

In-Confidence

**Office of the Minister of Climate Change**

**Chair, Cabinet Environment, Energy and Climate Committee**

**Emissions Budgets for 2022-2025, 2026-2030 and 2031-2035**

**Proposal**

1. This paper considers the first three emissions budgets recommended by the Climate Change Commission (the Commission) under the Climate Change Response Act 2002 (the CCRA) for the periods 2022-2025, 2026-2030 and 2031-2035 and seeks an agreement in principle.

**Relation to government priorities**

2. The Government declared a climate change emergency on 2 December 2020. Cabinet agreed that climate change “demand a sufficiently ambitious, urgent, and coordinated response across government to meet the scale and complexity of the challenge” [CBC-20-MIN-0097 refers].
3. Enabling a just transition to a low emissions, climate resilient future is a Government priority. Cabinet declared its intention to “put the climate at the centre of government decision-making”. [CBC-20-MIN-0097 refers].
4. The proposals in this paper relate to the Cooperation Agreement between the Labour and Green Parties. Achieving the purpose and goals of the 2019 zero carbon amendments to the Climate Change Response Act 2002 (CCRA) is an agreed area of cooperation.

**Executive Summary**

5. An emissions budget fixes the total net amount of all greenhouse gases that New Zealand can emit over a certain period. New Zealand’s first three emissions budgets must be set by 31 December 2021.

Decisions on emissions budgets are a critical next step under New Zealand’s zero carbon framework. This first set of emissions budgets will define the transition pathway out to 2035 and put us on track to meet our domestic 2050 target of net zero long-lived greenhouse gases and a 27-47 per cent reduction in biogenic methane.

7. Following extensive analysis and consultation, the Commission recommended emissions budgets that it considers strike the right balance between ambition and achievability. The Commission found that current government policies are

not sufficient to achieve its proposed budgets, but also demonstrated a number of plausible pathways to get us on track to meet them.

8. This is the first time emissions budgets will be set and there are detailed legal requirements for the government to follow in carefully considering the Commission's advice and making decisions on emissions budgets.
9. A key legal requirement is for the Minister to have particular regard to how the emissions budget and 2050 target may realistically be met, including considering the main opportunities, risks and uncertainties around emissions reductions and removals.
10. Meeting the Commission's proposed emissions budgets would require reductions in net emissions below the current official government projections baseline. This baseline includes officials' forecasts of emissions under existing policy settings, but does not include proposed policies or new and enhanced policies not yet fully implemented.


<b>Emissions reduction required to meet the Commission's proposed budgets against government baseline projections</b>		
	Mt CO <sub>2</sub> -e	Percentage reduction
<b>First budget period 2022-2025</b>	12.2	4.2%
<b>Second budget period 2026-2030</b>	30.8	9.3%
<b>Third budget period 2031-2035</b>	61.1	20.3%

11. There are inevitably a number of risks and uncertainties that would impact the government's ability to meet the proposed budgets. Many relate to measurement and baselines. There is a lag in producing our annual Greenhouse Gas Inventory and historic emissions are regularly revised. Our estimates of current and future emissions are also subject to frequent revision, and our baseline projections are based on a large number of assumptions that are themselves subject to risk and uncertainties.
12. For instance, since the Commission provided its final advice in May, Government baselines have been revised. This increased the estimated emissions reductions required for the first budget period (from 8.1 MtCO<sub>2</sub>-e to 12.2 MtCO<sub>2</sub>-e) but decreased estimated emissions reductions for the second and third budget periods. Furthermore, neither the Commission's baseline or the government's projections included emissions reductions related to the recently announced closure of the Marsden Point refinery. This will reduce the

amount of emissions reductions required to meet the first emissions budget by an estimated 2.5 MtCO<sub>2</sub>-e.

13. There are risks and uncertainties around the pace of technological uptake, the extent of behaviour change, and the effectiveness of policy in influencing these. Examples include the rate of uptake of lower emission technologies and farming practices in anticipation of proposed emissions pricing in agriculture, businesses overcoming capital constraints to install lower emission heat and processing plant, and transport mode shifts towards increased public transport, walking and cycling.
14. Equally, it is possible we may see an increasingly positive and proactive response from leading businesses and investors to accelerate the low emissions transition. Public attitudes and consumer preferences could shift more quickly than anticipated, for example around electric vehicle uptake. Setting challenging but feasible emissions budgets will provide an important signal to create a stronger sense of national purpose and help mobilise these wider responses.
15. There are also a number of factors, notably those related to large-scale electricity supply and demand, that are largely beyond the government's control, especially over the first emissions budget period. A delay to the anticipated closure of the aluminium smelter in 2024, or the possibility of further dry hydrological years and gas supply disruption as experienced this year, could cause actual measured emissions to be significantly higher than baseline projections.
16. The Commission was satisfied its analysis shows the government could implement emissions reduction plans with sufficient head room to still meet its emissions budgets even in the face of negative shocks. This appears reasonable for the second and third budget periods, but is more challenging for the first budget period because there is less time for course correction.
17. There are several ways we can mitigate and manage the risks and uncertainties. The main tool we have is the way we develop, implement and continuously review the progress of our emissions reduction plan. This plan will set out the government's policies and strategies for emissions reductions and removals to achieve the emission budgets, with an immediate focus on the first budget period.
18. The first emissions reduction plan is still under development and the estimated impacts of the policies currently proposed fall short of the reductions likely to be required in the first budget period. Ministers and officials are actively working on additional measures for inclusion in the final plan. The emissions reduction plan can also be further enhanced and amended over its lifetime.
19. One of our strongest options for potential ramping up over time is the New Zealand Emissions Trading Scheme (NZ ETS). The key NZ ETS settings for the next 2-5 years can be adjusted to align with meeting emissions budgets. A clearly-signalled and well-paced tightening of the NZ ETS unit supply will see

carbon prices rise in a manageable way that supports new investment across the economy to lower emissions. The impact of the ETS is expected to vary across industries, and will have limited effect on its own within some sectors. To be successful, ETS changes need to be accompanied by complementary regulatory and other levers.

20. Other options to achieve greater emissions reductions include increasing direct government investment, early signalling of future regulatory actions, strong partnerships with business and community leaders, effective information, market and other incentives, and behaviour change programmes. Expectations of a rising NZ ETS price provide an additional economic incentive that will also increase the uptake and effectiveness of other more targeted policies.
21. A further risk management tool is the provision in the CCRA that provides for up to one per cent of the next emissions budget to be borrowed to offset any shortfall. For the first budget period from 2022-2025 this would amount to around 3 MtCO<sub>2</sub>-e - sufficient to cover a shortfall of up to about 25-30 per cent of the emissions reduction required.
22. As required by the CCRA, the Commission provided additional advice on a number of matters related to emissions budgets, including recommending limits on the use of offshore mitigation. The Commission recommended the government should only have recourse to offshore abatement to deal with exceptional circumstances such as for the majeure events like major natural disasters.
23. 

§ 9(2)(f)(iv)

[Redacted text block]
24. It is timely and appropriate to take an in-principle decision on emissions budgets now to coincide with our forthcoming consultation over the contents of the emissions reduction plan.
25. Signalling our intentions to set challenging emissions budgets is important to confirm the urgency and priority of our climate response. We cannot afford to leave businesses and households in any doubt as to the direction of travel and the part they will all play in the transition.
26. I propose we should agree in principle to a set of emissions budgets now and clearly communicate this intention as part of the emissions reduction plan consultation process. I propose we signal an intention to broadly accept the emissions budgets as recommended by the Commission, but modify them to take account of the recently revised government emissions projections.
27. However, I propose we should only consider modifying the Commission's recommended emissions budgets in so far as these revisions are the result of

new information from the latest forestry intentions survey. Completely new information from an external survey can be distinguished from revised agriculture projections that are related to new assessments by officials.

28. Adjusting the emissions budgets to take account of the new forestry intentions would increase the emissions allowed in the first budget period by 2 MtCO<sub>2</sub>-e, but decrease the total emissions allowed over the three budget periods by 14 MtCO<sub>2</sub>-e, compared to the emissions budgets recommended by the Commission.
29. Final decisions on setting emissions budgets rest with the Minister under the CCRA. The CCRA allows the Minister to set emissions budgets that depart from the Commission's advice, provided the reasons are explained to Parliament and published. The Minister must also decide whether it is necessary to further consult persons likely to have an interest in the emissions budget. I propose to report back in October before taking final decisions, allowing time for the CCRA legal requirements to be fully met.

## Background

### *Emissions budgets are stepping-stones to New Zealand's 2050 target*

30. The CCRA sets a domestic emissions reduction target that requires all New Zealand's greenhouse gas emissions (except biogenic methane) to reach net zero by 2050. Biogenic methane is to reduce by at least 10 per cent below 2017 levels by 2030 and 24-47 per cent by 2050.<sup>1</sup>
31. Emissions budgets set the quantity of emissions (expressed as a net amount of carbon dioxide equivalent) permitted in a specified budget period. Emissions budgets must be set:
  - 31.1. with a view to meeting the 2050 target and contributing to global efforts under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels, and
  - 31.2. in a way that allows them to be met domestically and provides greater predictability for those affected.<sup>2</sup>
32. With the exception of the first budget period (2022-2025), emissions budgets generally cover a period of five years. The CCRA requires three emissions budgets to be in place at all times. The first three emissions budgets create the transition pathway out to 2035, the halfway point towards 2050.
33. Once set, the first budget can only be revised in exceptional circumstances.<sup>3</sup> The second and third budgets can be revised before they commence, but only if the Commission recommends it and if circumstances have changed significantly.

<sup>1</sup> Climate Change Response Act 2002, section 5Q

<sup>2</sup> Climate Change Response Act 2002, section 5W

<sup>3</sup> Climate Change Response Act 2002, section 5ZE



*The Commission has provided advice on the first three emissions budgets*

34. The Commission was established to provide independent expert advice to the government on climate change matters, and to independently monitor progress towards the government's mitigation and adaptation goals.
35. On 31 May 2021 the Commission recommended to government the following emissions budgets<sup>4</sup>:

<b>Commission's recommended emissions budgets</b>	<b>Emissions budget 1 2022 – 2025</b>	<b>Emissions budget 2 2026 – 2030</b>	<b>Emissions budget 3 2031 – 2035</b>
All gases, net (AR5) <sup>5</sup>	290 MtCO <sub>2</sub> -e	312 MtCO <sub>2</sub> -e <sup>6</sup>	53 MtCO <sub>2</sub> -e

*The Government must respond to the Commission's advice before the end of the year*

36. The Government is required to respond to the Commission's advice<sup>7</sup>, and must set and notify emissions budgets by 31 December 2021 at the latest.<sup>8</sup> This includes tabling a formal response in Parliament. The Government must consider the Commission's recommended emissions budget numbers (all gases, net of removals) and either set them in place as the official emissions budgets under the CCRA, or decide on a different set of numbers.
37. The Government must explain any departure from the Commission's advice on emissions budgets and, if the change is significant, decide whether further consultation is required.<sup>9</sup>
38. The CCRA requires the Minister to ensure the budgets are met.<sup>10</sup> Failing to do so will result in Parliamentary and public scrutiny when the Commission provides its report at the end of the budget period, if not before as the Commission makes regular progress reports. A court may make a declaration that a budget has not been met and award costs, however no monetary relief or other remedy is available.<sup>11</sup>
39. The CCRA also requires the government to prepare and publish the first emissions reduction plan for the budget period from 2022 to 2025 by

<sup>4</sup> Recommendation 1; Ināia tonu nei: a low emissions future for Aotearoa, 31 May 2021

<sup>5</sup> Expressed using GWP<sub>100</sub> values from the IPCC's Fifth Assessment Report (AR5) for consistency with international obligations relating to Inventory reporting.

<sup>6</sup> Emissions budget 2 is larger than emissions budget 1 because it covers five years instead of four

<sup>7</sup> This advice includes the recommended emissions budgets, a gas by gas breakdown, the proportion to be met by removals, rules to measure progress, limits on offshore borrowing, and how the budgets may realistically be met (Climate Change Response Act 2002 section 5ZB)

<sup>8</sup> Climate Change Response Act 2002, sections 5X and 5ZB

<sup>9</sup> Climate Change Response Act 2002, section 5ZB

<sup>10</sup> Climate Change Response Act 2002, section 5X(4)

<sup>11</sup> Climate Change Response Act 2002, section 5ZM

31 December 2021. Emissions reduction plans set out the policies and strategies for meeting emissions budgets and must consider the Commission's advice on policy direction.

40. To meet this deadline and to ensure New Zealanders are brought along with us, I will shortly seek a separate decision to approve consultation on a discussion document titled '*Te hau mārohi ki anamata: Transitioning to a low-emissions and climate resilient future: Have your say and shape the emissions reduction plan*'.

#### *New Zealand's Nationally Determined Contribution (NDC) 2021 – 2030*

41. Emissions budgets reflect New Zealand's domestic action to address climate change, whereas the NDC reflects the level of New Zealand's total international contribution under the Paris Agreement.
42. Revising New Zealand's NDC for 2021-2030 (NDC1) is subject to ongoing discussions among Ministers, separate to decision on setting emissions budgets.

#### *NZ ETS settings will be aligned with final emissions budgets in 2022*

43. The quantity and price corridor for auctions of emissions units are decided in advance on a rolling five-year basis to provide certainty for market participants. I have recently taken a paper to Cabinet proposing to adjust the unit limits for the NZ ETS for 2024-2026 based on the modelling and data underlying the Commission's emissions budget recommendations, while unit limits for 2022-2023 remain unchanged. The paper also recommends adjusting the price corridor for auctions to align with the Commission's recommendations from 2022 [ENV-21-MIN-0041].
44. Considering the Commission's modelling and data underlying emissions budgets when determining future NZ ETS settings in this way, does not pre-empt Cabinet decisions to set final emissions budgets. Rather, it reflects the CCRA requirement for Cabinet to decide and publish NZ ETS settings<sup>12</sup> before 30 September 2021.
45. In 2022, NZ ETS unit limit and price control settings will be updated again to align with final emissions budgets after final budgets have been set.<sup>13</sup>

#### **Analysis**

*Making the transition to a low emissions climate-resilient economy is an achievable and necessary challenge*

46. Transforming the economy to net zero emissions is a major undertaking. Decisions on emissions budgets will send strong signals to New Zealand

<sup>12</sup> NZ ETS settings include unit limits that determine the maximum number of NZUs available for auction under the ETS cap and auction price controls that include value of the auction price floor (\$20 in 2021) and the cost containment reserve trigger price (\$50 in 2021)

<sup>13</sup> Climate Change Response Act 2002, section 30GC (2) (a), also Schedule 1AA part 2, clause 7

businesses, industry, and households and should provide greater confidence in the country's long-term economic pathway. However, strong policies will also be needed to spur the level of investment, innovation and behaviour change required to meet emissions budgets.

47. The Commission's demonstration pathway is a clear departure from business as usual. The table below gives an indication of the scale and pace of change required for a number of key sources of emissions reductions in the demonstration pathway.

Examples	By end of 1st Budget Period (2025)	By end of 2nd Budget Period (2030)	By end of 3rd Budget Period (2035)
<b>Electricity</b>			
Increase in wind power	106%	~200%	~360%
Increase in solar power	180%	~1,000%	~2,200%
Proportion of power from wind	11%	15%	20%
Proportion of power from solar	1%	3%	6%
<b>Transport</b>			
Increase in cycling	52%	~170%	~340%
Increase in public transport	60%	~150%	~210%
Proportion of light passenger vehicles entering NZ that are electric	10%	62%	100%
Proportion of medium trucks entering NZ that are electric	7%	42%	~100%
Proportion of heavy trucks entering NZ that are electric	7%	18%	~70%
<b>Land</b>			
Decrease in dairy herd numbers	7%	13%	18%
Decrease in sheep and beef herd numbers	10%	14%	17%
Reduction in land used for dairy (hectares)	~16,000	~37,000	~56,000
Reduction in land used for sheep and beef (hectares)	~521,000	~598,000	~726,000
Increase in land used for exotic forestry (hectares)	~145,000	~273,000	~395,000
Increase in land used for native forestry (hectares)	~78,000	~181,000	~306,000
<b>Waste</b>			
Decrease in food waste sent to landfill	12%	37%	44%

Notes:

- all increases/decreases are relative to 2019
- the Commission used a slightly different definition of "medium truck" than the standard Ministry of Transport classification
- ~ is used to denote a rounded figure.



*Consideration of risks and uncertainties*

48. The Minister of Climate Change is required to have particular regard to how the emissions budgets may realistically be met, including the key opportunities and the principal risks and uncertainties.<sup>14</sup>
49. The scale and rate at which the transition to a low-emissions climate resilient economy can occur is inherently uncertain. In most sectors, emissions are directly driven by the level of economic activity. Levels of activity may change for a range of reasons including commercial business decisions that are largely independent of policy.
50. Other sources of uncertainty include changes in the baseline assumptions, including population estimates, used to calculate emissions projections; updating of models used to estimate projections,<sup>15</sup> and changes in estimating the impacts of future policy decisions.

*The Commission addressed risk and uncertainty*

51. The Commission's advice recognises and addresses the risks and uncertainty surrounding projected emissions reductions. The Commission presented a detailed demonstration pathway showing one way its recommended budgets could be met. The Commission also considered two alternate pathways and conducted sensitivity analysis around key aspects and assumptions in its demonstration path.
52. The Commission's sensitivity analysis tested to what extent a wider range around its critical assumptions<sup>16</sup> would make its proposed budgets easier or harder to meet. The Commission found the range of impacts for the individual sensitivities tested was generally small - less than  $\pm 2\%$  of the proposed emissions budgets for the first and second budget periods. Some assumptions – particularly around afforestation and EV uptake – did have a larger impact in the third budget period.
53. The Commission concluded that its emissions budgets are achievable even under a range of different future states. The Commission suggested the government can generally manage the risks by building in a buffer of overachievement into the emissions reduction plan. This would provide headroom to cover emissions being higher than projected due to unexpected events or any policy underperformance.
54. The Commission considered critical assumptions around how technology will develop and how people's behaviour will adjust. It developed 'tailwinds' and 'headwinds' scenarios to test how much easier or harder the budgets would be to achieve under either significantly more favourable or unfavourable

<sup>14</sup> Climate Change Response Act 2002, section 5ZC(2)(a)

<sup>15</sup> Noting that different agencies use different models with varying assumptions

<sup>16</sup> The critical assumptions tested were: population and GDP growth; aluminium smelter remaining open; closure of other major emitting plants (steel, refinery, methanol); drier/wetter hydro years; afforestation, deforestation (pre-89 forests); used EV supply constraints; EV costs; oil price (impact in EV uptake); new renewables cost; biomass price.

conditions related to technology developments and behaviour change than those built into the demonstration path.

55. The following table shows the Commission's assessment of the impact its headwinds and tailwinds scenarios would have on the proposed budgets. For example, if the future resembles the tailwinds scenario, this would deliver an extra 4 MtCO<sub>2</sub>-e of emissions reductions in the first budget period.

Budget Period	Tailwinds – would make budgets easier to achieve by...	Headwinds – would make budgets harder to achieve by
2022-2025	4 MtCO <sub>2</sub> -e	3 MtCO <sub>2</sub> -e
2026-2030	21 MtCO <sub>2</sub> -e	13 MtCO <sub>2</sub> -e
2031-2035	38 MtCO <sub>2</sub> -e	23 MtCO <sub>2</sub> -e

#### *Key sources of sectoral risk and uncertainty*

56. Some of the key risks and uncertainties identified by officials when assessing the policies, measures and assumptions included in the Commission's demonstration pathway for each sector are summarised in the table below:

Sector	Key risks or uncertainties in Commission's demonstration pathway for the first budget period
Energy and industry	<ul style="list-style-type: none"> <li>New Zealand Aluminium Smelter does not close at the end of 2024 or is replaced by significant new load</li> <li>Fuel switching from fossil fuel to biomass for industrial heat is less than modelled</li> <li>Thermal power generation in general is higher than projected and/or renewable generation build is lower than projected.</li> <li>In a worst-case scenario where the above risks eventuate, this could add up to increased emissions of between 3 to 6 MtCO<sub>2</sub>-e.</li> <li>On the other hand, earlier than anticipated closure of large scale high-emitting plants could reduce emissions. For example, confirmation of the proposal to convert the Marsden Point refinery to an import-only terminal would lower emissions by 0.75 MtCO<sub>2</sub>-e per annum.</li> <li>In general, the risks of actual emissions being lower than currently projected appears to be less likely and of lower magnitude than the key risks identified above.</li> </ul>
Transport	<ul style="list-style-type: none"> <li>The Commission's demonstration pathway essentially holds transport emissions level at 2019 levels, despite projected growth in vehicle numbers etc. The required abatement from the transport system in later emissions budgets periods is significantly greater.</li> </ul>

Sector	Key risks or uncertainties in Commission's demonstration pathway for the first budget period
	<ul style="list-style-type: none"> <li>To achieve the transport reductions, a number of complementary policies need to be introduced as a package. Key considerations are the ability to deliver on the infrastructure needs across many systems, the level of investment required, and the significant behavioural change needed across society. Quantifying single policies from within the package is difficult to do.</li> </ul>
Agriculture	<ul style="list-style-type: none"> <li>Agriculture emissions projections are affected by several factors that are extremely difficult to model in the long term, including the impact of the proposed agricultural emissions pricing signal, uptake of mitigation practices, technological progress and methodological changes.</li> <li>The Commission's demonstration pathway for agriculture assumes farmers succeed in making significant productivity gains at the same time as reducing livestock numbers through early adoption of currently available mitigation practices. How much of this is happening is difficult to quantify as there is uncertainty about what actions have been taken or are underway.</li> <li>The Commission's demonstration pathway did not assume that any new technologies (eg. a methane inhibitor or vaccine) would be available prior to 2035. If such technologies did become widely available and adopted, they would provide greater flexibility in how the emissions budgets could be met.</li> </ul>
Waste	<ul style="list-style-type: none"> <li>s 9(2)(f)(iv)    Projections include significant uncertainty because they are based on very limited data, so improvements to measurement are likely to shift baselines.</li> <li>Achieving this target would require significant focus on waste policies during the first three budget periods and would have to include policies such as             <ul style="list-style-type: none"> <li>o funding and implementing a national licencing regime for all disposal/recovery facilities</li> <li>o implementing kerbside organic waste collections</li> <li>o implementing landfill gas (LFG) capture for Class 1 landfills currently without LFG capture in place.</li> <li>o banning divertible organic materials disposal to Class 1 landfills by 2030</li> <li>o banning all organic materials from Class 4-5 landfills not suitable for LFG capture by 2030.</li> </ul> </li> </ul>
Forestry	<ul style="list-style-type: none"> <li>MPI updated its projections for forestry emissions removals in June 2021, after the Commission published its advice. Projected net removals during the first emissions budget have decreased, due primarily to a projected increase in planting that would result in an initial release of carbon from soil disturbance and clearance of vegetation.</li> <li>The updated projections have resulted in a gap of 2 Mt CO<sub>2</sub>-e for forestry in the first emissions budget between MPI's base case projections and the Commission's demonstration pathway. The Commission's recommended</li> </ul>

Sector	Key risks or uncertainties in Commission's demonstration pathway for the first budget period
	<p>removals for the first emissions budget are still within the upper end range of MPI's projections.</p> <ul style="list-style-type: none"> <li>MPI's base case projections would see the Commission's projected emissions removals met in the second emissions budget and exceeded in the third emissions budget. Forestry projections are highly uncertain and dependent on investor and landowner decision-making.</li> </ul>

*Measurement uncertainty and volatility is also large*

57. The risks and uncertainties outlined above relate to critical assumptions about real world outcomes and are potentially large compared to the amount of emissions reduction required. However, the volatility and uncertainty in the estimates and projections themselves could be higher still.
58. Comparing the Commission's recommended budgets to its 'headwinds' and 'tailwinds' scenarios creates a range of 5.1 to 11.8 MtCO<sub>2</sub>-e around the demonstration path reductions of 8.1 MtCO<sub>2</sub>-e in the first budget period, a range of ±35-45%.
59. Current estimates of the additional emissions reductions potential of the current proposals for enhanced new policies in the emissions reduction plan range between 2.6 and 5.6 MtCO<sub>2</sub>-e. The range around the mid-point estimate is therefore currently about ±35%.

*The government's official emissions projections have been revised significantly upwards since the Commission issued its advice*

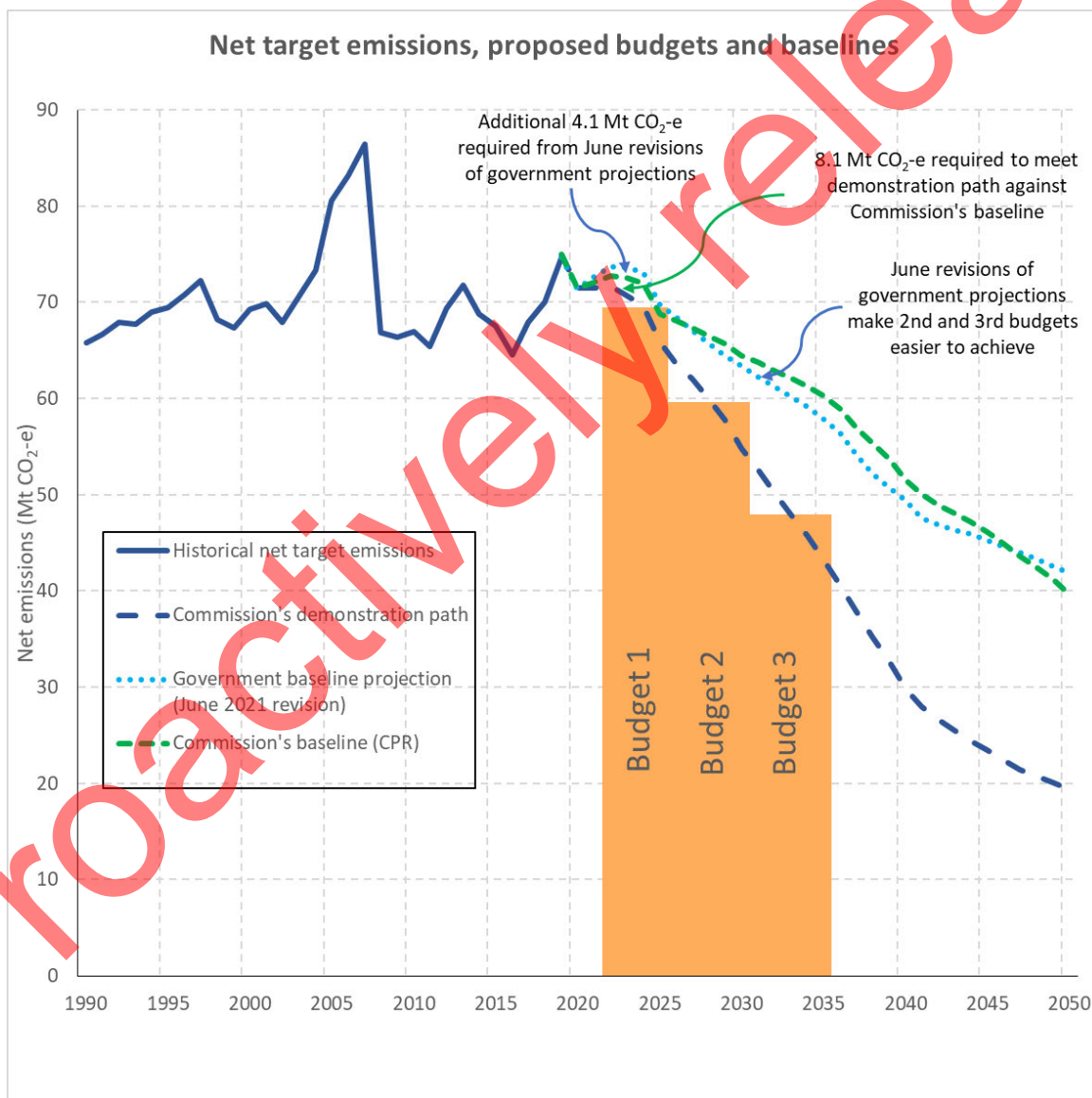
60. The Commission's CPR baseline<sup>17</sup> differs from the government baseline that officials have developed and use. When the Commission finalised its advice in May 2021 the two baselines were similar, but a June 2021 revision increased the government baseline projections.
61. Working from the Commission's baseline, the emissions reductions required over 2022-2025 to meet its proposed first emissions budgets amount to 8.1 MtCO<sub>2</sub>-e. The revision in the government projections has raised officials' estimate of the reductions needed to meet the Commission's recommended budget for 2022-2025 to 12.2 MtCO<sub>2</sub>-e. This has implications for the emissions reduction plan.
62. This recently increased estimate of the emissions reductions required could be offset if the future resembles the Commission's 'tailwinds' scenario with faster EV uptake, more transport behaviour change and greater uptake of methane-reducing farming practices. As noted in paragraphs 54 and 55, the

<sup>17</sup> The Commission's called its modelled baseline the 'current policy reference case' (CPR). Both the CPR and the official government projections attempt to forecast future emissions taking account of policies and trends already in place.



Commission estimated a 'tailwinds' future would deliver around 4 MtCO<sub>2</sub>-e additional emissions reductions in the first budget period under.

63. In other words, the revised government projections are still within the range of possibilities considered by the Commission, but may have removed the potential headroom the Commission factored into its analysis. However, the government projections will be revised again several times over the life of the emissions reduction plan.
64. The following chart shows how the Commission's proposed budgets and demonstration pathway compare to the Commission's baseline and the recently revised government projections. The estimated emissions reductions required against the government projections are higher for the first budget period (by 4.1 MtCO<sub>2</sub>-e) but lower for the second and third budget periods (by 3.1 MtCO<sub>2</sub>-e and 9.7 MtCO<sub>2</sub>-e respectively).



65. The upwards revision was largely due to updated projections for agriculture and forestry:



- 65.1. Agriculture projections have been revised based on the expected impacts of the freshwater reforms, changes in expected increases in production per animal, and revised assessments of the area of agricultural land that will be forested. The revisions have increased projected agricultural emissions by 2.3 MtCO<sub>2</sub>-e in the first emissions budget period.
- 65.2. Forestry projections have been revised due mainly to a projected increase in afforestation. Planting forests initially causes a release of carbon from soil disturbance and clearance of vegetation, and it takes time before this is outweighed by the carbon absorbed as the forest grows. Because of the increase in expected planting in the first budget period, forestry removals are now expected to be 1.5 MtCO<sub>2</sub>-e less than the Commission estimated in its baseline.
66. These projections are revised frequently and are significant in their variability. In recent years the pattern has been for the emissions projections to be revised downwards. The latest June revision is unusual in that it is a bigger change than recent revisions and gross emissions are projected to increase.
67. Projections of future forestry offsets have also increased, and these additional removals outweigh the gross emissions increase compared to the Commission's baseline from around 2026 onwards. As indicated in the chart above, this has the effect of making the second and third budgets relatively easier to achieve.
68. The recent announcement of the Marsden Point oil refinery shareholders' plans to cease oil refining activity from mid-2022 and convert the facility to an import terminal only is estimated to reduce emissions by about 0.75 MtCO<sub>2</sub>-e per year, or about 2.5 MtCO<sub>2</sub>-e in the first budget period. This change has the effect of making the budgets easier to achieve than previously estimated, as these emission reductions were not included in either the Commission's baseline or the government's projections.

*Option to modify the Commission's proposed emissions budgets in light of new information*

69. It would be possible to depart from the Commission's proposed budget to take account of new developments since the Commission reported at the end of May. In particular, a case can be made for revising the Commission's proposed budgets to recognise the changes in forestry emissions resulting from the new forestry intentions survey.
70. The new forestry intentions survey is significant new information gathered from external sources that was unavailable to the Commission when it prepared its final report. Due to the initial carbon emissions associated with expanded new forestry planting, emissions are projected to rise in the first emissions budget period. The expanded forest planting reduces emissions once the absorption in the new forests begins to dominate the initial release of carbon dioxide. Emissions are therefore now projected to be lower in the second and third emissions budgets periods.

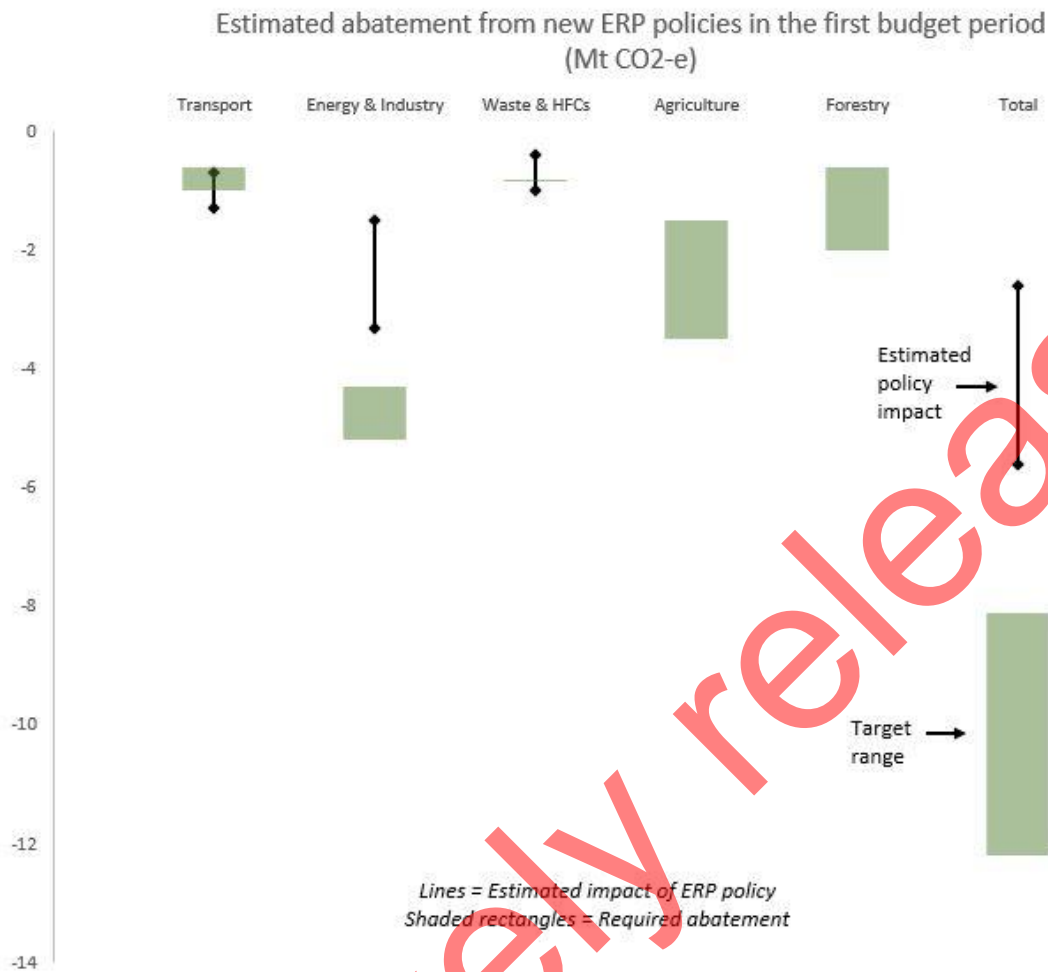
71. This option would increase the emissions allowed in the first budget period by 2 MtCO<sub>2</sub>-e, but decrease the total emissions allowed over the three budget periods by 14 MtCO<sub>2</sub>-e. These figures have been rounded up to the nearest whole number for each budget period (as were the Commission's proposed emissions budgets).
72. The table below sets out the estimated reductions in net emissions required below the current government baseline under this option<sup>18</sup>. Again it should be noted that our baseline projections are based on a large number of assumptions and all these estimates of current and future emissions will be subject to frequent revision over time.

<b>Emissions reduction required to meet modified proposed budgets against current government baseline projection</b>		
	Mt CO <sub>2</sub> -e	Percentage reduction
First budget period 2022-2025	10.2	3.5%
Second budget period 2026-2030	35.8	10.9%
Third budget period 2031-2035	72.	24%

#### *Quantifying the emissions reduction challenge*

73. Overall, agencies' proposals for the emissions reduction plan are currently insufficient to meet the reductions required for the first budget period as at the time of writing this paper.
74. Urgent work is underway to develop further options for inclusion in the emissions reduction plan, following discussion at Climate Response Ministers Group on 27 July.
75. As noted in paragraph 59, current estimates of the additional emissions reductions potential of the current proposals for enhanced new policies in the emissions reduction plan range between 2.6 and 5.6 MtCO<sub>2</sub>-e.
76. The following diagram gives a more detailed overview of both the emissions reduction challenge for the first emissions budget period and the high uncertainty ranges.

<sup>18</sup> This can be compared to the table set out in paragraph 10 showing the emissions reductions required for the Commission's recommended budgets



77. The diagram above shows the estimated abatement from key emitting sectors based on policies currently identified for inclusion in the emissions reduction plan. This abatement is compared to what is likely to be required to meet the Commission's recommended first emissions budget.
78. The shaded boxes show the level of abatement indicated in each sector to meet the Commission's demonstration path. The range in the green boxes shows the variation between the Commission's baseline and the Government's latest projections, which were revised substantially upwards in early June 2021 after the Commission had completed its analysis and reported.
79. The vertical lines with double arrows show the emissions reduction estimated from policies currently being put forward as part of the emissions reduction plan. Currently, only Transport shows the ability to meet or exceed its notional share of the emissions reductions likely to be required.
80. The range in the vertical lines indicates low and high estimates of policy impact. Some policy impact estimates are provisional and other policies do not currently have estimates of emissions abatement that can be provided. The uncertainty of the estimates should be considered high.

81. As noted, work is underway to identify additional policy options to close the gap between current policy impact estimates and the target range of required abatement.

*The first three emissions budgets must be decided together*

82. The CCRA requires a rolling set of three emissions budgets to be in place at all times. Future governments will only face a decision to set a new budget once every five years to cover a budget period that is 10-15 years into the future.
83. This year's decisions on emissions budgets are more difficult because it is the first time emissions budgets are being set and three emissions budgets are being set at once. In future there will be a full 12 months for the government to consider the Commission's advice before deciding the next additional emissions budget (for 10-15 years into the future).

*Risk management options exist to meet the Commission's 'demonstration pathway'*

84. Current emissions projections have short shelf-lives and will inevitably continue to change significantly over time. Over the life of the emissions reduction plan, the government has the ability to continually review the effectiveness and progress of the policies and strategies it contains, and check whether these need to be redirected or enhanced in the light of new information and changed circumstances.
85. There are a range of structures and mechanisms to do this, including the Climate Response Ministers Group and the Climate Change Chief Executives Board. These will likely need to evolve and be built on further over time, with clearer assignment of both individual and collective accountabilities and responsibilities across government.
86. Further risk management options include adopting an adaptive management approach, adjusting ETS settings and accessing the borrowing mechanism in the CCRA.

*Adaptive management*

87. There will be a need to invest more into monitoring progress and evaluating the impacts of both current and potential policy measures. This will include building capability and capacity across government to be able to quickly and effectively adjust policy settings to meet emissions budgets.
88. The CCRA envisages and enables an adaptive management approach. The government has the ability to amend the emissions reduction plan during its lifetime to keep it current. The CCRA explicitly allows for both minor technical changes, and more significant changes to policies and strategies (although more significant changes would require further formal consideration of the Commission's advice and adequate consultation).
89. The government's ability to make mid-course corrections is however limited by the lead times of policy development and implementation, especially over

the four-year life of the first budget period from 2022. It will therefore be important to develop a portfolio of potential additional actions that are under initial consideration and preparation, in case some of these are needed to be brought on stream as quickly as possible.

#### *Adjusting New Zealand Emissions Trading Scheme settings*

90. Under the CCRA, one of the purposes of the NZ ETS is to assist New Zealand to meet its 2050 target and emissions budgets<sup>19</sup>. Once emissions budgets are set, annual decisions are required to update ETS unit supply on a five-year rolling basis. This annual update process can be used to regularly adjust future unit supply in line with those budgets.
91. Under the rising price corridor proposed by the Commission, the NZ ETS price could drive up to 30 per cent of the gross reductions (outside agriculture) for the first budget period required to meet the Commission's demonstration pathway. If the NZ ETS price corridor does not rise in line with the Commission's assumptions, then the shortfall that would be required to be met by other policies would be greater still. Higher NZ ETS prices will produce greater emissions reductions.

#### *Banking and borrowing*

92. The CCRA allows for up to one per cent of each emission budget to be borrowed from the next. Based on the Commission's recommended budgets, the maximum available for the first emissions budget period would be about 3 MtCO<sub>2</sub>-e. If it were needed, this could provide a reasonably significant buffer given the emissions reductions likely to be sought are in the order of 10 MtCO<sub>2</sub>-e.
93. There are some constraints to using borrowing to cover a shortfall. The CCRA requires the Commission to advise on quantities that may be borrowed and the Minister must have regard to that advice. The Commission might not consider the use of borrowing to be appropriate if it considered the shortfall was something the government could have avoided.

#### *Offshore mitigation*

94. The CCRA prioritises domestic action for meeting emissions budgets and require the Commission to advise on the amount of offshore mitigation that can be used. The Commission has recommended that offshore mitigation should only be used as a last resort under force majeure conditions.
95. The CCRA states that offshore mitigation may be used if there is a significant change of circumstance that affects either the considerations on which the relevant budget was based, or the ability to meet the relevant budget domestically. s 9(2)(f)(iv)

<sup>19</sup> Climate Change Response Act 2002, section 3 (1)(b)(ii)



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### *Consideration of CCRA requirements*

98. When setting emissions budgets, I am required to consider a range of matters under sections 5ZB and 5ZC of the CCRA<sup>20</sup>. Officials have provided me with preliminary advice on these matters. The Commission is also required to consider section 5ZC matters when providing its advice. I have therefore considered officials' preliminary assessment of the Commission's advice where that is relevant to my decision to set emissions budgets.
99. Further work is required before the government can take final decisions and notify the final set of emissions budgets and respond to the Commission's advice. This work includes:
- 99.1. carefully addressing all the legal requirements
  - 99.2. assessing the risks and uncertainties in more depth
  - 99.3. completing officials' review of the Commission's published advice and underlying analysis and supporting documentation.

### *The Commission's consultation on emissions budgets was adequate*

100. The Commission undertook broad public consultation, running a programme of consultation and engagement meetings and events during development of advice and the consultation period on draft advice. Around 200 events were held or attended by Commission staff during the consultation period, with more events held online. These were attended by approximately 7,000 people. The Commission received more than 15,000 submissions from a wide range of businesses, NGOs and individuals across the country.
101. The Commission has clearly documented where its advice changed as a result of consultation, demonstrating a willingness to listen as well as to assess and respond to new evidence they received. Officials advise that,

<sup>20</sup> These sections list matters relevant to advising on, and setting emissions budgets, including key opportunities for emissions reductions and removals, principal risks and uncertainties associated with these and a range of other matters.

based on their analysis, the Commission's consultation as a basis for setting emissions budgets was adequate.

102. However, the Commission's consultation does not discharge the need for the Crown to engage with Māori because it is the Crown who is the Treaty partner with Māori rather than the Commission.

*Further decisions are required to set final emissions budgets before the end of the year*

103. If the full assessment of the Commission's advice can be completed in the next few months, it would be possible to return to Cabinet to confirm the final decisions on emissions budgets before the 26<sup>th</sup> UN Climate Change Conference (COP26) in November 2021.<sup>21</sup> My intention is to submit Part I of the emissions reduction plan, containing decisions on emissions budgets, to the UNFCCC in time for the November COP [CBC-21-MIN-0044 refers].
104. Before publication of the budgets the CCRA requires the Minister of Climate Change to consult the appropriate representative of each of the political parties represented in the House of Representatives. Once the emissions budgets have been finalised, the emissions budgets must be notified in the Gazette; presented to the House and made publicly available.<sup>22</sup>

*Making in-principle decisions on emissions budgets now gives context to consultation on specific policies to meet the emissions reduction plan*

105. Having a clear in principle decision on emissions budgets now enables the focus of the emissions reduction plan consultation to be on the policies required to achieve the budgets. This also enables the Government to clearly signal its preferred direction and takes the next steps in the transition to the low-emissions economy.
106. Although final decisions cannot be taken at this time, I propose that the Government agree in principle to broadly accept the Commission's recommended emissions budgets, but modify them to take account of new information from the latest forestry intentions survey.
107. Keeping close to the Commission's recommended emissions budgets in this way builds confidence in the zero carbon framework and the independent role of the Commission.

*Making in principle decisions on emissions budgets now also allows time to seek cross-party support*

108. The Commission recommended seeking cross-party support before taking final decisions on emissions budgets and debating them in Parliament, so that

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<sup>21</sup> Judicial review proceedings have been filed against the Commission and the Minister of Climate Change by Lawyers for Climate Action NZ. Officials anticipate there could be further legal challenge on emissions budgets decisions.

<sup>22</sup> Climate Change Response Act 2002, section 5ZD

the support and appetite for change of elected officials are a matter of public record.

109. I propose to seek cross-party support for emissions budgets once in-principle decisions are made and recommend that these decisions are debated in Parliament as the Commission recommends.

*Measuring progress towards the emissions budgets and the 2050 target*

110. The Commission recommends a package of rules for measuring progress towards emissions budgets and the 2050 targets. At a high level, they recommend:
- 110.1. using the production-based approach from the New Zealand Greenhouse Gas inventory as the accounting basis for emissions budgets and targets (Commission recommendation 5a)
  - 110.2. using the modified activity-based framework for land emissions accounting to substantially align emissions budget accounting with the approach used for accounting for the NDC (Commission recommendations 5b and 5c).
111. Following these rules means that accounting for emissions budgets will be more consistent with international targets and less subject to variation when measuring emissions from the land use sector over time. The government must provide a written response to these recommendations when final decisions are made to set emissions budgets.
112. The Commission also recommends that from 2021 adjustments should be made to the relevant emissions budgets or inventory if the Government allows voluntary offsetting for carbon neutral claims to take place through cancellation of New Zealand units (NZUs). Work is underway to produce guidance before the end of the year on voluntary mitigation and the associated claims that can be made.

**Financial Implications**

113. Making in-principle decisions to accept the Commission's recommended emissions budgets has no immediate financial implications beyond existing departmental baselines.
114. Final decisions to set emissions budgets and the final emissions reduction plan will have financial implications, including wider fiscal and economic implications, which will be outlined in the Cabinet paper(s) seeking final policy decisions.

**Legislative Implications**

115. Setting emissions budgets has no direct legislative implications.
116. The legislative implications of any decisions on policy proposals required to meet the emissions budgets through the emissions reduction plan will be

considered when final policy decisions are made. Drafting approval for legislative amendment would be sought at the time of policy decisions in late 2021 or later if the policy is indicated in the plan but is scheduled for development on a longer timeline.

s 9(2)(h)

## Impact Analysis

### Regulatory Impact Statement

119. Setting the targets for the emissions budgets is not a regulatory proposal and therefore Cabinet's impact analysis requirement do not apply. In the next stage, impact analysis will be provided to support any decisions by Cabinet to implement policies that have regulatory impacts.

### Climate Implications of Policy Assessment

120. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal. However, the impact of setting the emissions budgets is difficult to disaggregate and accurately quantify.
121. Setting emissions budget will have direct implications on the NZ ETS cap and unit supply volumes. The Provisional Emissions Budget (PEB) for 2022-2025 resulted in an NZ ETS cap of approximately 126.7 Mt CO<sub>2</sub>-e. If the cap was updated based on the Commission's recommended AR5 budget, the cap would be reduced to 124.1 Mt CO<sub>2</sub>-e. Assuming other settings related to stockpile adjustments and free allocation remained the same, this would result in 2.6 million fewer units available to auction to the NZ ETS market over the first budget period. A final assessment of ETS implications will be reported when final decisions on emissions budgets are made.
122. Outside of the direct NZ ETS impact, setting the emissions budgets will have an indirect impact on emissions as the intended level of impact of policies and measures within New Zealand's first emissions reduction plan will be directly reflective of the emissions budget levels, particularly for the first budget period. Policies and measures within the emissions reduction plan are being assessed for their emissions impact where appropriate and possible and will be disclosed to Cabinet as final decisions are sought.

## Population Implications

123. The population implications of policies and strategies progressed as part of the emissions reduction plan will be outlined in papers seeking final policy decisions from Cabinet.
124. The disproportionate impacts on population groups identified in the Commission's final advice will be addressed through Regulatory Impact Statements on specific policy proposals.
125. The emissions reduction plan includes further information on the distributional impacts of policies and measures within the scope of the plan and will include a response to the Commission's recommendation to develop a comprehensive Equitable Transitions Strategy.

## Te Tiriti o Waitangi

126. In its final advice to Government, the Commission identified that Māori, iwi and hapū are likely to be disproportionately impacted by the transition to a low emission and climate resilient economy more than others. Though support for strong climate action is high amongst Māori.
127. The Commission recommended that the Government work in partnership with Māori, iwi and hapū to develop a strategy that ensures the principles of Te Tiriti o Waitangi are embedded in emissions reductions plans.
128. The Commission further recommends that, to ensure a just transition occurs, strategies, policies and decisions at all levels should be made in partnership with Māori. The Commission also recommends that the He Ara Waiora framework is embedded in policy development.
129. Government will work with Māori, iwi and hapū to enable them to play a key role as drivers of Aotearoa's transition and ensure they are not disproportionately disadvantaged by climate change policies.
130. Māori have a significant stake in climate change action. Māori have a large economy and asset base in the primary industries and other sectors likely to be significantly impacted, both positively and negatively, by emission budget decisions and changes in emissions pricing. In addition Māori have Treaty-based rights and interests in natural resource use and management. It will be critical when implementing final proposals to maintain Te Tiriti o Waitangi principles, including as provided by section 3A of the CCRA.
131. Targeted consultation has been planned with Māori to expand on the key themes identified through the Commission's public consultation and to address main concerns through policy measures. The emissions reduction plan will seek to identify distributional impacts, including on Māori, iwi and hapū, and how these can be mitigated.
132. Government agencies are working through its schedule of emission reduction plan webinars and workshops. This includes holding hui with Māori, iwi and hapū to discuss particular issues and opportunities of interest to Māori,



including how we respond to the Commission's recommendation on building a Māori emissions profile and the distributional impacts strategy in the emissions reduction plan.

## Human Rights

133. There are no inconsistencies between these proposals and the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

## Consultation

134. Agencies consulted in the development of this paper were: the Treasury; Ministry for Primary Industries; Ministry of Justice; Ministry of Business, Innovation and Employment; Energy, Efficiency and Conservation Authority; Ministry of Social Development; Ministry of Transport; Ministry of Housing and Urban Development; Department of Prime Minister and Cabinet.

## Communications

135. The Ministry for the Environment will include these in principle decisions on emissions budgets in the discussion document supporting consultation on the emissions reduction plan.
136. The Ministry for the Environment will undertake an information campaign to raise awareness of the public consultation and intends to reach a wide range of New Zealanders through multiple platforms and via a number of online and in-person events. Full details of the communications planned are given in the related cabinet paper seeking approval to release the discussion document *'Te hau mārohi ki anamata: Transitioning to a low-emissions and climate resilient future: Have your say and shape the emissions reduction plan'*.
137. Targeted consultation/hui has been planned with Māori / iwi to expand on the key themes identified through the Commission's public consultation and to address main concerns through policy measures.

## Proactive Release

138. I propose to proactively release this paper on the Ministry for the Environment's website, subject to redactions as appropriate to those under the Official Information Act 1982, once final emissions budgets have been set.

## Recommendations

The Minister of Climate Change recommends that the Committee:

- 1 **note** that achieving the purpose and goals of the Zero Carbon Act 2019 (ie. the amendment that brought the setting of emissions budgets into the Climate Change Response Act 2002) is an agreed area of cooperation in the Labour Party and Green Party of Aotearoa New Zealand Cooperation Agreement

- 2 **note** there are a number of requirements and considerations in the Climate Change Response Act 2002 (CCRA) that must be met before New Zealand's first set of emissions budgets can be formally decided and notified
- 3 **note** the first three emissions budgets must be set by 31 December 2021
- 4 **note** the Climate Change Commission (the Commission) has recommended a first set of emissions budgets for New Zealand as follows:

<b>Emissions Budget</b> <b>Period covered</b>	Emissions budget 1 2022 – 2025	Emissions budget 2 2026 – 2030	Emissions budget 3 2031 – 2035
Net emissions of all greenhouse gases  Expressed using GWP <sub>100</sub> values from the IPCC's Fifth Assessment Report (AR5)	290 MtCO <sub>2</sub> -e	312 MtCO <sub>2</sub> -e	213 MtCO <sub>2</sub> -e

- 5 **note** the Commission has undertaken extensive analysis and consultation and recommended a set of emissions budgets that it considers strike the right balance between ambition and achievability
- 6 **note** that there is a process available under the CCRA for revising future emissions budgets, but once an emissions budget period has started that budget can only be revised in exceptional circumstances and only following a recommendation by the Commission
- 7 **note** that officials have assessed the consultation process undertaken by the Commission with respect to its recommended emissions budgets as being adequate in terms of reasonable expectations and the statutory requirements of the CCRA
- 8 **note** the CCRA provides for up to one per cent of the next emissions budget to be borrowed to offset any shortfall
- 9 **note** there are other ways to manage the risks and uncertainties around meeting emissions budgets over time, including using NZ Emissions Trading Scheme settings to encourage emissions unit prices to rise, increasing direct government investment, early signalling of future regulation, strong partnerships with business and community leaders, and effective information and behaviour change programmes
- 10 **note** the ability for the government to deploy the measures in recommendation 9 for the first emissions budget period are more constrained than future periods because of the long lead-in times before new policies start to take effect and have significant impacts

- 11 **note** the CCRA allows the Minister to set emissions budgets that are different from those recommended by the Commission
- 12 **note** that since the Commission reported on 31 May 2021, officials have revised government projections of emissions for forestry and agriculture
- 13 **note** that increased afforestation initially increases carbon emissions but over time forest growth leads to significant net removals of carbon emissions
- 14 **note** that the revised forestry projections are mainly the result of a recent survey of forestry intentions, which is new information from external sources that was not available to the Commission when it prepared its advice and can be distinguished from the revised agriculture projections that are more related to new assessments by officials rather than new information per se
- 15 **note** that the new forestry projections are expected to result in the following changes in emissions over the first three emissions budget periods:

<b>Emissions Budget</b>	Emissions budget 1	Emissions budget 2	Emissions budget 3
<b>Period covered</b>	2022 – 2025	2026 – 2030	2031 – 2035
Change in projected net emissions following the 2021 Afforestation and Deforestation Intentions report	+ 1.5 MtCO <sub>2</sub> e	- 5.0 MtCO <sub>2</sub> e	- 10.7 MtCO <sub>2</sub> e

- 16 **note** the CCRA requires the government to put in place an emissions reduction plan setting out the policies and strategies for emissions reductions and removals to achieve emission budgets
- 17 **note** the first emissions reduction plan is still under development and Ministers and officials are actively working on additional measures as the estimated impacts of policies currently proposed fall short of the reductions likely to be required in the first budget period
- 18 **note** there are significant measurement uncertainties around the estimates of emissions reductions required, and baseline projections are frequently revised
- 19 **note** the emissions reduction plan can also be further enhanced and amended over its lifetime
- 20 **agree** the emissions reduction plan should be closely monitored and tightly managed to ensure it makes the necessary progress towards meeting the budgets

21 **agree** that strong governance and accountability mechanisms are needed to ensure that any corrective action needed to keep the emissions reduction plan on track can be taken with high priority and urgency

22 **note** that I will seek decisions on the governance of and accountability for the implementation of the emissions reduction plan alongside decisions on the content of the plan late in 2021

23 § 9(2)(f)(iv)

24 § 9(2)(f)(iv)

25 § 9(2)(f)(iv)

26 **note** the government is not yet in a position to make a final decision on emissions budgets as further detailed work is still required to completely address all the legal requirements, assess the risks and uncertainties in more depth, and complete official's review of the Commission's published advice and underlying analysis and supporting documentation

27 **agree** it is timely to take a decision in principle on emissions budgets now, as this will help clarify the government's intentions for forthcoming consultation over the contents of the emissions reduction plan

28 **agree in principle** to a departure from the Commission's recommended emissions budgets to take account of the revised forestry projections resulting from new information as follows (rounded up to the nearest megatonne of carbon dioxide equivalent)

Emissions Budget	Emissions budget 1	Emissions budget 2	Emissions budget 3
Period covered	2022 – 2025	2026 – 2030	2031 – 2035
Net emissions of all greenhouse gases			
Expressed using GWP <sub>100</sub> values from the IPCC's Fifth Assessment Report (AR5)	292 MtCO <sub>2</sub> e	307 MtCO <sub>2</sub> e	242 MtCO <sub>2</sub> e

29 **note** that at the same time as it sets and notifies the emissions budgets, the government must also provide a written response to the Commission's advice related to emissions budgets, including its recommendations on:

29.1 the rules that will apply to measure progress towards meeting emissions budgets

29.2 the appropriate limit on offshore mitigation that may be used to meet an emissions budget, and an explanation of the circumstances that justify the use of offshore mitigation

30 s 9(2)(f)(iv)

31 s 9(2)(f)(iv)

32 **direct** officials to report back by 31 October with final recommendations on setting emissions budgets and responding to the Commission's advice related to emissions budgets, including final advice on meeting the requirements of the CCRA under sections 5ZB and 5ZC.

Authorised for lodgement

Hon James Shaw

Minister of Climate Change