



OIAD-531

S9(2)(a)

Dear S9(2)(a)

Thank you for your email of 27 January 2023 to the Ministry for the Environment (the Ministry) requesting the following under the Official Information Act 1982 (the Act):

1. *any advice provided to members of Cabinet, the Climate Change Minister or other government agency or department on how to ensure the integrity of carbon offsets New Zealand may purchase from overseas to meet its NDC*
2. *any advice MfE has received on the same topic*

This request covers the previous three years, so please date it back to 1 January 2020.

On 27 February 2023, the Ministry contacted you to extend the timeframes to respond to your request by 10 working days under section 15A(1)(b) of the Act, as consultations necessary to make a decision on the request were such that a proper response could not reasonably be made within the original timeframe.

The Ministry has identified three documents in scope of your request, as listed in the attached document schedule. Two of these documents are being released to you as excerpts, as provided for under section 16(1)(e) of the Act, due to the amount of information within the document that is out of scope of your request.

Some information within the remaining document has been withheld under the following sections of the Act:

9(2)(a) to protect the privacy of natural persons, including that of deceased natural persons.

9(2)(j), to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the withholding of this information is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review by the Office of the Ombudsman of my decision to withhold information relating to this request, in accordance with section 28(3) of the Act. The relevant details can be found on their website at:

www.ombudsman.parliament.nz.

Please note that due to the public interest in our work the Ministry for the Environment publishes responses to requests for official information on our [OIA responses page](#) shortly after the response has been sent. If you have any queries about this, please feel free to contact our Ministerial Services team: ministerials@mfe.govt.nz.

Yours sincerely



Sarah Deblock
Manager - International Markets

Document schedule

Document no.	Document date	Content	Decisions	OIA sections applied
1	16 July 2020	2020-B-06904 Environmental integrity in international carbon markets - stakeholder engagement	Released in part	S9(2)(a) S9(2)(j)
2	13 September 2021	Appendix 2 of BRF-476 Developing a portfolio for international cooperation to reduce global emissions and complement domestic action	Released in full (as excerpt)	16(1)(e)
3	22 October 2021	Appendix 2 of CAB-10 Progressing international cooperation to reduce emissions and complement domestic action	Released in full (as excerpt)	16(1)(e)



Ministry for the
Environment
Mauriū Mā Te Taiao



Making Aotearoa New Zealand
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Environmental integrity in international carbon markets – stakeholder engagement

Date Submitted:	16 July 2020	Tracking #: 2020-B-06904	
Security Level	RESTRICTED	MfE Priority:	Urgent

	Action sought:	Response by:
To Hon James Shaw, Minister for Climate Change	Note the work of the International Carbon Markets team on environmental integrity Agree to external engagement about environmental integrity	20 July 2020

Actions for Minister's Office Staff	Return the signed report to MfE.
Number of appendices and attachments	Titles of appendices and attachments (ie separate attached documents): Nil

Ministry for the Environment contacts

Position	Name	Cell phone	1 st contact
Principal Author	Ted Jamieson	021-683 582	
Responsible Manager	Sarah Deblock	022-012 4772	✓
Director	Roger Lincoln	027-290 7625	

Update on environmental integrity in international carbon markets

1. The purpose of this briefing is to update you about the work we are doing on environmental integrity in international carbon markets, and request your approval for a further stage of external engagement on this subject.
2. In 2018 [CAB-18-MIN-0248] Cabinet agreed to retain the option of future use of international carbon markets, and agreed to a Government position on any use of markets including:
 - a. Support for New Zealand participation in the development of markets that are rules based, transparent, and have environmental integrity
 - b. To be clear with market participants that New Zealand will only use international carbon markets in future if they credits are genuine and have environmental integrity.
3. Cabinet agreed in 2019 [CAB-19-MIN-0688] to a *Framework for international carbon markets cooperation* to be used to guide engagement with potential co-operation partners. This included a commitment for international supply of high quality, and for the credits/units to be genuine and have environmental integrity.
4. You agreed in 2018 [18-B-04236] for MfE officials to convene a small external expert group to help us develop principles and guidelines on environmental integrity. We convened this group, which included international and domestic experts, to provide input and comments on our ideas about the technical aspects of environmental integrity.¹ You agreed in late 2019 [19-B-06024] to technical engagement with interested parties and experts in 2020. To date we have engaged on the subject only with this small expert group.
5. This is a good time to engage further with carbon market experts and sector stakeholders, to test our initial thinking on the issue of environmental integrity in international carbon markets. We would like to get outside views and contributions for the development of a 'New Zealand rulebook' which will set out the standards we expect to be met for any offshore mitigation that can contribute to meeting New Zealand's Nationally Determined Contribution under the Paris Agreement.
6. We believe that this type of engagement is also important because the potential use of offshore mitigation has had a low profile in recent years, and there is significant scepticism from some stakeholders about the role of international markets given past experience. We are doing as much as possible internationally by working with potential partners who we expect will be able to deliver units with integrity. We also need to address this scepticism by talking with domestic stakeholders and involving them in the co-development of the New Zealand rulebook so that they can be reassured and support the quality of the outcomes.
7. The purpose of engagement is therefore to test our thinking, to reassure people about the potential quality of international units/credits, and to build community and stakeholder buy-in. We would also propose a number of broader key messages about international carbon markets, such as:
 - a. Research shows that co-operative action between countries has the potential to unlock more ambitious action to reduce emissions.

¹ Including people with carbon market expertise from Motu, Fonterra, and the Environmental Defense Fund.

- b. When New Zealand's first Paris Agreement NDC target was decided, in 2016, it was set to a level at which it was assessed that New Zealand would be making a fair and ambitious contribution to global mitigation efforts, and that achieving it would require access to international carbon markets.
- c. A high standard of environmental integrity is vital and is achievable – New Zealand intends to lead on ensuring that markets have integrity, whether or not we use them ourselves.
- d. Offshore mitigation has a potential role in managing New Zealand's just and socially responsible transition to a low-emission and climate resilient economy. It can allow the transition of the domestic economy to occur in a more managed way over time compared to a scenario in which we only reduce domestic emissions in the next ten years.

The coverage we envisage for a rulebook

- 8. MfE officials' internal policy analysis on how environmental integrity can be defined and tested has raised many potential questions for discussion. We have used an analytical framework that was proposed by the Environmental Defense Fund to organise the relevant topics and the thinking in a way that will be usable for international as well as New Zealand readers.
- 9. The topics covered in this draft analysis are listed in Table 1. As you know, linking with robust emissions trading schemes in partner jurisdictions is the current preferred option if New Zealand makes use of international carbon markets in the early 2020s to help meet our 2021–30 NDC. However, we want the rulebook to be comprehensive and include the ability to assess credits that do not necessarily come from another ETS, for example emission reduction projects.
- 10. We have excluded introductory and context-setting material. For ETS linking (but not for other options at this stage) we are in a position to suggest tests that could indicate whether each aspect of a system and its rules would meet our requirements.

Table 1: Topics covered in analysis of environmental integrity

Broad theme	Topic	Issues for discussion
Confidence between partner jurisdictions	Governance and institutional competence	Governance, legal and institutional competence
	Alignment with values and broader policy	Foreign policy alignment, human rights as operationalised in programmes
Mitigation programmes: general issues	Real and additional mitigation	Additionality
		Management of emission leakage
		Transparency
Mitigation programmes: cap-and-trade/ETS linking	Stringency and unit supply	Setting of caps
		Price controls and reserves
		Banking and borrowing
	Use of offsets	Real and additional mitigation, quantities
	Linking and how it works	One-way and two-way links

Broad theme	Topic	Issues for discussion
Mitigation programmes: baseline and credit	Project integrity	Restrictions on quantity and type of units
		Baselines and demonstrating additionality
		Setting/limiting the duration of crediting
		Setting a standard for acceptability
	Monitoring and enforcement	Clear and documented process
Confidence in transfers	Robust accounting and tracking	Monitoring standards
		Independent verification
	Information exchange	Article 6 accounting - compliance
		Programme level accounting standards
Confidence in systems used	Compliance with international requirements	Quality and timing
		Enhanced transparency framework
	Additional partner requirements	Article 6.2 guidance (when available)
		Approval process for transfers, if any

Proposed engagement steps

11. Before taking this to external stakeholders, we need to engage with relevant Government agencies to get their input and alert them to implications they may need to consider for their work areas.
12. We would then like to engage with stakeholders and the public in two stages to get their input on the subject of environmental integrity and to inform drafting of a rulebook:
 - a. A range of invited experts and stakeholder groups (Table 2) to engage in online discussion for purposes of peer review and input and to help enable us to refine and improve the material that we have drafted so far, as well as iwi/Māori to ensure that specific Māori interests and viewpoints are reflected and that Māori are enabled to be part of the development of a rulebook.
 - b. The public and additional stakeholders, in a low-key way, by publishing a summary of our analysis on the International Carbon Markets page on the Ministry's website and asking for comment and input on the appropriate content for a rulebook.
13. This level of outreach is intended to help us identify the issues that need most work, start to socialise the basic concepts around environmental integrity more widely, and give us options for broader engagement or for consultation on a negotiating mandate.
14. The types of expert and stakeholder groups that we intend to ask for input (12.a above) are listed in Table 2.

Table 2: Stakeholder groups and activities

Stakeholder group	Engagement purpose	Engagement technique
Māori/iwi	Ensure Māori/iwi with interest are informed of this work and seek their views to ensure future policy reflects interests/ views	Regional hui and wider ministry engagement, with specific hui for this work only if needed
Experts including Motu, S9(2)(a) and international NGOs and selected government experts	Seeking expert feedback on issues to inform future policy	Request feedback based on paper and arrange meeting or workshop to discuss their feedback
NZ ETS participants, traders, intermediaries and business groups	Ensure NZ ETS participants and interested business groups are informed of this work and seek their views to ensure future policy reflects interests/ views	Hold workshops in Auckland and Wellington and invite participants through planned email. Add more face to face or on-line meetings if demand emerges.
Foresters	Ensure foresters are informed of this work and seek their views to ensure they are considered in future policy	Work with MPI to plan and hold ETS workshops specifically for foresters if there is demand.
e-NGOs	Ensure e-NGOs are informed of the environmental integrity work and seek their views to ensure future policy reflects interests/ views	Separate eNGO workshop, perhaps organised through a group like the NZ Climate Action Network

Engaging with Māori

15. Māori and individual iwi have interests in this work as Treaty partners, as economic players with substantial forestry and other assets that are affected by emission pricing, and as a social constituency.
16. It is also important from an international point of view that co-operative action under the Paris Agreement takes, and is seen to take, full account of indigenous rights both in Aotearoa and in partner countries.

Timing and deliverables

17. It is timely to start this engagement because we have now progressed the technical thinking on environmental integrity to a point where external input would be useful.

18. S9(2)(j)

19. Engagement on environmental integrity can form a foundation of stakeholder understanding and buy-in for the need to access international carbon markets, before we consult on any negotiation mandate. Delays to our proposed engagement would mean that there is a risk our environmental integrity requirements are not adequately developed, or are not understood or supported by stakeholders, when they are most needed.
20. For these reasons we propose to undertake some targeted engagement as outlined in Table 3.

Table 3: Timing and activities

Stakeholder group	Method	Timing
Government agencies	Meetings	Immediately following your agreement, i.e. late July and early August
Māori/iwi	Existing regional hui and wider ministry engagement	Starting late August
Experts and non-Māori stakeholder groups	Workshops and meetings	Starting late August
Public and additional stakeholders	Ministry website	After completion of the targeted workshops

21. We will share the content that we use for workshops and on the webpage with you.

Recommendations

22. We recommend that you:

- Note** that Cabinet has agreed to retain the option of future use of international carbon markets, with a clear position that only units that meet a high standard of environmental integrity would be eligible
- Note** that the International Carbon Markets team has progressed analysis on environmental integrity as a step to developing a New Zealand-specific rulebook that will set clear standards
- S9(2)(j)
- Note** that this timing means that there is urgency to make progress on determining and agreeing our environmental integrity requirements
- Note** that it is important to engage with iwi/Māori and stakeholders as early as possible, to test our thinking, get their views in the development of the rulebook, and get their buy-in for access to international carbon markets

f. **Either** agree for the Ministry for the Environment, in co-ordination with other Government agencies, to begin technical engagement with the stakeholders identified above during the next two months (recommended)

Yes/No 6

g. **Or** direct us to defer any engagement with stakeholders until the election campaign period is over

Yes/No 6

Signature



Roger Lincoln
Director
Climate Change

Date 15/07/2020



Hon James Shaw
Minister for Climate Change

19/7/2020

Date

Appendix 2: Applying environmental integrity standards

1. All options for accessing to offshore mitigation must have environmental integrity to meet the requirements of the Paris Agreement.
2. This is clearly outlined as a fundamental criteria and priority for the Government in the *Framework for international carbon market cooperation* agreed by Ministers in 2019 [CAB-19-MIN-0688]. We note that iwi/Māori and stakeholders (NGOs, NZ ETS participants) have consistently raised environmental integrity concerns from any potential use of offshore mitigation by New Zealand.
3. If an option does not demonstrate environmental integrity, it cannot be included in our accounting towards NDC1.
4. We note that in their current state, some projects in the Options A3 , such as REDD+ projects, do not meet expectations of environmental integrity. Any mitigation generated from these projects will be highly scrutinized by other Parties to the Paris Agreement, and using these projects as is would entail significant reputational risks for the Government both domestically and internationally.
5. In order for any projects/programmes to be considered to have environmental integrity, we need to ensure the emissions reductions are real and additional, and we must engage with the host country to authorise and account according to Article 6.2. Ensuring environmental integrity requires:
 - a. Confidence in a reasonable level of ambition and coverage for the partner's NDC, with regard to national circumstances, and that the partner has plans to meet its NDC commitments.
 - b. Confidence in an agreed accounting method. The partner will need to make corresponding adjustments to their own NDC so we can make use of transferred mitigation towards our own NDC. We may not have the method fully agreed up front, but New Zealand and the partner need mutual confidence that we will account accurately for transfers. The accounting will need to comply with Article 6 rules which have not yet been agreed
 - c. Confidence that the programme will be robust in its approach to ensuring real, additional, and permanent outcomes.
6. The specific programme or project that will generate mitigation transferred to New Zealand needs to have features that will ensure environmental integrity. These need to be quite specific to different types of programmes in different sectors. For example, for a forestry project the four aspects to be managed are:
 - d. Real and quantified mitigation. Based on accurate, on-the-ground monitoring of forest characteristics over time.
 - e. Additionality. Confidence that we are either:
 - i. Establishing new forest or improving existing forest so that we can quantify new carbon removals against a realistic, conservative baseline, or

- ii. Protecting forest that is at real, immediate risk of uncontrollable deforestation or degradation. This can be very hard to prove, particularly in developing countries which face socio-economic instabilities.
 - f. And, that this action is additional to mitigation which had already been committed to regardless of the host party's NDC strategy, which would have occurred anyway in the absence of the cooperation.
 - g. Permanence. Forest removals are always at some risk of reversal. We need assurance about how long protection will last, and accountability if there is a reversal event, which may be deliberate deforestation/harvesting, or accidental like fires.
 - h. Emission leakage. Some level of assurance that reductions in one place are not enabling increased emissions somewhere else. If we protect one forest area, do the chainsaws and bulldozers just move on to the next one?
- 7. The issues of additionality and leakage may become more manageable if we are working on a large enough scale (so leakage has nowhere to go, and additionality can be judged in the light of national policies), and if we are working closely with the partner government (so we understand the governance and context).
 - 8. New Zealand continues to support global efforts to discourage deforestation and encourage sustainable forest management, including by assisting developing countries to overcome capacity barriers to accessing REDD+ and related investments. This support is separate from our work on cooperation towards the NDC, forming part of our climate finance and overseas development assistance commitments.
 - 9. However, we judge that ensuring environmental integrity for REDD+ projects is likely to mean they would not be cost efficient or highly reliable sources for offshore mitigation under Article 6 towards New Zealand's NDC1.
 - 10. New afforestation and reforestation were also supported under the Kyoto Protocol by the Clean Development Mechanism, so methodologies were developed in that context. While these will need to be updated to align with the Paris Agreement context, robust outcomes may be easier to achieve for this type of project than for avoided deforestation (REDD+).

Appendix 2: Environmental integrity considerations

1. All options for accessing to offshore mitigation must have environmental integrity to meet the requirements of the Paris Agreement.
2. This is clearly outlined as a fundamental criteria and priority for the Government in the *Framework for international carbon market cooperation* agreed by Ministers in 2019 [CAB-19-MIN-0688]. We note that iwi/Māori and stakeholders (NGOs, NZ ETS participants) have consistently raised environmental integrity concerns from any potential use of offshore mitigation by New Zealand.
4. If an option does not demonstrate environmental integrity, it cannot be included in our NDC accounting. We note that in their current state, some projects in Appendix 3, such as projects reducing emissions from deforestation and forest degradation in developing countries (REDD+ projects), do not meet expectations of environmental integrity. Any mitigation generated from these projects will be highly scrutinized by other Parties to the Paris Agreement, and using these projects as is would entail significant reputational risks for the Government both domestically and internationally.
5. In order for any projects/programmes to be considered to have environmental integrity, we need to ensure the emissions reductions are real and additional, and we must engage with the host country to authorise and accounted for in accordance with the requirements set out in Article 6 of the Paris Agreement.
6. Ensuring environmental integrity requires:
 - a. Confidence in a reasonable level of ambition and coverage for the partner's NDC, with regard to national circumstances, and that the partner has plans to meet its NDC commitments.
 - b. Confidence in an agreed accounting method. The partner will need to make corresponding adjustments to their own NDC so we can make use of transferred mitigation towards our own NDC. We may not have the method fully agreed up front, but New Zealand and the partner need mutual confidence that we will account accurately for transfers. The accounting will need to comply with Article 6 rules which have not yet been agreed.
 - c. Confidence that the programme will be robust in its approach to ensuring real, additional and permanent outcomes.
7. The specific programme or project that will generate mitigation transferred to New Zealand needs to have features that will ensure environmental integrity. These need to be quite specific to different types of programmes in different sectors. For example, for a forestry project the four aspects to be managed are:
 - a. Real and quantified mitigation: Based on accurate, on-the-ground monitoring of forest characteristics over time.
 - b. Additionality: Confidence that we are either:
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 - ii. Protecting forest that is at real, immediate risk of uncontrollable deforestation or degradation. This can be very hard to prove, particularly in developing countries which face socio-economic instabilities.

- c. And, that this action is additional to mitigation which had already been committed to regardless of the host party's NDC strategy, or which would have occurred anyway in the absence of the cooperation.
 - d. Permanence: Forest removals are always at some risk of reversal. We need assurance about how long protection will last, and accountability if there is a reversal event, which may be deliberate deforestation/harvesting, or accidental like fires.
 - e. Emission leakage: Some level of assurance that reductions in one place are not enabling increased emissions somewhere else. If we protect one forest area, do the chainsaws and bulldozers just move on to the next one?
8. The issues of additionality and leakage may become more manageable if we are working on a large enough scale (so leakage has nowhere to go, and additionality can be judged in the light of national policies), and if we are working closely with the partner government (so we understand the governance and context).
9. New Zealand continues to support global efforts to discourage deforestation and encourage sustainable forest management, including by assisting developing countries to overcome capacity barriers to accessing forestry mitigation related incentives and investments. This support is separate from our work on cooperation towards the NDC, forming part of our climate finance and overseas development assistance commitments.
10. However, we judge that ensuring environmental integrity for REDD+ projects for use towards NDCs under Article 6 is likely to mean they would not be cost efficient or reliable sources for offshore mitigation towards New Zealand's NDC1.
11. New afforestation and reforestation were also supported under the Kyoto Protocol by the Clean Development Mechanism, so methodologies were developed in that context. While these will need to be updated to align with the Paris Agreement context, robust outcomes may be easier to achieve for this type of project than for avoided deforestation (REDD+).