

In-Confidence

Office of the Minister of Climate Change

Cabinet Economic Development Committee

Emissions reduction plan: meeting New Zealand's emissions budgets

Proposal

- 1 This paper provides an overview of the next steps to produce New Zealand's first emissions reduction plan and publish it in conjunction with the Budget in May 2022.
- 2 This paper:
 - 2.1 describes how the emissions reduction plan will deliver the coherent strategic package required to meet proposed emissions budgets in response to the Climate Change Commission's (the Commission) advice
 - 2.2 clarifies how decisions will be brought to Cabinet between now and March 2022 to enable the emissions reduction plan to be published
 - 2.3 provides a list of proposed responses to the Commission's recommendations
 - 2.4 seeks early decisions to:
 - 2.4.1 confirm the Government's strategic approach to developing policies and measures for inclusion in the emissions reduction plan
 - 2.4.2 develop sector sub-targets for the first emissions budget period
 - 2.4.3 confirm changes to Ministerial responsibility for delivery of emissions reduction plan chapters since April 2021.

Relation to government priorities

- 3 The Government declared a climate change emergency on 2 December 2020. Cabinet agreed that climate change "demands a sufficiently ambitious, urgent, and coordinated response across government to meet the scale and complexity of the challenge" [CBC-20-MIN-0097 refers].
- 4 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].
- 5 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

New Zealand's first emissions reduction plan takes a balanced strategic approach to meeting proposed emissions budgets

- 6 New Zealand's first emissions reduction plan will set out how we intend to collectively respond to the climate change emergency and take domestic action to meet our proposed emissions budgets.
- 7 Cabinet agreed in-principle in August 2021 to broadly accept the Commission's advice on emissions budgets [CAB-21-MIN-0320.01 refers] based on its assessment that the emissions budgets are ambitious but achievable.
- 8 New Zealand is not currently on track to meet the proposed domestic 2050 targets. Reaching these targets requires gross (long lived) emissions to decline much more rapidly than current projections.
- 9 The Government's preferred approach to meet proposed emissions budgets is to implement a coherent strategic package, comprising a mutually supportive and balanced mix of emissions pricing, well-targeted regulation, tailored sectoral policies and direct investment. This includes: an effective emissions price, and additional measures to overcome other barriers; mechanisms for public and private investment in innovation and infrastructure; and helping nature to thrive.

Decision pathway to publish the plan and respond to the Commission

- 10 Delivering an emissions reduction plan that has the right mix of actions to achieve the ambitious cuts in emissions required for the first three proposed emissions budgets requires decisions to be taken on a large collection of proposed actions across all sectors of the economy over the next few months.
- 11 Decisions on proposed policies and measures for inclusion in the emissions reduction plan will be sought through a series of papers coming to Cabinet in February and March 2022.
- 12 The final emissions reduction plan will be brought to Cabinet for approval in April 2022 prior to finalisation of Budget 2022 and to enable publication during May 2022.
- 13 Actions to reduce emissions in the first emissions budget period come primarily from the energy and transport sectors, with smaller scale (although still significant for their sector) contributions from remaining sectors. Many other sector proposals focus on enabling future action.
- 14 In August 2021 the estimated emissions reduction potential of proposals for new policies ranged between 2.6 and 5.6 MtCO₂-e. Further proposals have now been added and/or quantified increasing the estimated emissions reductions to between 4.5 and 9.0 MtCO₂-e, with an additional 3.0 MtCO₂-e of reduction due to the expected closure of the refinery (assuming this occurs).
- 15 The gap to meet the first emissions budget has reduced to 1.1 MtCO₂-e, assuming a high level of policy impact and excluding the refinery closure. If the refinery closure was included the first emissions budget would be over-achieved by 1.9 MtCO₂-e. These numbers will continue to change as estimates are refined. The sufficiency of

policies to achieve the first, and subsequent emissions budgets will be re-evaluated in March and for the final plan in April 2022.

16 s 9(2)(g)(i)

17 A comprehensive response to the Commission's advice, including responding to all of the detailed recommendations made by the Commission will be provided alongside the final emissions reduction plan (for an interim list of proposed responses to the Commission's recommendations, refer Appendix 1).

Immediate decisions are required to give direction for key cross-cutting proposals

18 To enable a timely response to key recommendations from the Commission's report, we need to take immediate decisions on key cross-cutting proposals to:

18.1 confirm the Government's strategic approach to developing policies and measures for inclusion in the emissions reduction plan

18.2 develop sector sub-targets.

The Government's preferred approach has implications for the NZ ETS and forestry in its current form

19 The Commission's analysis and advice on emissions budgets and its key recommendations on policy direction outline the importance of gross emission reductions in meeting New Zealand's targets. Through three alternative pathways, the Commission demonstrated that a stronger emphasis on gross emission reductions alongside a continuing need for emission removals are required to support meeting net zero emissions beyond 2050.

20 s 9(2)(f)(iv)

22 Afforestation continues to play an important role in the Commission's pathway with over 1.2 million hectares of new forest established between 2022 and 2050. As it stands the NZ Forest Service has already identified 1.2 million hectares of land that is suitable for permanent forests and another 1.6 million hectares that is suitable for production forestry. This is supported by analysis by Manaaki Whenua Landcare Research that identified an estimated 1.1 million hectares of land that is erosion prone and suitable for permanent forest cover.

23 Any changes to the ETS should not disincentivise the land use change required from an ecological economic and conservation perspective. We need a policy package

that provides the right incentives for emitters to reduce gross emissions while also supporting the levels and types of afforestation needed to meet our targets and budgets.

Background

New Zealand must respond to the Commission's advice and publish the first emissions reduction plan before 31 May 2022

- 24 The Commission provided advice to the Government in May 2021 on how to set its first three emissions budgets (2022-2025, 2026-2030, 2031-2035) and gave direction on the policies and strategies needed in its first emissions reduction plan.
- 25 Under the CCRA, the emissions reduction plan must include:¹
- sector-specific policies to reduce emissions and increase removals
 - a multi-sector strategy to meet emissions budgets and improve the ability of those sectors to adapt to the effects of climate change
 - a strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees and employers, regions, Māori/iwi, and wider communities, including the funding for any mitigation action
 - any other policies or strategies the Minister considers necessary.
- 26 The emissions reduction plan must set out the policies and strategies needed to meet the first emissions budget and will need to look ahead to the second and third budget periods, otherwise achieving those budgets will be more challenging.
- 27 The final emissions reduction plan will set out the government's response to the Commission's advice and will be informed by the results of public consultation which occurred over six weeks during October and November 2021. The statutory deadline for publishing the final emissions reduction plan was recently extended to 31 May 2022 [CAB-21-MIN-0372 refers].

Analysis

Decisions on the emissions reduction plan will be based on guiding principles and work towards a long-term vision

- 28 The Government's long-term vision for Aotearoa New Zealand is to build thriving, sustainable communities that are good for people and that function within the limits of our planet [DEV-21-MIN-0206]. In the context of climate change, this means transforming our society to enable an equitable transition to a low-emissions, climate resilient future.
- 29 To achieve this vision, the main purpose of the emissions reduction plan is to urgently reduce greenhouse gas emissions and increase carbon sinks, so that we meet our domestic emissions reduction targets. In doing so, we will also contribute to global efforts to limit temperature rise to 1.5°C.²
- 30 The guiding principles on the emissions reduction plan were included in the discussion document *Te hau mārohi ki anamata - Transitioning to a low-emissions and climate-resilient future* [CAB-21-MIN-0335 refers]. These are:

¹ Climate Change Response Act 2002, sections 5ZG (3)

² Te hau mārohi ki anamata: Transitioning to a low-emissions and climate-resilient future, p. 9

- 30.1 a fair, equitable and inclusive transition
- 30.2 an evidence-based approach
- 30.3 environmental and social benefits beyond emissions reductions
- 30.4 upholding Te Tiriti o Waitangi
- 30.5 a clear, ambitious and affordable path.³

31 Early feedback from public consultation indicates that there is support for a principled approach to the emissions reduction plan. Of those who disagreed with a principle, the most common disagreement was with the word 'affordable' in the fifth principle above. Submitters raised the idea that over the longer-term inaction could result in higher overall cost.

Decisions around emissions budgets and the emissions reduction plan determine our pathway to 2050

- 32 In August 2021, Cabinet agreed in-principle to broadly accept the Commission's recommended emissions budgets (with modifications for forestry projection changes) [CAB-21-MIN-0320.01 refers]. This decision defines the transition pathway out to 2035 and puts New Zealand on track to meet its domestic 2050 targets.
- 33 The Commission's advice was clear that New Zealand is not on track to meet our 2050 targets, stating that 'the path forward for Aotearoa must be different from our past approach'.⁴ In particular, they noted that the historical focus on net emissions meant that gross emissions in Aotearoa had continued to increase.
- 34 In developing the measures in the emissions reduction plan officials have extensively considered the Commission's advice. The Commission undertook a whole-of-economy modelling exercise and have significantly added to – and helped to consolidate – the evidence-base that will help to inform emissions reduction policy in New Zealand.
- 35 The Commission's advice on policy direction included consideration of scenarios in which no policy change occurred or an approach was undertaken that relied heavily on emission removals through forestry, rather than gross emission reductions. Neither approach enabled New Zealand to both meet and 'lock-in' net zero emissions beyond 2050.⁵
- 36 Emissions reductions are critical if we are to avoid shifting this responsibility to our children and future generations, and the ongoing need for land to be converted into forestry in the future to maintain net-zero emissions. At the same time, even with strong reductions in emissions, there is a critical ongoing role for forestry removals: to offset remaining emissions in hard-to-abate sectors, as the feedstock for a future bioeconomy, and to enable flexibility in our transition path.

³ Te hau mārohi ki anamata: Transitioning to a low-emissions and climate-resilient future, p. 20

⁴ Ināia tonu nei: a low emissions future for Aotearoa, p. 61

⁵ Ināia tonu nei: a low emissions future for Aotearoa, Chapter 6, p. 86

Decisions on the emissions reduction plan will be sought in early 2022

- 37 Proposed policies and measures for inclusion in the emissions reduction plan will affect all New Zealanders and will have an impact of every sector of the economy and society. Given these wide-ranging impacts, it is important that we get the policy settings right.
- 38 Given the size and scale of the transition required, these proposals will be presented to Cabinet in a series of papers during February and March 2022, followed by final approval of the full emissions reduction plan in late April 2022.

Decisions sought in December 2021

- 39 This paper seeks decisions to:
- 39.1 confirm changes to Ministerial responsibility for delivery of emissions reduction plan chapters since April 2021
- 39.2 confirm the Government's strategic approach to developing policies and measures for inclusion in the emissions reduction plan, including that a stronger focus is needed on gross emissions reductions.

Decisions sought in February and March 2022

- 40 Further papers will come to Cabinet in February and March to:
- 40.1 set emissions budgets and approve the formal government response to the Commission's emissions budget recommendations for publication (as required by the CCRA)
- 40.2 approve proposals for sectors and cross-sectoral areas for inclusion in the emissions reduction plan including, but not limited to; transport, energy and industry, building and construction, planning and infrastructure, circular economy and bioeconomy, behavioural outcomes, forestry, agriculture, government accountability, behaviour change, waste, equitable transition, an equitable transition for Māori, the financial system, nature-based solutions, the international dimension and research, science, innovation and technology
- 40.3 approve new proposals required for inclusion in the emission reduction plan that may emerge from consultation or further policy ^{s 9(2)(f)(iv)} [REDACTED]

A final decision to publish the full emissions reduction plan will be sought in April 2022

- 41 The full emissions reduction plan, including all policy decisions taken through to March 2022 will be brought back to Cabinet in April 2022 prior to publication in conjunction with Budget 2022 in May.
- 42 The final emissions reduction plan will include:
- 42.1 some actions already decided by the Government, to clear outstanding commitments from the Climate Action Plan 2019 [CBC-20-MIN-0097 refers] or to be covered by existing work programmes, for example the decision to

hypothecate NZ ETS revenue or decisions regarding the pricing of agricultural emissions under the He Waka Eke Noa partnership

- 42.2 details of the accountability framework required to support delivery of the actions in the emissions reduction plan.

Estimated abatement of proposed policies still falls short of the proposed first emissions budgets

- 43 The emissions reduction plan discussion document indicated that quantified policies identified to date could achieve total abatement of between 2.6 and 5.6 MtCO₂-e in the first emissions budget period.
- 44 Since that time several further initiatives have been quantified including; the biofuels mandate; NZ ETS impact on forestry (and flow on to agriculture); and Budget '22 initiatives in energy and industry, and agriculture. The quantification of these initiatives and others has increased the estimated emissions reduction potential to between 4.5 and 9.0 MtCO₂-e.
- 45 In addition to these figures, the expected closure of the refinery (assuming this occurs) would increase estimated emissions reductions by 3.0 MtCO₂-e.
- 46 If the impact of the refinery closure is excluded then the gap to the proposed first emissions budget is between 5.6 and 1.1 MtCO₂-e, depending on whether estimates of policy impact on emissions are low or high.
- 47 There are a number of risks and uncertainties that impact our ability to meet proposed emissions budgets. Estimates of current and future emissions are subject to assumptions and uncertainties and are frequently revised. Therefore, ultimately we should aim to over-achieve the budgets through both the number of, and expected efficacy of, policies in the emissions reduction plan to create a buffer to manage this uncertainty.
- 48 In addition to developing current and potential further measures to reduce emissions the government has a range of tools available to manage the risk that emissions budgets are not achieved. These include borrowing up to one per cent⁶ from the next emissions budget period or, in the event of a significant change of circumstances, utilising offshore mitigation⁷. The use of these options will be constrained to some extent by the need to consider current and future advice from the Commission on these matters, including its independent view of how well the government has implemented its policies and factored in the need for a buffer.
- 49 Work to quantify the full set of policy proposals included in the final emissions reduction plan is ongoing and I intend to report back on the progress of this work when final proposals come to Cabinet in March 2022, and again when the final plan is presented in April 2022. Updates on abatement of quantified policies will also be provided to the Cabinet Priorities Committee in December 2021 and February 2022.

⁶ One per cent of the proposed first emissions budget is 2.92 MtCO₂-e

⁷ CCRA, section 5Z(2)

Confirming responsibilities for delivering amended and new chapters of the emissions reduction plan

50 Cabinet first agreed to Ministerial and agency responsibilities for delivering the emissions reduction plan in April 2021 [CBC-21-MIN-044]. Since April, as policies have been developed and submissions have been analysed, it has become clear that there are gaps in the previously agreed chapter structure. Consequently, several new chapters have been added and the scope of one chapter has widened.

51 To finalise these chapters the Ministers responsible need to ensure that they have directed their agencies to prioritise delivering this work by the agreed timeframes.

52 I have sought the agreement of the Ministers concerned to these changes and, where relevant, have discussed the amended scope of their chapter with them.

53 I therefore seek Cabinet agreement to:

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9(2)
(g)(i) [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

We will respond to the Commission's recommendations as part of the final emissions reduction plan

54 When the final emissions reduction plan is published, the Government intends to provide a detailed response to all of the Commission's recommendations.

55 Many of the tranche one Cabinet papers include recommendations related to this detailed response. A summary of the recommended responses to the Commission's recommendations as at December 2021 is outlined in Appendix 1 of this paper.

56 Many of the recommended responses included in Appendix 1 are subject to future Government decisions, including future budgetary decisions. Agreement with any particular Commission recommendation does not commit future budget or Cabinet decisions, but is a commitment to work in good faith towards that recommendation.

57 Further responses to the Commission's recommendations will be included as part of the tranche two decisions during February and March 2022.

A successful pathway requires a balanced set of actions to support gross emissions reductions and sustainably increase our carbon sink

- 58 The Government's preferred transition pathway to meet the proposed emissions budgets is an integrated package of strategies, policies and measures, including the NZ ETS, a range of cross-sector measures and the alignment of system settings.
- 59 Having the right mix of actions to meet emissions budgets and emissions targets is important. International best practice supports a coherent strategic package, comprising a mutually supportive and balanced mix of emissions pricing, well-targeted regulation, tailored sectoral policies and direct investment.
- 60 Confirming the Government's approach now supports a timely response to key recommendations from the Commission regarding the balance of gross emissions reductions and carbon removals.⁸
- 61 Based on the Commission's analysis and advice, the coherent strategic package of policies is preferred over alternative approaches, which would mean high reliance on carbon pricing mechanisms such as the NZ ETS, high reliance on forestry, or high reliance on emerging technologies.
- 62 A balanced approach aims to capitalise on some of the benefits that each alternative provides while minimising and managing the costs and risks. For instance, sector specific policies can play a significant role by helping to reduce non-cost barriers that the NZ ETS cannot effectively address at lower prices. Targeted policies and measures can help to address and manage the distributional impacts arising from the transition.
- 63 Based on modelling and advice provided by the Commission it is clear that policies and measures are available today to enable New Zealand to begin the low emissions transition without relying on future technologies.

s 9(2)(f)(iv)

[Redacted]

[Redacted]

s 9(2)

⁸ Notably recommendations 2, 3, 11 and 25

s 9(2)(g)(i)

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Proactively released under the Official Information Act 1982

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9(2)
(g)(i)

Sector sub-targets will help us stay on our transition pathway and enable us to take appropriate corrective action

75 In August 2021, Cabinet invited the Minister of Climate Change to report back on the level and structure of sector budgets and to investigate options around accountability for delivery to these budgets [CAB-21-MIN-0320.01].

76 In September 2021 the Climate Response Ministerial Group agreed to establish sub-targets for each sector covered by the emissions reduction plan (transport; energy, industry and buildings; waste; fluorinated gases; agriculture and forestry and carbon sinks).

77 Officials have advised that the most effective use of sector sub-targets is as a tool for monitoring and managing the implementation of the emissions reduction plan. They advise that using sector sub-targets as a strict accountability mechanism risks leading to a sub-optimal mix of policies and higher overall costs due to more siloed action. I believe however that this risk can be mitigated by considering accountability for sector sub-targets alongside joint accountability for meeting emissions budgets in their entirety.

78 I therefore propose to establish sector sub-targets:

78.1 to measure the progress of each sector towards meeting the proposed emissions budgets

78.2 to hold Chief Executives of agencies accountable for sector sub-targets relevant to their agencies, while also being responsible as a group of Chief Executives for the whole emissions budget.

79 These sub-targets will provide visibility of progress across sectors, including of 'over' and 'under' performing sectors, enabling corrective action to be managed across the whole programme to ensure that emissions budgets will be met. Sector sub-targets are not intended to bind the Crown.

80 I intend to bring a further paper to Cabinet in early 2022 responding to the Commission's recommendations on government accountability that will outline the accountability pathway for sector sub-targets.

Sector sub-targets methodology based on Commission's demonstration pathway

81 I propose that the calculation for sub-targets for each sector should be based on the Commission's demonstration pathway.

82 The Commission's analysis is the only comprehensive path analysis undertaken to date. External expert and Government agency reviews have assessed the Commission's analysis to be fit for purpose. Our in-principle emissions budgets were also based on the Commission's pathway analysis.

83 However, officials note the Commission was concerned that its demonstration pathway should not be taken as a prescription for precisely how the Government should achieve the emissions budgets, and deliberately did not indicate 'sector

budgets' in recognition of the need for flexible adaptive management of progress and any overs and unders between sectors. To emphasise this point, the Commission renamed their path from 'Our path' in the draft report to 'Demonstration path' and supplemented it with alternative paths that also meet their recommended emissions budgets under a mix of different actions.

84 Officials also note that the Commission calculated its demonstration pathway by subtracting emissions reduction opportunities from its own 'current policy reference' baseline projections. The government's baseline projections are different and have a different sectoral profile. Therefore the abatement challenge in each sector is different from that built into the Commissions' demonstration pathway.

85 Given the large future uncertainties in projections and policy impacts, and the fact that these uncertainties are magnified when disaggregated by sector, I have been advised that sector sub-targets should at this stage be set only for the first emissions budget period. Sub-targets for the second and third emissions budgets are therefore provisional. The table below shows proposed sector sub-targets for the emissions reductions plan.

Sector (All gases, net (AR5) ¹⁰ , expressed in MtCO ₂ -e)	First emissions budget (2022-2025)	Second emissions budget (2026-2030)	Third emissions budget (2031-2035)
Transport Energy	65.9	76.0	56.8
Energy and Industry	70.1	72.8	63.3
Agriculture	159.4	191.0	183.0
Waste	13.7	14.9	12.7
F-gases	6.8	7.5	5.9
Forestry	(24.9)	(55.2)	(79.6)
Total¹¹	292.0	307.0	242.0

86 Once these sector sub-targets are in place for the first emissions budgets the numbers for each sector will remain fixed for that period, in the same way that the emissions budget figure does not change, even while the achievability of the targets will change over time. Its already clear that some sectors will achieve sector sub-targets more easily than others based on the Commission's demonstration pathway.

87 The proposed approach towards sector sub-targets, including the proposed calculation methodology, will be brought back to Cabinet for confirmation as part of the final emissions reduction plan in April 2022.

Implementation (for relevant papers)

88 Ministerial and departmental accountability for the implementation of each action in the emissions reduction plan will be included in the final plan for approval by Cabinet in 2022.

¹⁰ Expressed using GWP₁₀₀ values from the IPCC's Fifth Assessment Report (AR5) for consistency with international obligations relating to Inventory reporting.

¹¹ The sum of the component sector is different to the total, which is based on the in-principle budgets, this particularly affects the first budget period and is due to rounding.

Financial Implications

- 89 This paper does not attempt to summarise the financial implications of all the decisions coming to Cabinet that are related to the emissions reduction plan. Instead, the financial implications of decisions will be outlined in the relevant Cabinet paper alongside specific policy proposals.
- 90 While there will be significant costs associated with meeting our emissions budgets and climate objectives, in many cases the investments made now will more than pay for themselves in the long term. As the Commission notes in Ināia tonu nei *“the transition can be economically affordable and socially acceptable if it is well-paced, planned together with communities and well signalled”*. Delaying investments and action would result in greater cost to the economy and society, for example costs associated with increasing extreme weather events or abatement costs due to insufficient contribution to New Zealand’s Nationally Determined Contribution.
- 91 Having said that, there are some common aspects to all these decisions. In particular, due to the nature of and timeframes for the emissions reduction plan, many costs are likely to be realised progressively over time as foundational work is undertaken and initiatives become ready for funding and implementation. Where initiatives are likely to be implementation ready in the 2022 or 2023 financial year and costs are more clearly understood this will be noted in the relevant paper along with the funding source.
- 92 A significant number of initiatives will be subject to funding decisions from either Budget 2022 or future budgets and many have been invited for consideration as a CERF initiative. This will be noted in the relevant paper. CERF initiatives are likely to form a significant package when taken as whole for Budget 2022.
- 93 There are no immediate financial implications for the decision to agree that the emissions reduction plan should consist of an integrated package of strategies, policies and measures, or the decision to agree to prioritise gross emissions reductions until further work is done to consider options for how to amend the NZ ETS in line with these recommendations.
- 94 While there are no direct financial implications of setting sectoral sub-targets, there are costs to develop the associated monitoring and accountability framework.

s 9(2)(f)(iv)

Legislative Implications

- 95 This paper is an overview paper that has no direct legislative implications.
- 96 Legislative and regulatory changes will be required to implement proposals contained within the final emission reduction plan. Drafting approval for legislative amendments would be sought for these proposals through related policy papers on specific policies.
- 97 s 9(2)(h)

s 9(2)(h)

Impact Analysis

Regulatory Impact Statement

- 99 A panel consisting of representatives from the Ministry of Business, Innovation and Employment, Ministry for the Environment, Ministry for Transport and the Treasury has reviewed the Regulatory Impact Statement (RIS) "Transition pathway for the emissions reduction plan" produced by the Ministry for the Environment. The review panel considers that it **partially meets** the Quality Assurance criteria.
- 100 The RIS presents a high-level qualitative analysis and the detailed costs and benefits of the preferred option are difficult to measure at this point. The RIS also does not fully reflect feedback from the recent consultation. More detailed assessment of costs and benefits, and consultation feedback, should be included in the final RIS for the Emissions Reduction Plan and in supporting RISs for specific policies that have regulatory impacts.
- 101 The Panel also notes that the RIS does not include options for monitoring and review, and that options for governance, monitoring and review will be presented for Cabinet's consideration in March 2022.

Climate Implications of Policy Assessment

- 102 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this paper as the initiatives do not have a direct emissions impact.
- 103 The decisions however will play an important role in enabling the success of the emissions reduction plan and whether emissions budgets/targets are met.
- 104 Specific proposals for inclusion in the emissions reduction plan will be assessed for emissions impacts and these impacts will be disclosed to Cabinet as the proposals are advanced.

Population Implications

- 105 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.
- 106 The disproportionate impacts on population groups identified in the Commission's final advice will be addressed through Regulatory Impact Statements on specific policy proposals.

- 107 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

- 108 The Climate Change Response Act 2002 sets out specific requirements to enable the Government to give effect to the principles of Te Tiriti o Waitangi. For the emissions reduction plan, the Minister of Climate Change is specifically required to ensure that:

108.1 the emissions reduction plan contains a strategy that recognises and mitigates the impacts that the transition will have on Māori

108.2 iwi and Māori have been adequately consulted on the emissions reduction plan.

- 109 Māori and the Crown must work together in good faith to ensure our climate emergency response appropriately recognises Māori rangatiratanga and kaitiakitanga and the kāwanatanga of the Crown.

The emissions reduction plan will include a strategy that recognises and seeks to mitigate the impacts of the transition, including on iwi and Māori

- 110 The final emissions reduction plan will include a strategy that recognises and mitigates the impacts of the transition on employees, employers, regions, iwi and Māori and affected communities. Work on this strategy is underway and further decisions will be sought from Cabinet prior to publication of the plan.

- 111 The emissions reduction plan will also include a focus on achieving an equitable transition for Māori. I recognise the Commission's advice that Māori, iwi and hapū are likely to be disproportionately vulnerable to the impacts from the transition to a low-emission and climate resilient economy. It is important that – while support for strong climate mitigation is high amongst Māori – action does not come at the expense of Māori rights and interests. Upholding Tiriti principles throughout the development of emissions reduction policies and strategies will help to ensure this does not happen.

- 112 I recognise that a large Māori asset base currently sits in the primary industries, as well as Treaty-based rights and interests in natural resources, and Treaty settlement arrangements over forests (native and plantation) and water. Consideration of settlement legislation and the impacts of policies on this asset base will be critical when deciding and implementing final proposals.

The emissions reduction plan will be informed by public consultation and ongoing engagement with Māori

- 113 While Māori engagement has been impacted by the large reform agenda, COVID-19 and confusion around the relative roles of the Commission and the Government, officials have been actively working to ensure that consultation is adequate.

- 114 As noted above, public consultation on the emissions reduction plan took place from 13 October – 24 November 2021. Over 10,000 submissions were received and are currently being analysed.

115 Officials have also continued to engage directly with iwi and hapū following the close of the consultation period. These conversations have focussed on understanding iwi and hapū aspirations as well as the opportunities and challenges presented by the transition. The emissions reduction plan has been a key focus of recent discussions and will continue to be as the emissions reduction plan is developed and implemented. I also note that a survey seeking feedback on aspects of the emissions reduction plan is currently underway. This is being facilitated by Ihirangi.

116 Māori foresters have given strong feedback during consultation that, given the nature of Māori land, they would be adversely and disproportionately impacted if the Government were to implement the Climate Change Commission's recommendations on forestry. They called for the Government to work in partnership to ensure any amendments to the ETS and treatment of forestry maintained the attractiveness of forestry, for which their land is well suited.

Human Rights


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

Consultation

118 The following agencies were consulted in the development of this paper: Ministry of Business, Innovation and Employment; the Treasury; Ministry of Foreign Affairs and Trade; Ministry for Primary Industries; Energy, Efficiency and Conservation Authority; Ministry of Social Development; Ministry of Transport; Waka Kotahi – New Zealand Transport Agency; Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development; Department of Conservation; Department of Internal Affairs; Department of Prime Minister and Cabinet; Te Puni Kōkiri; and Te Arawhiti.

119 MBIE and EECA do not agree with the proposal in this paper to use sector sub-targets to hold Chief Executives of agencies accountable for sector sub-targets relevant to their agencies (Recommendation 27). Using sector sub-targets as an accountability mechanism would reduce flexibility and could lead to setting policies within a sector that have higher abatement costs, when there may be opportunities for policies with a lower abatement cost or higher abatement potential sitting within other sectors. MBIE and EECA note the Commission did not recommend sector sub-targets, and noted in its advice that building in flexibility and keeping options open would be important for meeting emissions budgets, as it would allow Aotearoa to adjust course as the low emissions transition proceeds. MBIE and EECA recommend that sector sub-targets be used as a monitoring tool to keep track of progress towards meeting emissions budgets, rather than as an accountability mechanism.

120 s 9(2)(g)(i)



121 MPI supports monitoring progress against the ERP. However, there is a high degree of uncertainty in projections and modelling assumptions that could impact the

Government's ability to meet the emissions budgets. Many factors beyond the Government's control can have a significant impact on the contribution from individual sectors.

- 122 MPI also believes any approach to setting sector-based targets would therefore need to consider how to balance accountability and effective monitoring with flexibility. It would need to be able to allow the Government to modify its approach to determining an optimal and cost-effective mix of policies as the ERP is implemented. Further analysis is needed before sector sub-targets can be agreed, noting that the Commission acknowledged that its demonstration path was one of several ways that the emissions budgets could be met.

Communications

- 123 The Ministry for the Environment is working to develop a communications plan for announcements relating to the emissions reduction plan in early 2022, dependent on Cabinet decisions and aligning with announcements on Budget 2022.

Proactive Release

- 124 I propose that this paper is proactively released on the Ministry for the Environment's website after the emissions reduction plan and emissions budgets have been agreed and published in 2022, subject to redactions in keeping with the principles of the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

1. **note** that Cabinet agreed in-principle in August 2021 to broadly accept the Climate Change Commission's (the Commission) advice on emissions budgets based on its assessment that the emissions budgets were ambitious but achievable [CAB-21-MIN-0320.01 refers]
2. **note** that the emissions reduction plan has been informed by consideration of the Commission's recommended policy direction, which was published in May 2021 and will also be further informed by the results of public consultation which occurred over six weeks during October and November 2021 and outstanding initiatives from the Climate Action Plan 2019 [CBC-20-MIN-0097 refers]
3. **note** that New Zealand is not currently on track to meet its domestic 2050 targets
4. **note** that having the right mix of actions to meet emissions budgets and emissions targets is important and that international best practice and New Zealand circumstances support a coherent strategic package, comprising a mutually supportive and balanced mix of emissions pricing, well-targeted regulation, tailored sectoral policies and direct investment
5. **note** that the Commission designed its recommended emissions budgets to have a balance of gross emissions reductions and emissions removals; presenting three alternative pathways to demonstrate that they could be achieved affordably and equitably
6. **note** that the Commission's analysis and advice on emission budgets, and a number of its key recommendations together add up to a clear shift away from the past heavy

reliance on carbon sequestration in forests (to reduce net emissions), towards a much stronger focus on the gross emissions reductions needed to meet our net zero target for 2050 and beyond

7. **agree** that to meet proposed emissions budgets the emissions reduction plan should consist of an integrated package of strategies, policies and measures, including the New Zealand Emissions Trading Scheme (NZ ETS), a range of cross-sector measures and the alignment of system settings

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11. **note** that the estimated abatement of current proposed policies for inclusion in the emissions reduction plan still fall short of the proposed first emissions budget

12. **note** that recent quantification has increased the estimated emissions reduction potential of proposals for new policies to between 4.5 and 9.0 MtCO₂-e, with an additional 3.0 MtCO₂-e of reduction due to the expected closure of the refinery (assuming this occurs).

13. **note** that the gap to meet the first emissions budget has reduced to 1.1 MtCO₂-e, assuming a high level of policy impact and excluding the refinery closure. If the refinery closure was included the first emissions budget would be over-achieved by 1.9 MtCO₂-e

14. **note** that the sufficiency of policies to achieve the first, and subsequent emissions budgets will be re-evaluated in March and again for the final plan

15. **note** that there are, and will remain, high uncertainties around all future emissions projections and policy impact estimates and the sufficiency of policies in the emissions reduction plan cannot be fully determined in advance

16. **note** that as previously agreed by Cabinet, in light of the risks and uncertainties around meeting emissions budgets, strong monitoring and effective corrective action will be needed on an ongoing basis over the life of each emissions reduction plan

17. **note** that given the size and scale of the transition required, proposals on policies and measures to be included in the emissions reduction plan will be presented to Cabinet in a series of papers during February and March 2022, followed by final approval of the full emissions reduction plan in April 2022

18. **note** that policy decisions in February/March may include new policy proposals arising from consultation or further policy development, s 9(2)(f)(iv) [Redacted text]

- 19. **note** that when the final emissions reduction plan is published, the Government also intends to provide a detailed response to the Commission's recommendations
- 20. **note** that since Cabinet first agreed to Ministerial and agency responsibilities for delivering the emissions reduction plan in April 2021 several new chapters have been added and the scope of one chapter has widened

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- 26. **note** that sector sub-targets can be used as a tool for monitoring and managing the implementation of the emissions reduction plan.
- 27. **agree** to use sector sub-targets to measure the progress of each sector towards meeting the emissions reduction plan, enabling corrective action to be managed across the whole programme and to hold Chief Executives of agencies accountable for sector sub-targets relevant to their agencies, while also being responsible as a group of Chief Executives
- 28. **agree** to calculate sector sub-targets based on the Commission's demonstration pathway
- 29. **note** that there are large future uncertainties in projections and policy impacts that are magnified when disaggregated by sector
- 30. **agree** to set sector sub-targets for the first emissions budget period and set provisional sub-targets for the second and third emissions budgets
- 31. **note** that sector sub-targets are not intended to bind the Crown

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32. **agree** to set sector sub-targets for the first emissions budget and provisional sector sub-targets for the second and third emissions budgets as follows:

Sector (All gases, net (AR5), expressed in MtCO ₂ -e)	First emissions budget (2022-2025)	Second emissions budget (2026-2030)	Third emissions budget (2031-2035)
Transport Energy	65.9	76.0	56.8
Energy and Industry	70.1	72.8	63.3
Agriculture	159.4	191.0	183.0
Waste	13.7	14.9	12.7
F-gases	6.8	7.5	5.9
Forestry	(24.9)	(55.2)	(79.6)
Total	292.0	307.0	242.0

33. **agree** that the proposed approach towards sector sub-targets, including the proposed calculation methodology, will be brought back to Cabinet for confirmation as part of the emissions reduction plan in April 2022.


Authorised for lodgement

Hon James Shaw

Minister of Climate Change

Appendix 1

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Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Emissions Reduction Plan: Meeting New Zealand's Emissions Budgets

Portfolio Climate Change

On 20 December 2021, following reference from the Cabinet Economic Development Committee, Cabinet:

- 1 **noted** that in August 2021, Cabinet agreed in principle to broadly accept the Climate Change Commission's (the Commission) advice on emissions budgets based on its assessment that the emissions budgets were ambitious but achievable [CAB-21-MIN-0320.01];
- 2 **noted** that the emissions reduction plan has been informed by consideration of the Commission's recommended policy direction, which was published in May 2021, and will also be further informed by the results of the public consultation that occurred over six weeks during October and November 2021, and outstanding initiatives from the Climate Action Plan 2019;
- 3 **noted** that New Zealand is not currently on track to meet its domestic 2050 emissions targets;
- 4 **noted** that having the right mix of actions to meet emissions budgets and emissions targets is important, and that international best practice and New Zealand circumstances support a coherent strategic package, comprising a mutually supportive and balanced mix of emissions pricing, well-targeted regulation, tailored sectoral policies, and direct investment;
- 5 **noted** that the Commission designed its recommended emissions budgets to have a balance of gross emissions reductions and emissions removals, presenting three alternative pathways to demonstrate that they could be achieved affordably and equitably;
- 6 **noted** that the Commission's analysis and advice on emissions budgets, and a number of its key recommendations, together add up to a clear shift away from the past heavy reliance on carbon sequestration in forests (to reduce net emissions), towards a much stronger focus on the gross emissions reductions needed to meet New Zealand's net zero target for 2050 and beyond;
- 7 **agreed** that, to meet proposed emissions budgets, the emissions reduction plan should consist of an integrated package of strategies, policies, and measures, including the New Zealand Emissions Trading Scheme (NZ ETS), a range of cross-sector measures, and the alignment of system settings;

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- 11 **noted** that the estimated abatement of current proposed policies for inclusion in the emissions reduction plan still fall short of the proposed first emissions budget;
- 12 **noted** that recent quantification has increased the estimated emissions reduction potential of proposals for new polices to between 4.5 and 9.0 MtCO₂-e, with an additional 3.0 MtCO₂-e of reduction due to the expected closure of the Marsden Point oil refinery (the refinery) (assuming this occurs);
- 13 **noted** that the gap to meet the first emissions budget has reduced to 1.1 MtCO₂-e, assuming a high level of policy impact and excluding the refinery closure (if the refinery closure was included, then the first emissions budget would be over-achieved by 1.9 MtCO₂-e);
- 14 **noted** that the sufficiency of policies to achieve the first, and subsequent, emissions budgets will be re-evaluated in March 2022 and again for the final plan in April 2022;
- 15 **noted** that there are, and will remain, high uncertainties around all future emissions projections and policy impact estimates, and that the sufficiency of policies in the emissions reduction plan cannot be fully determined in advance;
- 16 **noted** that, as previously agreed by Cabinet, in light of the risks and uncertainties around meeting emissions budgets, strong monitoring and effective corrective action will be needed on an ongoing basis over the life of each emissions reduction plan;
- 17 **noted** that, given the size and scale of the transition required, proposals on policies and measures to be included in the emissions reduction plan will be presented to Cabinet in a series of papers during February and March 2022, followed by final approval of the full emissions reduction plan in April 2022;
- 18 **noted** that policy decisions in February/March 2022 may include new policy proposals arising from consultation or further policy development, s 9(2)(f)(iv)
[Redacted]
- 19 s 9(2)(f)(iv)
[Redacted]
- 20 **noted** that when the final emissions reduction plan is published, the government also intends to provide a detailed response to the Commission’s recommendations;
- 21 **noted** that since Cabinet first agreed to Ministerial and agency responsibilities for delivering the emissions reduction plan in April 2021, several new chapters have been added and the scope of one chapter has widened;

Proactive Release Pursuant to the Official Information Act 1982

22 s 9(2)(g)(i) [Redacted]

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27 **noted** that sector sub-targets can be used as a tool for monitoring and managing the implementation of the emissions reduction plan;

28 **agreed** to use sector sub-targets to measure the progress of each sector towards meeting the emissions reduction plan, enabling corrective action to be managed across the whole programme;

29 **noted** that a paper is expected to be submitted to Cabinet in February 2022 outlining how to hold Chief Executives of agencies accountable for sector sub-targets relevant to their agencies, while also being responsible as a group of Chief Executives;

30 **agreed** to calculate sector sub-targets based on the Commission’s demonstration pathway;

31 **noted** that there are large future uncertainties in projections and policy impacts that are magnified when disaggregated by sector;

32 **agreed** to set sector sub-targets for the first emissions budget period and set provisional sub-targets for the second and third emissions budgets;

33 **noted** that sector sub-targets are not intended to bind the Crown;

34 **agreed** to set sector sub-targets for the first emissions budget and provisional sector sub-targets for the second and third emissions budgets, as follows:

Sector (All gases, net (AR5), expressed in MtCO ₂ -e)	First emissions budget (2022-2025)	Second emissions budget (2026-2030)	Third emissions budget (2031-2035)
Transport Energy	65.9	76.0	56.8
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F-gases	6.8	7.5	5.9
Forestry	(24.9)	(55.2)	(79.6)
Total	292.0	307.0	242.0

- 35 **agreed** that the proposed approach towards sector sub-targets, including the proposed calculation methodology, will be brought back to Cabinet for confirmation as part of the emissions reduction plan in April 2022.

Michael Webster
Secretary of the Cabinet

Secretary's Note: This minute replaces DEV-21-MIN-0277. Cabinet agreed to amend paragraph 19 to add the Minister for Trade and Export Growth.

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