on meeting EB1⁴ on matters relevant to the ERP1 areas most impacted by the discontinued actions.

³ Section 5Z1(3) requires that when an amendment is undertaken, and is more than minor or technical, I must publicly consult on the amendments to the plan and consider the Commission’s original policy advice on EB1.

⁴ Part 2 of its 2021 report, *Ināia tonu nei: a low emissions future for Aotearoa*, and relevant findings from its 2024 advice *Monitoring report: Emissions reduction*

58. I am confident the amended ERP1 sets out policies and strategies for meeting EB1. The ERP2 baseline projections account for the impacts of stopping the 41 discontinued ERP1 policies and indicate, based on the central estimate, we remain on track to meet the EB1 limit of 290 MT CO₂-e (with a central emissions estimate of 284.1 Mt CO₂-e, ±7 Mt).

59. I propose to amend ERP1 as provided in Appendix 3. I intend to present the amended ERP1 alongside ERP2 to the House of Representatives, and then formally publish the amendment in the New Zealand Gazette in December 2024.

Out of scope

[Redacted]

[Redacted]

[Redacted]

62. Out of scope [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Climate implications of amending ERP1

70. The Climate Implications of Policy Assessment (CIPA) team has been consulted. This is an update to the CIPA assessment for 'Emissions Reduction Plan: completion and launch of the first Plan.'
71. This proposal is to amend ERP1 and remove 41 actions. The emissions impact of these removals has been estimated where possible. The removal of these actions is not expected to affect New Zealand's ability to meet EB1. The appended CIPA disclosure sheet contains the cumulative impact, the abatement impact for each action, and additional information.
72. The central projection currently indicates that emissions during EB1 will be 284.1 Mt. This is within the statutory limit of 290 Mt, with a possible 5.9 Mt 'surplus' that, assuming this projection does eventuate, could be counted towards achieving EB2.
73. There is some degree of uncertainty regarding the impact of individual measures and the baseline projected emissions for EB1 (± 7 Mt CO₂-e). The uncertainty decreases as the projection period shortens, making short-term projections more reliable while long-term projections face more variable changes.

Out of scope

[Redacted content]

Out of scope

Consultation

81. Public consultation of the draft plan and amending ERP1 took place from 17 July to 25 August 2024. Consultation included 41 events or discussions with stakeholders including many Post-Settlement Governance Entities. The Ministry received 1,836 written submissions, including 153 from children and from a wide range of groups and demographics (including community groups and non-governmental groups, business and industry stakeholders, NZ ETS market participants, young people, Iwi and Māori, academics). Feedback from public consultation was considered in the development of the final plan.

82. Out of scope

84. We invited feedback from the following agencies on this paper: the Ministry of Transport, Ministry of Primary Industries, the Ministry of Business, Innovation and Employment, the Treasury, Department of Internal Affairs, Energy Efficiency & Conservation Authority, Ministry of Housing and Urban Development, the Climate Change Chief Executives Board, Kāinga Ora, Land Information New Zealand, Ministry for Culture & Heritage, Ministry of Foreign Affairs & Trade, Ministry of Education, Ministry of Health, Ministry of Social Development, New Zealand Infrastructure Commission, Natural Hazards Commission, New Zealand Transport Agency, Te Arawhiti, Te Puni Kōkiri and the Department of Conservation. The Department of Prime Minister and Cabinet was informed.

Communications

85. Out of scope . The amendment to ERP1 will be published on the Ministry for the Environment's website after it is presented to the House of Representatives. Officials will work to confirm the approach to media engagement for the launch of both products, and will provide key messages, Q&A and any other supporting materials required such as press releases or speeches.

86. Out of scope

Out of scope

Proactive Release

87. I propose that this paper is proactively released on the Ministry for the Environment's website after the plan has been agreed and published, subject to redactions in keeping with the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

1 Out of scope

[Redacted content]

7 **Note** that in June 2024, Cabinet noted the extent of changes to ERP1 and the change in approach to meeting New Zealand's climate targets requires ERP1 to be updated to present an accurate record of our current approach to meet EB1 [CBC-24-MIN-0064];

8 **Agree** to formally amend ERP1 to better align with the Government's new approach, as attached in Appendix 3, including to remove the 41 discontinued actions that were set out in the ERP2 discussion document;

9 **Authorise** me to present the ERP1 amendment to the House of Representatives alongside the final ERP2, and to then make it publicly available

Authorised for lodgement

Aotearoa New Zealand's first emissions reduction plan

Amendment 2024



Ministry for the
Environment
Manatū Mo Te Taiao



Te Kāwanatanga o Aotearoa
New Zealand Government

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Introduction

The Climate Change Response Act 2002 (the Act) provides the framework by which New Zealand develops and implements clear and stable policies that contribute to global efforts to limit global average temperature increase, and allows New Zealand to prepare for, and adapt to the effects of climate change.

The framework sets New Zealand’s domestic long-term emissions reductions targets to 2050, and provides for a series of interim targets, or 5-year emissions budgets, to be set as ‘stepping stones’ towards the 2050 target.

For each emissions budget period, the Act requires that there is an emissions reduction plan in place that sets out the policies and strategies to meet the emissions budget. The focus for the first emissions reduction plan (published in May 2022) is meeting the first emissions budget (2022-2025). The Act also provides for those plans to be amended during the emissions budget period to maintain their currency.

This document is the 2024 amendment to New Zealand’s first emissions reduction plan. It is designed to be read in conjunction with the original plan, and the associated Table of Actions.

New Zealand’s climate change targets and emissions budgets

New Zealand has legislated domestic emission reduction targets under the Act:

- reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050
- reduce emissions of biogenic methane to 24–47 per cent below 2017 levels by 2050, including to 10 per cent below 2017 levels by 2030.

An emissions budget is a total quantity of net emissions that is allowed to be released during an emissions budget period (expressed in megatonnes of carbon dioxide equivalent (Mt CO₂e)). Table 1 sets out New Zealand’s first three emissions budgets.

Table 1: New Zealand’s first three emissions budgets

Budget period	2022–25	2026–30	2031–35
All gases, net (AR5)	290 Mt CO ₂ e	305 Mt CO ₂ e	240 Mt CO ₂ e
Annual average	72.5 Mt CO ₂ e	61 Mt CO ₂ e	48 Mt CO ₂ e

The focus for the first emissions reduction plan is meeting the first emissions budget, which is 290Mt CO₂e. The Government is also focused on ensuring New Zealand is well positioned to meet future emissions budgets.

The Government is committed to meeting our domestic climate change targets and emissions budgets. In April 2024, the Government reinforced this commitment in one of the Prime Minister’s public service targets – Target 9:

On track to meet New Zealand's 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025 and 305 megatonnes from 2026 to 2030.



What is a tonne of emissions?

One tonne of carbon dioxide equivalent (CO₂-e) is 1,000 kg of emissions. One megatonne (Mt) is 1 million tonnes of emissions. For scale: one tonne of emissions is roughly equivalent to nine trips from Auckland to Wellington in the average car (total of 5,847kms). One Mt would be this multiplied by one million.

In July 2024, the Government launched its Climate Strategy, an ambitious plan aimed at reducing the impacts of climate change and preparing for its future effects. Five pillars will inform our pathway to responding to a changing climate:



This Government's approach to delivering New Zealand's emissions reduction goals seeks to reduce net emissions at least cost using effective and efficient policies that do not negatively impact on the productivity of New Zealand's key industries. This approach will be technology-led and will rely on a credible emissions trading scheme, complemented by policies that reduce barriers to investment in emissions reductions and removals.

Our new approach to reduce net emissions

Since setting the first emissions budget in 2022, the context in which we are delivering the plan has evolved. We have also learned from the first two years of delivery and have adjusted the approach where it was needed.

In embedding the new approach to achieving our climate goals, several actions from the first emissions reduction plan have been discontinued because they do not align with the Government's approach. Some actions have been discontinued because they do not effectively contribute to our emissions budgets, and some actions were stopped by the previous administration. The list of discontinued actions can be found in Appendix 1.

The purpose of amending the first emissions reduction plan is to ensure it reflects this Government's approach to meeting the first emissions budget, and the necessary revisions to policies and actions that have been discontinued to better align with the government's Climate Strategy for the remainder of the first emissions budget period (to the end of 2025).

In amending the Plan, we have considered the Climate Change Commission’s advice for meeting the relevant emissions budget (*Ināia tonu nei: a low emissions future for Aotearoa* (2021)) as well as its recent report *Monitoring report: Emissions reduction* (2024), and consulted on the impacts of the new approach and amended plan for meeting that emissions budget¹. We will continue to take an agile approach to delivering the first emissions reduction plan and, where needed, changes will be made to ensure ongoing alignment with the Climate Strategy and to ensure the first emissions budget is met.

We are continuing to make progress towards our emissions budgets

ERP2 baseline projections (as at 29 October 2024) indicate, based on the central estimate, that we are projected to meet the first emissions budget (see Table 2 below). These projections also account for the policies and actions included in the second emissions reduction plan, developed to meet the second emissions budget period (2026-2030). [\[hyperlink to ERP2\]](#)

Table 2: ERP2 projections with new measures (net emissions) as at 29 October 2024

Emissions budgets limits	Final projections at 29 October 2024 including ERP2 policies (central estimate*)	Uncertainty for 29 October 2024 projections (central estimate)
First emissions budget 290 Mt CO ₂ -e	284.1 Mt CO ₂ -e	±7 Mt CO ₂ -e
Second emissions budget 305 Mt CO ₂ -e	302.7 Mt CO ₂ -e	±18 Mt CO ₂ -e
Third emissions budget 240 Mt CO ₂ -e	251.0 Mt CO ₂ -e	±33 Mt CO ₂ -e

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

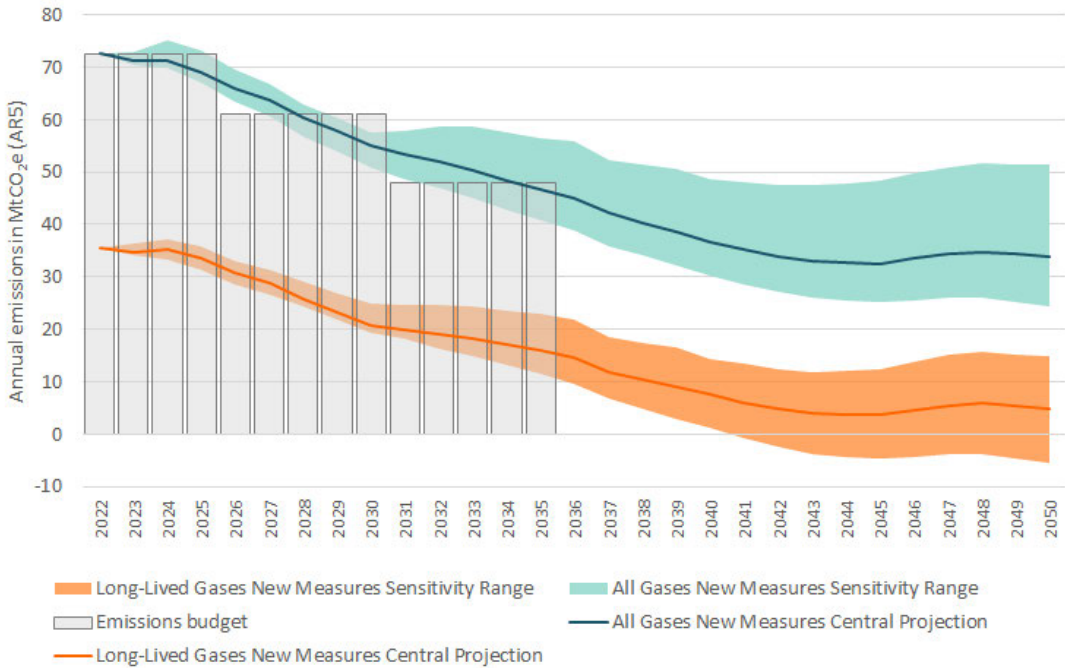
We use uncertainty ranges to represent a range of possible futures and provide Government with an assessment of confidence about our progress.² Based on the central estimate, the Government considers we are on track to meet the first emissions budget.

Figure 1 presents our projected emissions reduction pathway for the first three emissions budgets, based on final ERP2 projections. It shows that we are projected to meet the first and second emissions budget based on central estimates. The third emissions budget is within the projected range, but the central estimate is above the budget limit.

¹ Climate Change Response Act 2002 section 5Z(3)(a) provides that, when an amendment is undertaken, and that amendment is more than minor or technical, the same process as that of preparing an emissions reduction plan is followed.

² Our projections have shown us that they are impacted by three key factors: changes to underlying/external factors such as population growth and GDP, rainfall levels; methodological improvements such as the science and how emissions are measured; and policy design and implementation. External factors and methodological changes can drive substantive shifts in how we are tracking towards emissions budgets.

Figure 1: Final emissions projections and uncertainty range (2022–50) with new measures using target accounting



Because projections are based on assumptions made about the future, they become less accurate the further out the projections. Figure 1 shows we are currently not on track to achieve net zero by 2050. The Government is committed to reducing net emissions of all greenhouse gases (except biogenic methane) to zero by 2050 and this will be done through a series of emissions budgets and future emissions reduction plans.

The second emissions reduction plan (ERP2) includes confirmed policies and strategies for the second emissions budget (2026-2030) onwards.

Embedding our new approach

We are nearly three years into delivering New Zealand’s first emissions reduction plan. The Climate Change Chief Executive Board’s most recent monitoring of implementation progress as at 30 June 2024 shows implementation progress to date has been mixed. Of the 305 actions, more than half are either complete or actively being implemented, though a small number of actions (4 per cent, or 11 actions) have not yet started. Thirteen per cent of actions (41 actions) have been discontinued and are included in this amendment.

Completed actions include: implementing the Healthy Homes Standards, establishing the Centre for Climate Action on Agricultural Emissions, and implementing additional market mechanisms to accelerate the transition to a highly renewable energy system.

In delivering the first emissions reduction plan we have faced challenges that have informed this amendment and how we will continue to deliver the Plan going forward. In the early stages, supply chain constraints driven by Covid-19 and later, Cyclone Gabrielle and the Auckland flooding, caused delivery delays across several sectors. Worsening inflation and the cost-of-living crisis has meant some actions

have been paused or discontinued to ease cost pressure on households (e.g. the previous government cancelling the sustainable biofuels obligation in February 2023). These challenges have reinforced the need to reduce the number of policies the Government is implementing and to prioritise those that deliver cost-effective abatement.

We are continuing to deliver the amended first emissions reduction plan through a set of cross-cutting and sector-specific work programmes. The areas with the greatest shift in approach are Transport (chapter 10), Equitable Transition (chapter 3), Emissions Pricing (chapter 5), and Energy (chapter 11). Implementing the new approach for the remainder of the first emissions budget will see a renewed emphasis on action to enable renewable energy investment and development, universal support mechanisms to mitigate the impact of the transition on individuals and households, and work to recognise more sources of removals for EB2 and future budgets.

Embedding the climate strategy in future emissions budgets and getting started with ERP2 actions

The Government's revised approach will also be implemented through the second emissions reduction plan. As the second emissions reduction plan contains initiatives from the Government's manifesto commitments and Coalition Agreements, work is beginning on some of these in 2024/25 - ahead of the second emissions budget period formally commencing on 1 January 2026.

These include restoring confidence in the New Zealand Emissions Trading Scheme (NZ ETS), enabling electrification through *Electrify NZ* commitments, enabling carbon capture utilisation and storage, enabling a network of 10,000 public EV charge points, and enabling technology research and development to reduce agricultural emissions.

How to read the amended plan

This document is designed to be read in conjunction with the original first emissions reduction plan and the associated Table of Actions, which can be found on the Ministry for the Environment website.³ More detailed information about the actions that have been removed from the first emissions reduction plan is provided in Appendix 1.

³ Aotearoa New Zealand's first emissions reduction plan (environment.govt.nz)
Aotearoa New Zealand's first emissions reduction plan: Table of actions (environment.govt.nz)

Appendix 1: Table of ERP1 removed actions

Below are the actions being removed from the first emissions reduction plan, organised by chapter.

Equitable transition (Chapter 3)

Actions for delivery	Lead
3.2.1 Develop an equitable transition strategy.	MBIE/MSD
3.2.2b Support regions and industries to manage the transition.	MBIE/MSD
3.2.3 Implement the Just Transition Partnerships Programme.	MBIE
3.3.1 Develop an income insurance scheme.	Government, BusinessNZ, New Zealand Council of Trade Unions

Emissions pricing (Chapter 5)

Actions for delivery	Lead
5.2.1 Adjust the NZ ETS to drive a balance of gross and net emissions reductions.	MfE
5.2.3 Assess how the NZ ETS can support indigenous biodiversity.	MfE

Funding and finance (Chapter 6)

Actions for delivery	Lead
6.1 Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process.	TSY

Planning and infrastructure (Chapter 7)

Actions for delivery	Lead (support)
7.5 Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.	Kāinga Ora (HUD, Waka Kotahi, MOT, MfE, Te Waihangā)

Research, science, innovation and technology (Chapter 8)

Actions for delivery	Lead
8.1.1 Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.	Cross government

Actions for delivery	Lead
8.2 Te Ara Paerangi Future Pathways science-system reform programme.	MBIE

Circular economy and bioeconomy (Chapter 9)

Actions for delivery	Lead (support)
9.1 Commence a Circular Economy and Bioeconomy Strategy.	MBIE
9.4 Support businesses moving to circular economy models.	MBIE

Transport (Chapter 10)

Actions for delivery	Lead
10.1.1.6 Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	MOT
10.1.2 Set sub-national VKT reduction targets for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) by the end of 2022.	MOT
10.1.2 Revise Waka Kotahi's national mode shift plan (Keeping Cities Moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode shift required in urban areas.	Waka Kotahi
10.1.2 Develop VKT reduction programmes for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives.	Waka Kotahi/local government
10.1.2 Support initiatives to increase the uptake of e-bikes.	MOT
10.1.4 Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	MOT
10.2.1 Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024.	MOT/Waka Kotahi
10.2.1 Establish whether the Clean Vehicle Discount can be extended to other vehicle classes.	MOT
10.2.2 Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.	MOT
10.2.2 Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.	MOT
10.2.2 Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.	MOT
10.3.5 Implement the Sustainable Biofuels Obligation, which requires liable fuel suppliers to reduce the total emissions of the fuels they supply by a set percentage each year through the deployment of biofuels (in blended or neat form).	MOT/MBIE
10.4.1 Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan.	MOT

Energy and industry (Chapter 11)

Actions for delivery	Lead
11.1.1 Provide rebates for energy efficient equipment.	MBIE/EECA
11.2.2 Investigate options for dry-year electricity storage through the New Zealand Battery Project.	MBIE
11.2.2 Ban new fossil-fuel baseload generation.	MBIE
11.3.1 Develop a gas transition plan.	MBIE
11.4.1 Set an action plan for decarbonising the industrial sector.	MBIE
11.4.1 Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.	MBIE/EECA
11.4.1 Fund further decarbonisation of industry and heat through expansion of the GIDI.	MBIE/EECA
11.4.1 Provide grant funding for commercial space and water heating and high efficiency electrical equipment.	MBIE/EECA
11.4.1 Finalise and implement the Advanced Manufacturing Industry Transformation Plan.	MBIE
11.4.1 Develop a mandatory energy and emissions reporting scheme.	MBIE
11.5.1 Monitor progress towards the aspirational renewable electricity target.	MBIE

Agriculture (Chapter 13)

Actions for delivery	Lead
13.1.1 An emissions pricing mechanism is developed, and agricultural emissions are priced by 1 January 2025.	MPI
13.1.2 All producers will have emissions reports by the end of 2022 and a farm plan in place by 2025.	MPI
13.3.1 Develop further climate-focussed extension and advisory services.	MPI

Forestry (Chapter 14)

Actions for delivery	Lead (support)
14.1.1a Ensure regulatory settings deliver the right type and scale of forests, in the right place.	MPI (MfE)
14.4.1 Develop forestry and wood processing industry transformation plan (ITP).	MPI



Briefing: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Material to support the Third Reading

Date submitted: 11 November 2024

Tracking number: BRF-5589

Sub Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Forward a copy of this briefing to the Minister of Agriculture. Forward a copy of this briefing to the delegated Member who will present the Third Reading of the Bill.	12 November 2024

Actions for Minister's office staff
<p>Forward this briefing to:</p> <ul style="list-style-type: none"> the Minister of Agriculture, and the delegated Member who will present the Third Reading of the Bill. <p>Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).</p>

Appendices and attachments
<ol style="list-style-type: none"> Appendix 1: Draft Third Reading Speech. Appendix 2: Draft Third Legislative Statement.

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Amy Norrish		
Responsible Manager	Cheryl Moir	9(2)(a)	

Appendix 2 is refused in full under section 18(d) of the Act as it is already publicly available at: https://www.nzlii.org/nz/legis/bill_ls/crtsaoabtrls1094/

Minister's comments

Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Material to support the Third Reading

Purpose

1. This briefing provides you with material to support the Third Reading on the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill and sets out next steps to progress the Bill.
2. In preparation for the Third Reading scheduled for the sitting week commencing 12 November 2024, we have attached:
 - a. **Appendix 1:** draft Third Reading Speech, and
 - b. **Appendix 2:** draft Third Legislative Statement.

Background

3. The purpose of this Bill is to remove agriculture from the New Zealand Emissions Trading Scheme (NZ ETS).
4. The Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill (the Bill) was:
 - i considered by the Primary Production Committee (the Committee) from 1 July – 24 October 2024, during which public submissions on the Bill were provided.
 - ii read a second time by the Committee on 5 November 2024, and
 - iii debated and reported without amendment by the Committee of the whole House on 7 November 2024.

Next steps

5. The final steps for progressing the Bill to law requires a Third Reading and Royal Assent.
6. We understand that the Third Reading is likely to occur the sitting week beginning 12 November 2024.
7. After the Third Reading, the Office of the Clerk will prepare the Bill for Royal Assent, which is generally given by the Governor-General within 7 days after the Third Reading.
8. The Bill needs to be passed by the end of this year to prevent surrender obligations for agricultural activities taking effect (currently legislated for 1 January 2025) and ensure

that agriculture is removed from the NZ ETS in accordance with priority 11 in the Government's quarterly plan.

9. Officials will continue to update the Environmental Protection Authority on the progression of the Bill so they can remove agricultural participants from the register of the NZ ETS once the Bill is passed.
10. We understand you are likely to delegate the Third Reading to a ministerial colleague, as you will be overseas. We have provided a draft Third Reading Speech and draft Third Legislative Statement to support you/your delegate at the Third Reading stage, see **Appendices 1 and 2**.
11. Officials are available to pre-brief your delegate, as required.

Recommendations

12. It is recommended that you:

- a. **Forward** a copy of this briefing to the Minister of Agriculture

YES / NO

- b. **Forward** a copy of this briefing to the delegated Member who will present the Third Reading of the Bill.

YES / NO

Signatures



Cheryl Moir
Manager, Land Use and Removals
 11/11/2024

Hon Simon WATTS
Minister of Climate Change
[Date]

Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill – Third Reading Speech

Mr Speaker, I move that the *Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill* (the Bill) is read a third time.

Mr Speaker, the Bill amends the Climate Change Response Act 2002 to remove agricultural activities from the New Zealand Emissions Trading Scheme, which is a crucial step in our plan to introduce a fit for purpose agriculture emissions pricing system by 2030, without sending jobs and production overseas.

The Bill signals a repeal and replace of policy related to the pricing of agricultural emissions. It will repeal the existing requirement of agricultural to join the NZ ETS, to pave the way for us to replace it with a fair and sustainable pricing system outside of the NZ ETS by 2030 that will not send production or jobs offshore.

The status quo is not fit-for-purpose

The current legislation requires agricultural processors to pay for fertiliser and livestock emissions from 1 January 2025, and for farm-level reporting to commence in 2026 followed by payment for those emissions in 2027. This would result in additional administrative, implementation, and compliance costs to our domestic agricultural sector. It would have a negative impact on both farm production and farm revenue, with disproportionate adverse impacts on small farmers. Processor level pricing in the NZ ETS is likely to be passed down to farmers regardless of their emission efficiency rates.

Farm level pricing in the NZ ETS, significantly increases the number of participants in the system (we estimate this could be around 100,000 animal farmers) which is likely to disrupt the operation of the scheme.

We need a pricing system that will support our farmers to reduce their emissions

The food and fibre sector is the backbone of New Zealand's economy. The sector is our top export earner contributing to 10.5 per cent of GDP, 13 per cent of employment and close to 82 per cent of goods exports. Food and fibre export revenue is expected to reach \$54.6 billion this year and will hit a record \$66.6 billion in 2028. We know that our farmers are world leaders in producing carbon-efficient products. We also know that climate change policies that reduce our agricultural production will not benefit global emissions if this gap is filled by other countries that are less emissions efficient than us.

We know we need to reduce agricultural emissions, and we have committed to meeting our Net Zero target for 2050. Globally, we are seeing trends and consumer expectations change, and for those customers that want low emissions products, it's imperative we deliver.

Mr Speaker, we need to work with the agriculture sector and not against it in reducing our agricultural emissions.

That is why we have a dual focus of ensuring that New Zealand's agricultural sector is able to meet our climate change goals and is supported to continue to be up among the world leaders in producing carbon-efficient agricultural products. We will do this by making sure the settings are right, working closely with the sector to find solutions to reduce agricultural emissions and backing and trusting our farmers to be world leaders in producing carbon-efficient agricultural products.

The Coalition Government has a Climate Strategy

In July this year, the coalition Government launched its Climate Strategy, a comprehensive and ambitious plan aimed at reducing the impacts of climate change and preparing for its future effects. The Climate Strategy is built on five core pillars, the fourth pillar being 'having world-leading climate innovation that boosts the economy'.

The fourth pillar means that this coalition Government is taking a tools and technology approach

Mr speaker, the coalition Government is placing real priority on developing tools and technologies that work for New Zealand's pasture-based systems. You will see more on this in Emissions Reduction Plan 2.

Technology will play a big part in ensuring that our farmers continue to be the most carbon-efficient producers of high-quality food and fibre – and we believe it is critical that mitigations are available ahead of pricing. We do not want to drive production offshore or undermine our productivity. This is why the Government, in partnership with industry, has committed \$400 million over the next four years to accelerate the commercialisation of tools and technology to reduce on-farm emissions, and to get these tools into farmers' hands faster.

Our plan also includes establishing fit for purpose regulatory pathways for mitigation technologies; and developing measurement of on-farm emissions for use by 2025. Development of the standardised farm level methodology will be key to understanding differences at the farm level. It will provide a consistent foundation to inform farmers' decisions to invest in emissions-reducing technologies and approaches, and will support consistency and confidence in emissions reporting.

These initiatives will play a big part in ensuring that our farmers continue to be the most carbon-efficient producers of high-quality food and fibre.

Delaying the start of a pricing system also provides time for the independent review of the biogenic methane science and New Zealand's 2050 target. This Government is committed to supporting farmers to sustainably reduce agricultural emissions, and we will ensure that the agriculture sector's contribution to the 2050 target is fair and appropriate compared to other parts of the economy.

There has been some reference in this House that this Bill will impact our ability to understand New Zealand's agricultural greenhouse gas emissions. This is not the case. The removal of processor reporting obligations, which aren't sophisticated enough to discern between more and less efficient farmers, will not affect the ability of the Government to report agricultural emissions. New Zealand's official estimates of agricultural emissions don't use this data, and instead use input data from several sources, chiefly Statistics New Zealand but also; DairyNZ, Livestock Improvement Corporation, and Beef+Lamb NZ. The processor reporting obligations that the Bill removes, which are over ten years old, are entirely separate from our inventory reporting.

New Zealand will remain on track to meet our emissions targets

While we develop a new fair and sustainable pricing system and support the development of on-farm emission mitigation options, we will ensure New Zealand remains on track to meet its emissions reduction targets. The Second Emissions Reduction Plan, which outlines how New Zealand will meet emissions budget two and puts us on track to 2050, accounts for taking agriculture out of the New Zealand Emissions Trading Scheme. This plan will be published by the end of this year, and future emissions reduction plans will outline the policies and strategies New Zealand will take to meet future emissions budgets.

In summary, this Bill is the first step to ensuring a stable and profitable future for our agricultural sector – which plays a significant economic role for this country. I look forward to working collaboratively with the sector, iwi Māori and New Zealanders on a fair and sustainable pricing system for agricultural emissions for the future.

Accordingly, I commend this Bill to the House.

ENDS



Briefing: ERP2 – finalising the plan

Date submitted: 4 December 2024

Sub Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Confirm you are satisfied that the appended second emissions reduction plan meets your statutory requirements under the CCRA. Approve the plan for publication. Approve the publication of the amendment to the first emissions reduction plan.	4 December 2024

Actions for Minister's office staff
Ensure that the Minister is aware of the request to sign each of the Gazette notices in Appendix 1. Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments
1. Appendix 1: Gazette notices
2. Appendix 2: Final draft (ERP2) - Our journey towards net zero New Zealand's second emissions reduction plan 2026–2030 Out of scope
3. Appendix 3: Final draft (technical annex) - Our journey towards net zero New Zealand's second emissions reduction plan 2026–2030: Technical annex Out of scope
4. Appendix 4: Final draft (At a Glance) - Our journey towards net zero New Zealand's second emissions reduction plan 2026–2030: At a glance Out of scope
5. Appendix 5: Final draft – New Zealand's first emissions reduction plan: Amendment

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Freya Farrar		
Responsible Manager	Stephen Goodman	9(2)(a)	X
General Manager	Hemi Smiler		

Minister's comments

New Zealand's first emissions reduction plan: Amendment 2024



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Introduction

The Government is committed to meeting New Zealand’s climate change targets to reduce the impacts of climate change and prepare for its future impacts.

This year we launched a new climate change strategy, which, to achieve New Zealand’s emissions reduction goals, takes a cost-effective,¹ net-based approach that uses effective and efficient policies.

We have prioritised climate change within the nine government targets that have been set for the public sector to achieve.

We have changed the settings of the New Zealand Emissions Trading Scheme (NZ ETS) that will ensure New Zealand has a more credible market. The Government has committed to aligning the NZ ETS with New Zealand’s climate targets and giving participants confidence their investments to reduce emissions will be rewarded.

In embedding this Government’s approach, we have taken decisions to discontinue some programmes and start others to ensure our effort is focused on delivering our climate strategy, including the actions and policies that will deliver cost-effective emissions reductions for New Zealand. The previous government also discontinued a number of policies in 2023 as part of its focus to ‘get back to basics’.

This approach will deliver results for New Zealand. Based on the central estimate (the most likely outcome based on our current understanding), current net emissions projections indicate we are on track to meet the first emissions budget.

Published in May 2022, New Zealand’s first emissions reduction plan sets out the policies and actions to meet the first emissions budget for the period 2022–25. We have updated this plan to ensure it reflects this Government’s approach to meeting the first emissions budget in the most cost-effective way. This approach will be further embedded through the implementation of the second emissions reduction plan – our plan to meet the second emissions budget for the period 2026–30.

This document is the 2024 amendment to [New Zealand’s first emissions reduction plan](#). It is designed to be read in conjunction with the original plan, the associated [table of actions](#) and the [Government’s climate strategy](#).

¹ ‘Cost-effective’ refers to minimising the overall cost to the nation of reducing emissions and shifting to net zero by 2050. The costs considered include those associated with businesses and households investing in gross emissions reduction, fiscal costs to the Government, and the wider costs or benefits from changes to the things people value, such as clean air.

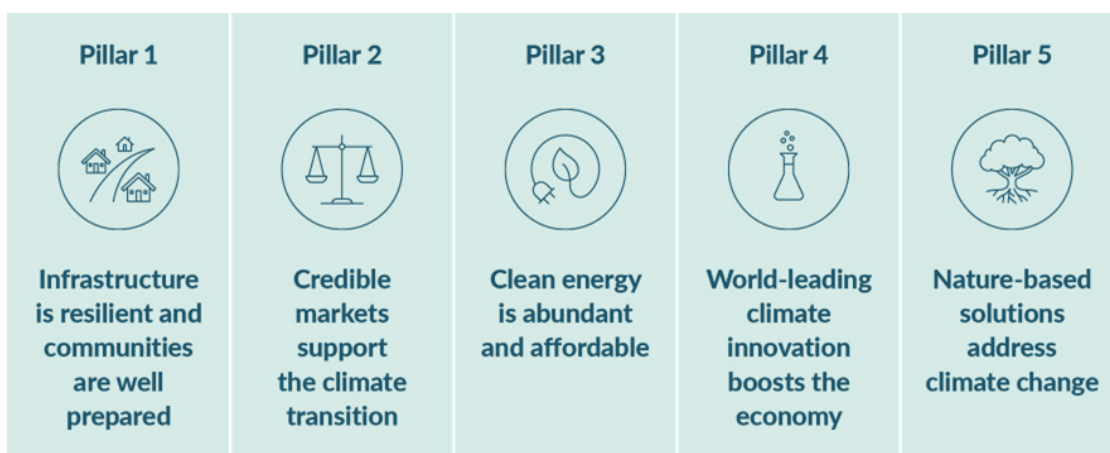
We are on track to meet our first two emissions budgets

The Government is committed to meeting our domestic climate change targets and emissions budgets, outlined in appendix 2. In April 2024, the Government reinforced its commitment in one of the Prime Minister’s nine public service targets.

Target 9: On track to meet New Zealand’s 2050 net zero climate change targets with total net emissions of no more than 290 megatonnes from 2022 to 2025 and 305 megatonnes from 2026 to 2030.

In July 2024, the Government launched its climate strategy,² an ambitious plan aimed at reducing the impacts of climate change and preparing for its future effects. The strategy has five pillars, which represent our goals for reducing emissions and managing the impacts of climate change (figure 1).

Figure 1: The five pillars of New Zealand’s Climate Strategy



The Government wants to achieve cost-effective emissions reductions. This means incentivising Government, businesses and households to take actions that have the greatest impact on net emissions for a given investment in reductions or removals. This is being achieved by using effective and efficient policies that do not negatively impact on the productivity of New Zealand’s key industries.

This approach is technology-led. It relies on a credible emissions trading scheme, complemented by policies that reduce barriers to investment in emissions reductions and removals.

We are nearly three years into delivering New Zealand’s first emissions reduction plan. New Zealand has faced challenges that have informed how we will continue to deliver the plan going forward. In the early stages, supply chain constraints driven by COVID-19 and later, Cyclone Gabrielle and the Auckland flooding, caused delivery delays across several sectors. Worsening inflation and the cost-of-living crisis have meant some actions have been paused or discontinued to ease cost pressure on households (eg, the previous government cancelling the sustainable biofuels obligation in February 2023).

² [The Government’s climate strategy | Ministry for the Environment](#)

These challenges have reinforced the need to prioritise actions that deliver cost-effective emissions reductions in line with our approach. This amendment updates the first emissions reduction plan to ensure we are focused on the actions that will minimise the cost-of-living impacts of climate change policies and increase the likelihood of successful delivery of targets and budgets.

We have chosen not to directly intervene or subsidise interventions the market can provide. This has seen this Government stop a number of existing programmes, while some actions were stopped by the previous administration (35 and 6 actions, respectively). The list of discontinued actions can be found in appendix 1.

We have also started work on new actions as outlined in this Government’s coalition agreements. These and additional new actions, are included in the [second emissions reduction plan](#).

Implementing the new approach for the final year of the first emissions budget period will see:

- a renewed emphasis on action to enable renewable energy investment and development
- universal support mechanisms to mitigate the impact of the transition on individuals and households
- work to recognise more sources of removals for the second emissions budget and future budgets.

Our approach is delivering results

This Government’s approach to reducing net emissions will keep the country on track to meet the first emissions budget. Based on the central estimate,³ current emissions’ projections indicate we are projected to meet the first emissions budget (see table 1).

These projections account for the impact, where quantifiable, of discontinuing actions in the first emissions reduction plan, expressed in megatonnes of carbon dioxide equivalent (Mt CO₂-e).⁴

Table 1: Net emissions projections with new measures (net emissions in Mt CO₂-e)

Emissions budgets limits	Projections including ERP2 policies (central estimate)	Uncertainty for projections (central estimate)
First emissions budget 290 Mt CO ₂ -e	284.1	±7
Second emissions budget 305 Mt CO ₂ -e	303.1	±17
Third emissions budget 240 Mt CO ₂ -e	249.2	±33

³ ‘Central estimate’ refers to the value believed to be most likely, based on a spectrum of emissions scenarios.

⁴ One tonne of carbon dioxide equivalent is 1,000 kg of emissions. One megatonne is 1 million tonnes of emissions. For scale: one tonne of emissions is roughly equal to nine trips from Auckland to Wellington in the average car (total of 5,847 km). One megatonne is this multiplied by one million.

Uncertainty ranges are used to represent a range of possible futures and provide government with an assessment of confidence about our progress.⁵

We will continue to take an agile approach to delivering the first emissions reduction plan and, where needed, make changes to ensure the plan's ongoing alignment with the Government's climate strategy as well as its ability to meet the first emissions budget. We will know whether we have managed to stay within the first emissions budget in 2027, when official data for the period becomes available.

Getting started with the second emissions reduction plan

The Government is also focused on ensuring New Zealand is well positioned to meet future emissions budgets. Its revised approach will also be implemented through the second emissions reduction plan, developed to achieve the second emissions budget (2026–2030).

As the [second emissions reduction plan](#) contains initiatives from the Government's manifesto commitments and coalition agreements, work is beginning on some of these in 2024 and 2025 – before the second emissions budget period formally begins on 1 January 2026.

These initiatives include restoring confidence in the NZ ETS and enabling:

- electrification through *Electrify NZ* commitments to support private investment in electricity generation and networks
- carbon capture utilisation and storage
- a network of 10,000 public EV charging points
- technology research and development to reduce agricultural emissions.

The emissions projections (table 1 and figure 2) account for the policies and actions included in the second emissions reduction plan. Any longer-term abatement impact from the stopped actions has been considered in developing that plan.

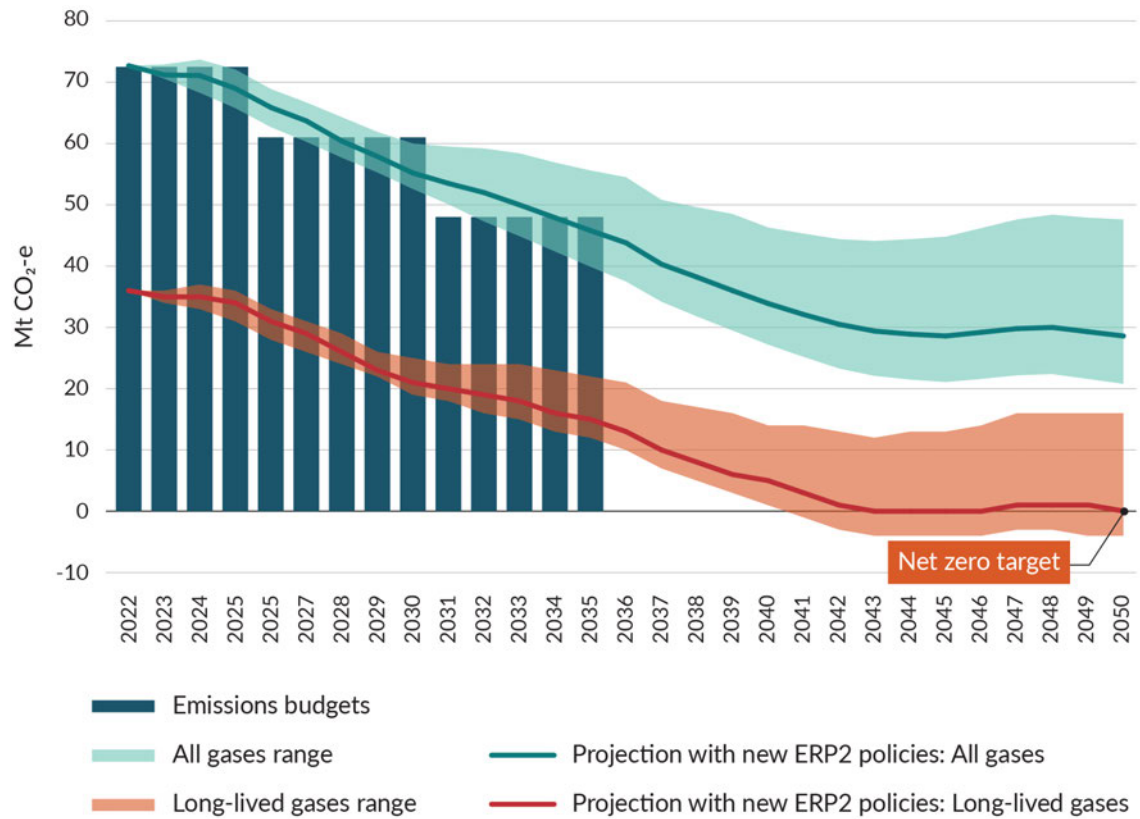
Modelling shows New Zealand is projected to meet the first and second emissions budget based on central estimates. The modelling shows New Zealand is above the limit for the third emissions budget, however, the amount above the limit has reduced significantly since the July 2024 interim emissions projections (now projected to be 9.2 Mt over budget, compared to 17 Mt over in July).⁶ The modeling also shows New Zealand is on track to reach net zero emissions by 2050.

Figure 2 shows our progress towards the first three emissions budgets and net zero by 2050 based on current modelling.

⁵ Our projections are impacted by three key factors: changes to underlying and/or external factors such as population growth and GDP, and rainfall levels; methodological improvements such as the science and how emissions are measured; and policy design and implementation. External factors and methodological changes can drive substantive shifts in how we are tracking towards emissions budgets.

⁶ Ministry for the Environment. 2025. [New Zealand's second emissions plan: 2026–30](#). Wellington: Ministry for the Environment.

Figure 2: Emissions projections with new measures and sensitivity range (Mt CO₂-e), 2022-2050



Because projections are based on assumptions made about the future, they become less accurate the further out they go. Much can change between now and 2050. The Government is committed to meeting New Zealand’s long-term targets. This will be done through a series of emissions budgets and future emissions reduction plans.

How to read the amended plan

This document is designed to be read alongside the original first emissions reduction plan, the associated table of actions, and the Government's climate strategy. These can be found on the Ministry for the Environment website.⁷

In amending the plan, we have considered the Climate Change Commission's advice for meeting the relevant emissions budget (*Ināia tonu nei: a low emissions future for Aotearoa* (2021)) as well as its recent report *Monitoring report: Emissions reduction* (2024). The public were consulted on the impacts of the new approach and the amended plan for meeting that emissions budget.⁸

We are continuing to deliver the amended first emissions reduction plan through a set of cross-cutting and sector-specific work programmes. The areas with the greatest shift in approach are equitable transition (chapter 3), emissions pricing (chapter 5), transport (chapter 10) and energy (chapter 11).

Appendix 1 provides details on the actions that have been discontinued from the first emissions reduction plan.

⁷ [Aotearoa New Zealand's first emissions reduction plan \(environment.govt.nz\)](https://environment.govt.nz)

[Aotearoa New Zealand's first emissions reduction plan: Table of actions \(environment.govt.nz\)](https://environment.govt.nz)

[The Government's climate strategy | Ministry for the Environment](#)

⁸ Climate Change Response Act 2002 section 5ZI(3)(a) provides that, when an amendment is undertaken, and that amendment is more than minor or technical, the same process as that of preparing an emissions reduction plan is followed.

Appendix 1: Table of discontinued actions

Below are the discontinued actions being removed from the first emissions reduction plan, organised by chapter.

Equitable transition (Chapter 3)

Actions for delivery	Lead
3.2.1 Develop an equitable transition strategy.	MBIE/MSD
3.2.2b Support regions and industries to manage the transition.	MBIE/MSD
3.2.3 Implement the Just Transition Partnerships Programme.	MBIE
3.3.1 Develop an income insurance scheme.	Government, BusinessNZ, New Zealand Council of Trade Unions

Emissions pricing (Chapter 5)

Actions for delivery	Lead
5.2.1 Adjust the NZ ETS to drive a balance of gross and net emissions reductions.	MfE
5.2.3 Assess how the NZ ETS can support indigenous biodiversity.	MfE

Funding and finance (Chapter 6)

Actions for delivery	Lead
6.1 Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process.	TSY

Planning and infrastructure (Chapter 7)

Actions for delivery	Lead (support)
7.5 Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.	Kāinga Ora (HUD, Waka Kotahi, MOT, MfE, Te Waihangā)

Research, science, innovation and technology (Chapter 8)

Actions for delivery	Lead
8.1.1 Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective and innovative initiatives.	Cross government
8.2 Te Ara Paerangi Future Pathways science-system reform programme.	MBIE

Circular economy and bioeconomy (Chapter 9)

Actions for delivery		Lead (support)
9.1	Commence a Circular Economy and Bioeconomy Strategy.	MBIE
9.4	Support businesses moving to circular economy models.	MBIE

Transport (Chapter 10)

Actions for delivery		Lead
10.1.1.6	Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	MOT
10.1.2	Set sub-national vehicle kilometres travelled, or VKT, reduction targets for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) by the end of 2022.	MOT
10.1.2	Revise Waka Kotahi's national mode shift plan (Keeping Cities Moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode shift required in urban areas.	Waka Kotahi
10.1.2	Develop VKT reduction programmes for Aotearoa New Zealand's major urban areas (Tiers 1 and 2) in partnership with local government, Māori and community representatives.	Waka Kotahi/local government
10.1.2	Support initiatives to increase the uptake of e-bikes.	MOT
10.1.4	Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	MOT
10.2.1	Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024.	MOT/Waka Kotahi
10.2.1	Establish whether the Clean Vehicle Discount can be extended to other vehicle classes.	MOT
10.2.2	Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.	MOT
10.2.2	Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.	MOT
10.2.2	Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.	MOT
10.3.5	Implement the Sustainable Biofuels Obligation, which requires liable fuel suppliers to reduce the total emissions of the fuels they supply by a set percentage each year through the deployment of biofuels (in blended or neat form).	MOT/MBIE
10.4.1	Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan.	MOT

Energy and industry (Chapter 11)

Actions for delivery	Lead
11.1.1 Provide rebates for energy efficient equipment.	MBIE/EECA
11.2.2 Investigate options for dry-year electricity storage through the New Zealand Battery Project.	MBIE
11.2.2 Ban new fossil-fuel baseload generation.	MBIE
11.3.1 Develop a gas transition plan.	MBIE
11.4.1 Set an action plan for decarbonising the industrial sector.	MBIE
11.4.1 Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.	MBIE/EECA
11.4.1 Fund further decarbonisation of industry and heat through expansion of the GIDI.	MBIE/EECA
11.4.1 Provide grant funding for commercial space and water heating and high efficiency electrical equipment.	MBIE/EECA
11.4.1 Finalise and implement the Advanced Manufacturing Industry Transformation Plan.	MBIE
11.4.1 Develop a mandatory energy and emissions reporting scheme.	MBIE
11.5.1 Monitor progress towards the aspirational renewable electricity target.	MBIE

Agriculture (Chapter 13)

Actions for delivery	Lead
13.1.1 An emissions pricing mechanism is developed, and agricultural emissions are priced by 1 January 2025.	MPI
13.1.2 All producers will have emissions reports by the end of 2022 and a farm plan in place by 2025.	MPI
13.3.1 Develop further climate-focused extension and advisory services.	MPI

Forestry (Chapter 14)

Actions for delivery	Lead (support)
14.1.1a Ensure regulatory settings deliver the right type and scale of forests, in the right place.	MPI (MfE)
14.4.1 Develop forestry and wood processing industry transformation plan (ITP).	MPI

Appendix 2: New Zealand’s domestic climate change framework

The Climate Change Response Act 2002 (the Act) provides the framework by which New Zealand develops and implements clear and stable policies that contribute to global efforts to limit the increase in global average temperatures. The framework also provides for how New Zealand can prepare for, and adapt to, the effects of climate change.

The Act sets New Zealand’s domestic long-term emissions reductions targets to 2050:

- reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050
- reduce emissions of biogenic methane to 24–47 per cent below 2017 levels by 2050, including to 10 per cent below 2017 levels by 2030.

The framework then provides for a series of interim targets, or five-year emissions budgets, to be set as ‘stepping stones’ towards the 2050 target. Table 2 sets out New Zealand’s first three emissions budgets, as stepping stones towards the 2050 target (expressed in megatonnes of carbon dioxide equivalent (Mt CO₂-e)).

Table 2: New Zealand’s first three emissions budgets (Mt CO₂-e)

Budget period	2022–25	2026–30	2031–35
All gases, net (AR5)	290	305	240
Annual average	72.5	61	48

For each emissions budget period, the Act requires an emissions reduction plan to be in place setting out the policies and strategies to meet the emissions budget. The Act provides for those plans to be amended during the emissions budget period to maintain their currency.

The first emissions reduction plan was published in May 2022. It focuses on meeting the first emissions budget that limits net emissions to 290 Mt CO₂-e for the period 2022 to 2025.

BRF-5690: Aide Memoire – Environment Committee inquiry into the Government’s response to the CCC emissions monitoring report

To Hon Simon Watts, Minister of Climate Change

From Jane White, Acting Executive Director, Climate Change Chief Executives Board Unit

ate 9 December 2024

Subject **Environment Committee inquiry into the Government's response to the CCC emissions reduction monitoring report**

Purpose

1. This briefing provides material to support your attendance at the Environment Committee inquiry into the Government’s response to the Climate Change Commission’s (the Commission’s) emissions reduction monitoring report (ERM report).¹

Hearing details

2. The Environment Committee has opened an inquiry into the Government’s response to the Commission’s first annual ERM report, consistent with its inclusion in Appendix E of the Parliament Standing Orders.
3. You have been invited to attend the Environment Committee hearing on Thursday 12 December, from 8-9am. It will likely take place in meeting room SCR 1, Bowen House. Hemi Smiler (General Manager, Mitigation Policy) and Jane White (Acting Executive Director, CCIEB Unit) will attend with you.
4. The hearing of evidence will be a combined one-hour slot with yourself, the Commission and the Parliamentary Commissioner for the Environment (PCE). This paper provides material for your opening address (Appendix 1), material to respond to possible lines of inquiry from Committee members (Appendix 2), and additional supporting material which covers a broader range of topics (Appendix 3).
5. The Commission briefed the Environment Committee in early November about the findings of its monitoring reports on the first emissions reduction plan and national adaptation plan. Questions at that hearing focused strongly on the underlying science and impacts of different greenhouse gases.
6. The Environment Committee has also requested evidence from several agencies to inform the inquiry. These include MfE, MOT/NZTA, the Treasury, and MBIE. Responses provided by agencies have informed the material in Appendices 2 and 3.

¹ [Government response to the Climate Change Commission: Monitoring report: Emissions reduction 2024 | Ministry for the Environment](#)

Background

7. On 10 July 2024 you published the Government's Climate Strategy, setting out a refreshed approach to meeting New Zealand's climate goals and targets based around five core pillars.
8. You received the Commission's first emissions monitoring report on 16 July 2024. You tabled the response in the House of Representatives and published the response on 16 October 2024.² Talking points were provided to support the Cabinet discussion for its release [BRF-5452]. The Commission focused on four key findings:
 - i. Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.*
 - ii. Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.*
 - iii. There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.*
 - iv. Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.*
9. The Government's response was not a line-by-line response to the Commission's report. Instead, it focused on the Government's climate strategy, and emphasised:
 - i. New Zealand is on track to meet the first emissions budget but with reduced headroom
 - ii. The Government is taking a different, market-led, net-based approach to reducing emissions, focused on the ETS
 - iii. The Government is proceeding with significant changes to climate change policy, including removing 41 actions from the first ERP, delaying agricultural emissions pricing until 2030, and focusing on a technology-led approach to reducing agricultural emissions
 - iv. The Government's main approach to managing the risks identified by the Commission would be via ETS settings and delivery of the second emissions reduction plan (ERP).
10. Due to its timing, the Commission's assessment was informed by using its 2022 demonstration path³ as a benchmark for progress, and the 2024 GHG inventory and climate data publicly available up to April 2024. The Government's response made use of the more

² Climate Change Response Act 2002, section 5ZK(4) requires the response to be published within 3 months.

³ The demonstration path reflects judgements by the Commission about a durable path to the 2050 target consistent with the areas required to be considered under the Act. It was initially developed to inform the Commission's ERP1 advice in 2021, then was undated in 2022 using AR5 data.

recent July interim emissions projections included in the discussion document on the second emissions reduction plan (ERP2).

11. The Commission has recently presented you with its latest advice on its review of the 2050 target, and on setting and reviewing emissions budgets. You have 12 months to respond to that advice. If the Committee raise these reports we recommend you note they are still subject to decisions and that it wouldn't be appropriate to comment at this time.
12. The PCE doesn't appear to have provided specific commentary on the ERM report or response directly. However, the PCE provided letters, submissions and reports over the past year on many issues relevant to the findings of the ERM report. For example:
 - letters to the Methane Review Ministerial Advisory Panel, and to the Minister of Transport on amending the clean vehicle standard
 - reports on land use change, and the contribution of historical methane emissions to present-day warming
 - submissions on the second ERP, on the Commission's draft advice on the fourth emissions budget and 2050 target review, and on the proposed regulatory regime for CCUS.

Release of ERP2

13. You are due to release the second emissions reduction plan (ERP2) the day before the hearing, on Wednesday 11 December 2024. As part of that announcement, you are also due to announce the formal amendment to ERP1. We expect these changes to be a strong focus of discussion at the hearing, and this is reflected in the material provided in Appendices 1, 2 and 3 below.

Next steps

14. A pre-briefing with officials is scheduled for Wednesday 11 December at 4.15-5pm to talk through the material provided and discuss any questions you may have or further support needed.

Signature



Jane White
Acting Executive Director, CCIEB Unit

9 December 2024

027 275 7836

Appendix 1: Opening address

Good morning Mr Chair and Committee members. Thank you for the opportunity to address your inquiry.

It's excellent timing as I released New Zealand's second Emissions Reduction Plan yesterday, setting out how we will meet the second emissions budget from 2026 to 2030 and stay on track to meet our 2050 net zero target.

Our government is committed to meeting New Zealand's climate targets and goals, which is why reducing net emissions is one of our nine targets to achieve better results from the public service. We want to create a future where our economy and communities thrive, and where we deliver value for money in the climate transition.

We are on track to meet the first emissions budget. Current projections have us coming in 5.9 Mt under budget. Current projections also have us coming in 1.9 Mt under the second emissions budget by 2030, and this plan sets us up well to meet the third budget by 2035. While there is still a projected gap of 9 Mt to meet budget three, this plan is now projected to reduce emissions by 17 Mt in the third emissions budget period compared to existing measures.

Yesterday's announcement also included an amendment to the first Emissions Reduction Plan set by the previous government, to bring current activities more into line with our climate strategy. Rather than relying on costly government intervention, we plan to use the emissions trading scheme to drive market-based solutions that reduce emissions in a cost-effective way.

This is an inquiry into the Government's response to the Commission's first emissions reduction monitoring report, and I'm happy to take any specific questions you may have about the Government's response to that report. I want to emphasise that the plan we released yesterday is the cornerstone of the Government's response, and it aligns strongly with the Climate Strategy we released in July.

We've been clear that our key tool for reducing emissions is the New Zealand Emissions Trading Scheme. Getting the system settings right for the ETS is critical.

We plan to remove regulatory barriers, support research and development, unlock private investment, and improve market efficiency. The aim is to empower businesses to invest in reducing their emissions in ways that make the most sense to them, rather than trying to direct this from central government.

In August we showed our commitment to an ETS that works when we adopted settings that will almost halve the number of carbon credits from 2026 – this signalled our intent and helped to

provide certainty and confidence for participants in the scheme.

Alongside the NZ ETS, the second emissions reduction plan lists eight key policies with the greatest potential to further lower emissions. I'm happy to take questions about any of those.

The Government can't deliver on our climate goals alone. The private sector has a big role to play, which is why we are working with some of New Zealand's largest industries to support them to decarbonise.

I also want to highlight the importance of technology. We are investing more than \$400 million over the next four years to accelerate the availability of tools and technology to reduce on-farm emissions and meet market expectations.

We established an independent panel to review the methane science and provide advice on our domestic 2050 biogenic methane target, consistent with the principle of no additional warming. We received the panel's final report late last month and will take time to carefully consider its findings, alongside the Commission's recent advice about the fourth emissions budget and the 2050 target.

My final point is about staying on track. As you know, climate modelling is inherently uncertain, and future events and technological developments will have a big impact. Every year, we'll track, review, and respond to risks and opportunities, to ensure we stay on course.

And with that, thank you Mr Chair, I am happy to take questions from the Committee.

Appendix 2: Potential lines of inquiry from Committee members

Question	Answer
<p>Why is there a difference between the Commission's projections and the Government's?</p>	<p>The Commission must produce reports based on timelines set by the Climate Change Response Act. As there is a cut-off point after which no other new information can be included in the assessment, the Commission could only use data and Government policies up until April 2024.</p> <p>More recent data was used for ERP2. It found that we are on track to meet our first and second emissions budgets – and brings us closer to EB3. Specifically:</p> <ul style="list-style-type: none"> • The additional policies and measures in ERP2 are projected to reduce emissions to 303.1 Mt CO₂-e in the second half of the decade, 1.9 Mt CO₂-e below the second emissions budget. This is a reduction of 3.2 Mt CO₂-e compared to 'existing measures'. • The plan also set us up well to meet the third emissions budget. The additional policies and measures in the plan are projected to reduce overshooting emissions by nearly 17 Mt CO₂-e in the third emissions budget period (2031-2035) down to 9.2 Mt CO₂-e above the budget (compared to existing measures). Achieving the third emissions budget is the task of the third emissions reduction plan, due by 2029. • The projections suggest that we are on track to meet the net zero target by 2050. Net emissions, excluding biogenic methane, are estimated to be just below zero in 2050, with the additional ERP2 policies and measures.
<p>The headroom for meeting the first emissions budget has shrunk dramatically from 13 Mt to 6 Mt CO₂-e. Given this razor-thin margin, why aren't you implementing additional measures now as a buffer against external shocks?</p>	<p>While the headroom has reduced, our latest projections still show we're on track to meet the first emissions budget. We're closely monitoring progress and have the ability to implement additional measures if needed. The policies contained in our second ERP provide additional certainty for meeting our next emissions budget.</p> <p>EB1 has a limit of 290 Mt CO₂-e. The July 2024 interim projections contained in the ERP2 discussion document 284.0 Mt ±4 Mt, the final ERP2 suggests 284.1 Mt ±7 Mt – so a 5.9 Mt buffer.</p>
<p>The Commission found 'significant risks' to meeting the second and third emissions budgets under current policies, with a need to 'urgently strengthen' policies. The government is taking a more hands-off, market-led approach. How specifically will you ensure these budgets will be met without stronger direct policy intervention?</p>	<p>Our government is taking a different approach to meeting our emissions budgets. Rather than relying on costly government intervention, we're using the Emissions Trading Scheme to drive market-based solutions that will reduce emissions in the most cost-effective way. The projections published in ERP2 show we can meet the second emissions budget with our approach.</p>
<p>How can we not be on track to meet EB3 but we are on track to meet Net Zero?</p>	<p>We are projecting a steady reduction in emissions, however some of the policies we are implementing in this emissions reduction plan have a more significant impact in the longer term.</p> <p>Currently there is a 9 Mt gap to meeting the third emissions budget, down from nearly 17 Mt with the introduction of policies in the second ERP. There are still a number of years before the EB3 period begins to continue to reduce that gap.</p> <p>We're focused on setting up New Zealand to further electrify, use increased levels of renewable energy and bring in technologies that will reduce emissions as they become available.</p> <p>The focus on meeting the first NDC will also set us up well for EB3 – with agriculture innovation and afforestation on Crown-land being key policies to increase abatement (including investing more than \$400 million over the next four years to accelerate the availability of tools and technology to reduce on-farm emissions and meet market expectations). [Note: there was a 101MT gap when the ERP2 discussion document was released so we have already reduced this gap to 84MT].</p> <p>Further actions and policies for the EB3 period will be set out more clearly in the third emissions reduction plan due in 2029.</p>
<p>Government response states that government remains committed to meeting the emissions budgets but the Commission has identified significant risks. What specific additional measures are you prepared to implement if we start falling behind?</p>	<p>Meeting emissions budgets inherently involves uncertainty and risks. ERP2 sets out an adaptive management approach. The Climate Change Chief Executives Board will monitor progress and risks. If it is necessary to respond to risks, we have a range of options available, including adjusting ETS settings, changing existing policies, or introducing additional policies. The specific response policy or measure will depend on the circumstances and the decarbonisation opportunities that emerge.</p>
<p>The Commission recommends focusing on gross emissions. Government response indicates a 'net-based approach'.</p>	<p>The Climate Change Response Act sets net emissions budgets and targets. Our net-based approach allows us to meet our targets while maintaining economic productivity and supporting innovation. This approach gives businesses and sectors flexibility to find the most cost-effective ways to reduce their emissions impact.</p>
<p>The first emissions budget and ERP1 were based on detailed modelling of policy impacts. The government has removed several key policies including the Clean Car Discount and GIDI fund. Can you share the specific modelling that shows how you'll meet these same budgets with fewer policies?</p>	<p>Our modelling, which is detailed in the final ERP2 released yesterday, shows we can meet the emissions budgets through our market-led approach. The key difference is that we're letting the market determine where emissions reductions occur rather than trying to centrally plan them. This will deliver more cost-effective outcomes.</p> <p>[Any questions related to amending the Clean Car Standard: This matter relates to a proceeding currently before the Courts, so I will refrain from commenting on this matter.]</p>
<p>The Commission identified significant risks around meeting both the 2030 and 2050 methane targets. The Government's projections show we'll</p>	<p>New Zealand farmers are world leaders in producing carbon-efficient products, and we need to act to make sure we can maintain this.</p>

Question	Answer
<p>exceed the 2050 target by 3 Mt. How can you justify delaying agricultural emissions pricing until 2030 when we're already off track for these statutory targets?</p>	<p>The Government has committed over \$400 million over the next four years to deliver solutions for farmers through the scaling up the research, capability, and commercialisation of mitigations. We are committed to taking a technology-led approach – we want to reduce emissions, not productivity.</p> <p>A technology-led approach is necessary to support continued export value growth, while meeting our climate obligations. Farmers need tools that work in their farming systems. Technology will play a big part in ensuring that our farmers continue to be the most carbon-efficient producers of high-value food and fibre.</p> <p>A key part of our approach is investment in AgriZero – which is a fifty-fifty partnership with the private sector. AgriZero now has \$191 million committed for the first four years. AgriZero have a goal to have two to three tools available to NZ farmers before 2030. Investments by AgriZero to date include a slow-release, biodegradable, methane-inhibiting bolus, probiotics and natural enzymes, a methane vaccine and methane inhibitors.</p> <p>We believe it is critical that mitigations are available ahead of pricing. We do not want to undermine the productivity, profitability, and production systems.</p> <p>Next year we will also clarify the methane target. Clarifying the target is a priority – as this will set us up well to move forward on how we, collectively as Government and industry, can best achieve it. Our annual projections will be a valuable tool in evaluating our progress towards the target.</p>
<p>The Commission has identified agriculture as a high-risk sector yet the Government is comfortable taking a technology-led approach. Without pricing or regulation, what evidence do you have that waiting for new technologies will deliver the required reductions in time?</p>	<p>I have confidence in our technology-led approach. We have a comprehensive programme of work in place focussed on accelerating the development and commercialisation of mitigation technologies, as well as on making sure the regulatory pathway is fit for purpose. We're also working to understand barriers to adoption and opportunities to support scale up and uptake. We've also committed to a pricing system by 2030.</p> <p>I note also that we are seeing market-led action. For example, food and fibre sectors and businesses are under increased scrutiny to provide sustainable products that are verifiable, backed by science and evidence, and in some cases, traceable to where the product has come. And New Zealand agribusinesses are setting ambitious, science-based targets for reductions throughout their supply chains to meet growing market-led demands. Meeting these targets requires action. MPI is working carefully to understand what these business-led approaches will look like, as we want to leverage rather than displace private sector activity.</p>
<p>Both the Commission's report and your interim projections show the 2030 methane target is at risk. Given the Climate Change Response Act legally requires meeting these targets, how do you reconcile this with your decision to remove the legislative framework for agricultural emissions pricing?</p>	<p>The Government is committed to introducing a fair and sustainable pricing system for on-farm emissions by 2030. To get sustainable greenhouse gas emissions reductions from agriculture, it is critical that tools and technologies to reduce emissions come ahead of pricing.</p> <p>The projections released yesterday in the second ERP suggest New Zealand is on track to meet its biogenic methane targets of a 10 percent reduction in biogenic methane by 2030 and a 24-47 percent reduction in biogenic methane by 2050.</p> <p>With the additional policies and measures in the second ERP, biogenic methane levels are projected to decrease by 10.1 percent by 2030, meeting the 2030 methane target.</p> <p>By 2050, biogenic methane is projected to decrease by 24.9 percent, within the 2050 methane target range.</p> <p>The work of the independent methane review panel will complement the Climate Change Commission's review of the 2050 targets this year and will inform the Government's response to the Commission's advice in 2025.</p> <p>[If raised: No policy decisions have been made on the design of the pricing system. The impact that pricing will have will be highly dependent on this.]</p>
<p>The government's response mentions 'removing barriers to the uptake of electric vehicles' as a key transport policy. How do you reconcile your government's increased roading focus with meeting our second and third emissions budgets?</p>	<p>Our transport infrastructure decisions take full account of emissions impacts. Better roads can reduce emissions by decreasing congestion and improving efficiency. Additionally, the ETS ensures that any emissions increases from transport are offset elsewhere in the economy.</p> <p>The transport policies included in ERP2 are intended to complement the ETS by enable investment and remove regulatory barriers to decarbonising transport.</p>
<p>The Commission has highlighted that transport infrastructure decisions lock in emissions for decades. How do you reconcile your government's increased roading focus with meeting our second and third emissions budgets?</p>	<p>Our transport infrastructure decisions take full account of emissions impacts. Better roads can reduce emissions by decreasing congestion and improving efficiency. Additionally, the ETS ensures that any emissions increases from transport are offset elsewhere in the economy.</p> <p>Decisions regarding the mix of projects and programmes that will receive investment through inclusion in the National Land Transport Programme rest with the New Zealand Transport Agency (NZTA) Board.</p>
<p>The Government response mentions 'supporting public transport use' but provides no specifics. Given transport's critical role can you detail exactly what additional public transport support you're planning to offset the removal of previous policies?</p>	<p>We're working closely with local government to ensure public transport systems are efficient and meet community needs. Specific initiatives will be detailed in the final ERP2. Our focus is on making public transport work better rather than just spending more money.</p>

Question	Answer
<p>Any shortfall in meeting emissions budgets increases the need for offshore mitigation to meet the NDC. What is the maximum amount your government is prepared to spend on international carbon units to meet our Paris Agreement obligations?</p>	<p>Our focus is on meeting our emissions budgets through domestic action, which will minimise any need for offshore mitigation. The projections in our ERP2 consultation show we can meet the second emissions budget with our proposed policies. Regarding offshore mitigation costs, we'll make those decisions closer to the time when we have better information about both domestic abatement and international carbon markets.</p> <p>Having said that, the additional policies and measures in the plan are also projected to reduce the gap between domestic emissions reductions and our first Nationally Determined Contribution. The policies reduce the emissions gap between our domestic budget and international target to 84 Mt CO₂-e.</p> <p>The first NDC period is to 2030. We are in the process of setting the second NDC – which covers the same period as the third emissions budget. We are consulting with the public and key stakeholders to inform options for the NDC2 target. Assessing how New Zealand might compare to other countries is difficult as most haven't submitted their second NDC yet. This is something we will continue to monitor, in particular for our key trading partners and Pacific Island countries.</p>
<p>The Commission produced a 300+ page report, and the Government's response is less than 15 pages – did you take it seriously?</p>	<p>We have considered the findings in the Commission's monitoring report in the context of the Government's climate strategy and approach to reducing emissions. Officials from across agencies considered both the key findings and detailed analysis, which informed the response. A number of the Commission's findings relate to the second emissions budget and beyond. These findings have been considered in the delivery of the final ERP2.</p>
<p>Given the benefits of taking action to address climate, why aren't you doing more? For example, the Climate Change Commission's advice on NDC2 suggests co-benefits over the NDC2 period as being between \$2.3 billion and \$12.1 billion, depending on the scenario.</p>	<p>Climate change is a challenge and an opportunity for our country. New Zealand can have prosperous communities, affordable and secure energy, increasing primary production and exports, and a thriving economy while meeting our climate change commitments.</p> <p>The second ERP released yesterday outlines several policies that, while addressing emissions also have wider benefits for New Zealand. For example:</p> <ul style="list-style-type: none"> • supporting 'green investment' or financial activities that aim to generate benefits for the environment, alongside financial returns. This typically involves funding and financing projects, companies or initiatives focused on activities such as renewable energy or resource efficiency. • ending the effective 'ban' on gene technology to allow New Zealand to benefit from these technologies and to protect our health, environment and biodiversity. • co-funding public transport to speed up the deployment of zero-emissions buses which have economic, health and emissions benefits. • exploring opportunities to partner with the private sector to plant trees on Crown-owned land, including native forests, which grow more slowly, but can provide longer-term carbon sinks and co-benefits, including for biodiversity and adaptation (such as erosion control).

Appendix 3: Additional supporting information

Topics	Key messages, relevant facts and figures, risks
<p>Data and modelling</p>	<ul style="list-style-type: none"> • The response uses the Government's July 2024 interim emissions projections, which was the most recently available public information on progress toward meeting our emissions budgets at the time the response was tabled. Due to timelines set by the CCRA, the Commission only had data up until April 2024 to use in its assessment. Similarly due to timing, the Government's Climate Strategy wasn't available in time for the Commission to consider as part of its monitoring report. • While the Commission's exact numbers for emissions projections differ from Government figures, many of the findings are broadly aligned with Government findings. This includes that gross emissions have been tracking down since 2019, and that New Zealand is on track to meet the first emissions budget, which ends at the end of 2025. • While the government has more up-to-date data and information to model later emissions budgets, we also acknowledge, as does the Commission, that projections are inherently uncertain, and become increasingly so for timeframes further in the future. All projections and modelling about our climate change targets reflect a moment in time, providing a snapshot of how we are tracking based on the information available at a particular point.
<p>Commission's advice considered in development of ERP2</p>	<p>We have recently finalised the policy package for ERP2 as the plan to meet the second emissions budget. The Commission's findings relevant to future emissions budgets and targets were considered in the development of that plan.</p>
<p>First key finding:</p>	<p><i>Gross emissions have declined each year since 2019, in response to policy efforts combined with external factors.</i></p> <ul style="list-style-type: none"> • We agree with the Commission's finding that emissions have been tracking down since 2019. • External factors that reduce emissions include the increased hydroelectricity due to flows, conversion of Marsden Point Oil Refinery into a import-only terminal, increased fertilizer prices resulting in less inorganic nitrogen fertilizer due (likely because of Russian invasion of Ukraine), covid-19 restrictions on travel, and reduced steel production. • Many of these external factors were specific to a certain time, although changes in consumer behavior and uptake of technology may have a lasting impact on emissions.
<p>Second key finding</p>	<p><i>Available emissions data and projections are consistent with the first emissions budget being met. This is, however, highly uncertain. Risk factors such as deforestation, dry years, and rising transport emissions could result in net emissions exceeding the budget. Further action to reduce emissions would decrease the risk of missing the budget.</i></p>

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	<ul style="list-style-type: none"> We agree that New Zealand is on track to meet the first emissions budget. Final ERP2 projections have us reaching 284.1 Mt ±7 Mt, under the 290 Mt limit. Government's reporting on Target 9 will continue to monitor progress towards the first and second emissions budgets.
Third key finding	<p><i>There are significant risks to meeting the second and third emissions budgets and the 2030 biogenic methane target under current policies.</i></p> <ul style="list-style-type: none"> The Commission noted significant risks with achieving the second and third emissions budgets, but this was based on the data available up to April 2024. Agriculture and transport were identified by the Commission as most at risk for not achieving benchmark emissions: In agriculture, this risk is due to the absence of a confirmed emissions pricing system or alternative policy measures for reducing emissions. In transport, this reflects that current policy tools on their own are unlikely to drive a shift to lower-carbon modes of transport and to decarbonise freight and aviation. Alongside this is a risk that uptake of low and zero emissions light vehicles will fall behind benchmark levels due to reduced policy support. The additional policies and measures in ERP2 are projected to reduce emissions to 303.1 Mt CO₂-e in the second half of the decade, 1.9 Mt CO₂-e below the second emissions budget. This is a reduction of 3.2 Mt CO₂-e compared to 'existing measures'. This reflects our approach to agriculture and transport policy. ERP2 modelling shows that ERP2 also makes positive steps toward our achieving the third budget (almost 17 Mt CO₂ -e compared to 9.2 Mt CO₂-e in ERP1). As this is further out, it remains more uncertain. However, meeting the third emissions budget will be the job of ERP3, which is due in 2029. I will continue to work with Ministers to consider additional options to reduce this risk.
Fourth key finding	<p><i>Our assessment shows an urgent need to strengthen policies and strategies to put Aotearoa New Zealand on track to meet future emissions budgets and the 2050 target, including the 2030 biogenic methane target. We identify a range of opportunities to work towards these climate goals.</i></p> <ul style="list-style-type: none"> This finding focused on strengthening policies to meet future emissions budgets and the 2030 and 2050 targets. Officials have considered relevant findings from the Commission's report in the development of the second ERP released yesterday. In particular the role of the ETS, and policies that will complement a well-functioning ETS. We are making cost-effective decisions now to set up New Zealand to further electrify, use increased levels of renewable energy and bring in technologies that will reduce emissions as they become available. The choices and actions New Zealanders make over the coming years will set us up for success in the third emissions budget period. You will also see carbon capture, utilisation and storage is a key policy area in ERP2, an opportunity area identified by the Commission. The policies outlined in the second ERP set us up to meet the second emissions budget. It also gets us closer to meeting the third emissions budget. The Government will have to publish a third plan in 2029, which must, by law, set out the plan for achieving the third budget. Projections released with the second ERP indicate we are on track to meet the net-zero 2050 target, and the methane targets. Aviation and shipping emissions are considered 'hard to abate' emissions within the transport sector. The Commission's recent advice on the review of the 2050 target recommended including emissions from international aviation and shipping in the net 2050 target. This will be carefully considered over the coming months and subject to decisions in 2025.
Meeting methane targets	<ul style="list-style-type: none"> The second emissions reduction plan (and subsequent plans) puts actions in place that sees New Zealand on track for future emissions budgets and targets, including the methane targets. Projections released with the second ERP indicate we are on track to meet the net-zero 2050 target, and the methane targets. The projections released yesterday in the second ERP suggest New Zealand is on track to meet its biogenic methane targets of a 10 percent reduction in biogenic methane by 2030 and a 24-47 percent reduction in biogenic methane by 2050. With the additional policies and measures in the second ERP, biogenic methane levels are projected to decrease by 10.1 percent by 2030, meeting the 2030 methane target. The second ERP accounts for taking agriculture out of the ETS – which was widely recognised as a mechanism that is not fit-for-purpose for agriculture. By 2050, biogenic methane is projected to decrease by 24.9 percent, within the 2050 methane target range. The work of the independent methane review panel will complement the Climate Change Commission's review of the 2050 targets this year and will inform the Government's response to the Commission's advice in 2025.
Reduced climate-targeted funding	<ul style="list-style-type: none"> The CERF was disestablished as part of the Government's revised approach to delivering emissions reductions. This approach places less reliance on direct public investment and makes greater use of market mechanisms. The removal of the CERF as a mechanism does not pose a material risk to the Government's ability to meet its obligations under the Climate Change Response Act. There are a range of tools and actions available to the Government to manage the costs of climate change, including considering core policy settings, maintaining fiscal headroom, use of the operating and capital allowances, reprioritisation, and bespoke tools if required.
Role of the ETS	<ul style="list-style-type: none"> The Commission used its 2022 demonstration path to assess progress in different sectors against an anticipated level of abatement (with a focus on driving gross emissions reductions in sectors). Alternatively, the Government is now taking a net-based approach to meeting emissions budgets, balancing emissions reductions and removals to achieve lower overall emissions. The Commission's Monitoring Report reinforces its view that continues to be that the New Zealand Emissions Trading Scheme cannot be relied on to ensure emissions budgets will be met (also in its previous advice in December 2023). It sights the surplus of NZ Units as driving significant uncertainty.

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	<ul style="list-style-type: none"> While the NZ ETS cannot drive set abatement within an emissions budget period, the Government's overall approach is price-led, net-based and involves restoring confidence in the NZ ETS for all participants. Emissions pricing through the NZ ETS is the main tool to determine where and how to achieve cost-effective emissions reductions and increase removals across the sectors included in the scheme. The Government is committed to aligning the NZ ETS with New Zealand's climate targets and to giving participants confidence their investments to reduce emissions will be rewarded. Recent changes to NZ ETS settings will ensure New Zealand has a more credible market. The Government has updated the NZ ETS settings for the next five years, reducing the number of NZ Units available from 45 million to 21 million between 2025 and 2029. This will provide a very high probability that NZ ETS emissions will be within the estimated NZ ETS cap for both the second and third emissions budget periods (2026-2030 and 2031-2035 respectively). The response also noted that the Government agrees there is a role for policies that allow the NZ ETS to work better and support the early adoption of emerging technologies. This could include removing non-price barriers to incentivise private sector action, taking care not to simply send industry or emissions offshore. <p><i>Impacts of recent NZU decisions and auctions</i></p> <ul style="list-style-type: none"> In 2024 two auctions partially cleared (selling 7,006,800 units in total or roughly 50% of total units available), and two auctions did not clear. The December partial clearance brings \$258 million cash proceeds to the Crown. The partial clearance reflects that recent decisions by the Government, including reducing overall number of NZUs supplied to the market between 2025 and 2029 and limiting the registration in the NZ ETS of some farm to forestry conversions, are helping to restore certainty and stability to the NZ ETS. In contrast no ETS auctions cleared in 2023. The market remains well supplied including the existing stockpile of NZUs held by ETS participants. The Government's decision to reduce supply of NZUs in the 2025 through to 2029 settings window and the expiration of remaining balance of 7.1 million unsold NZUs in 2024, will help reduce this stockpile.
Role of forestry	<ul style="list-style-type: none"> The Commission's report reiterates advice from their earlier advice on NZ ETS settings, particularly around the size of the surplus stockpile, uncertainty over post-1989 foresters' behaviour, and the inability of the NZ ETS to guarantee an emissions outcome. Post-1989 forest NZ ETS registrations increased in 2022/23 and the high current level of NZ ETS participation reduces the likelihood of deforestation for these forests because of the requirement to repay units received following deregistration. Deforestation of post-1989 forests not registered in the NZ ETS is also not expected to exceed projections. Introducing a mechanism to control deforestation of post-1989 forests not registered in the NZ ETS is not currently being proposed and would need to be carefully considered so that it minimises any infringement on private property rights. The Government recently announced new restrictions on whole farm conversions to exotic forests registering in the ETS. This policy is designed to protect New Zealand's high quality agricultural land and direct exotic forestry towards marginal land with limited other productive uses. These changes are intended to protect rural communities and livelihoods whilst providing a clear pathway forward for exotic forestry in the NZ ETS.
Equitable transition	<ul style="list-style-type: none"> The first ERP includes an equitable transition chapter, which sets out the overarching strategy and supporting actions and policies to manage transition impacts. This included, but was not limited to, the action to develop an equitable transition strategy. Broader chapters in the first ERP also contained actions to manage the impacts of sector specific policies, many of which also remain. We're addressing impacts in the first emissions budget period by continuing to progress other relevant actions from the first ERP. These will be complemented by existing universal supports, including inflation-indexed government financial assistance and income support system, government employment services, and the tax bracket adjustment. The Government is prioritising climate action that will help to meet our climate targets while minimising costs to New Zealanders. Analysis of distributional impacts found minimal impacts on inflation or household costs from ERP2 policies. Technological developments are expected to reduce the cost of emissions reduction for future generations. ERP2 includes a strategy to recognise and mitigate the socioeconomic impacts of climate policies on Māori communities. This includes: <ul style="list-style-type: none"> Establishing the Māori Climate Platform as a place to explore partnership with iwi and hapū, including adaptation planning and risk assessments. Providing funding for community resilience initiatives, such as enhancing the resilience of Māori-owned land, homes, and cultural sites. Tailored support for recovery from climate-related events like Cyclone Gabrielle, ensuring that Māori communities are prioritised in disaster response and recovery efforts. Looking forward to future emissions budgets, the strategy to mitigate the impacts of the transition in EB2 will be included within the second emissions reduction plan. This will show how different groups are affected and the Government support that is available for them.
Status of ERP1	<ul style="list-style-type: none"> The Government's response to the Commission's report also provides an update on progress toward implementing the first emissions reduction plan and notes any amendments to that plan. The first emissions reduction plan was published in May 2022, covering the years 2022–25. As of 30 June 2024, more than half of the 305 actions in the first emissions reduction plan are either complete or underway. Some actions have also been discontinued by this government and the previous government. Yesterday I published an amendment to the first emissions reduction plan alongside the release of ERP2. The Government is amending the first emissions reduction plan to make sure it reflects this Government's approach to meeting the first emissions budget. This includes discontinuing some programmes and starting others.

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	<ul style="list-style-type: none"> • This ensures our effort is focused on the policies that will deliver cost-effective emissions reduction for New Zealand. Current emissions projections indicate that we are on track to meet the first emissions budget even with the changes in policy. • The amendment removes the discontinued actions that were consulted on earlier this year. It should be read alongside the original plan and the Government’s climate change strategy. • The Government is committed to meeting the first emissions budget. It has reinforced its commitment in one of the Prime Minister’s public sector targets – Target 9. Progress will continue to be monitored and reported on quarterly.