

CLIMATE RESPONSE MINISTERIAL GROUP MEETING

AGENDA			
Date	Wednesday 26 July 2023		
Time	3.30–4.30pm		
Location	8.5EW		
Agenda items	<p>Agenda item 1: Engagement with Climate Change Commission Chair, Dr Rod Carr</p> <p>Agenda item 2: ERP2 Strategic Approach</p> <p>Agenda item 3: Options to address the distributional impacts of emissions pricing</p> <p>Agenda item 4: Oral update on the Equitable Transitions Strategy</p>		
Attendees	<p>Chair: Rt Hon Chris Hipkins – Prime Minister</p> <p>Deputy Chair: Hon James Shaw – Minister of Climate Change</p> <p>Hon. Carmel Sepuloni – Deputy Prime Minister</p> <p>Hon. Kelvin Davis – Minister for Māori Crown Relations: Te Arawhiti</p> <p>Hon. Grant Robertson – Minister of Finance</p> <p>Hon. Megan Woods – Minister of Energy and Resources</p> <p>Hon. Willie Jackson – Minister for Māori Development</p> <p>Hon. Damien O’Connor – Minister of Agriculture</p> <p>Hon. David Parker – Minister for the Environment, Minister of Transport</p> <p>Hon. Peeni Henare – Minister of Forestry, Associate Minister for the Environment</p> <p>Hon. Kieran McAnulty – Minister of Local Government</p> <p>Hon. Barbara Edmonds – Minister for Economic Development</p> <p>Hon. Willow-Jean Prime – Minister of Conservation</p> <p>Hon. Rachel Brooking – Associate Minister for the Environment</p> <p>Apologies: [TBC]</p>		
#	Time	Agenda Item	Recommendations
1	3.30-3.50pm	ERP2 Strategy – Climate Change Commission’s advice Lead Speaker: Dr Rod Carr, Chair of the Climate Change Commission	
	Dr Carr will provide an overview of the Climate Change Commission’s advice on the Second Emissions Reductions Plan. Dr Carr will speak to the Commission’s draft recommendations, as well as what challenges and opportunities he sees for the development of ERP2.		1.1. Note the points raised by Dr Carr.

2	3.50-4.10pm	ERP2 Strategic Approach to ERP2 Lead Speaker: Hon. James Shaw
	<p>This item provides early visibility of priorities and a proposed strategic approach to ERP2. It seeks direction from Ministers building a more strategic, impactful plan that puts New Zealand on a pathway to 2050 and ensures strong partnership with Māori.</p> <p>Supporting documents: <i>Cover note: Delivering Aotearoa New Zealand's second emissions reduction plan</i></p> <p><i>Slide deck: Delivering Aotearoa New Zealand's second emissions reduction plan</i></p>	<p>2.1 Direct officials to commence work on the strategic policy roadmap, with an initial report back to Cabinet in December 2023.</p> <p>2.2 Direct officials to commence system-focused planning in order to inform future decisions on the second emissions reduction plan and to report back by December 2023.</p> <p>2.3 9(2)(f)(iv) [Redacted]</p> <p>2.4 Agree to update the Minister of Finance and Minister of Climate Change on 9(2)(f)(iv) [Redacted]</p> <p>2.5 Direct officials to explore different pathways to 2050 and beyond, including the key shifts that will need to occur. This will work will include:</p> <p>a) Identifying possible futures (2050 scenarios) and the different pathways to achieve those futures</p> <p>b) 9(2)(f)(iv) [Redacted]</p> <p>c) An analysis of the implications of identified pathways, including associated costs, co-benefits and distributional implications</p> <p>d) Developing policy pathways and identifying ways to incorporate adaptation</p> <p>2.6 9(2)(f)(iv) [Redacted]</p> <p>2.7 Direct MfE officials to establish a reference group comprised of Māori representatives to input into ERPs as they are developed and implemented, including on-going decisions about the 2050 vision and pathways.</p> <p>2.8 Agree membership of the reference group will be agreed by the Minister of Climate Change and Minister for Māori-Crown Relations.</p> <p>2.9 Direct officials to provide further advice to Cabinet over the next 18 months as proposed.</p> <p>2.10 Agree that the Prime Minister, Minister of Finance and Minister of Climate Change will have oversight of the development and implementation of the multi-sector strategy.</p> <p>2.11 Agree that Ministerial roles and responsibilities for policy development and implementation be consistent with those agreed in ERP1</p> <p>2.12 Agree that Ministerial and agency responsibilities will be confirmed by Cabinet in August 2023.</p> <p>2.1 9(2)(f)(iv) [Redacted]</p>

3	4.10-4.25pm	Options to address the distributional impacts of emissions pricing Lead Speaker: Janine Smith
	<p>This item provides an outline of the overarching objectives and context for this work, notes the range of existing tools and mechanisms in play and speaks to the opportunity costs and potential trade-offs.</p> <p>Supporting document: <i>CRMG - Addressing the distributional impacts of emissions pricing</i></p>	<p>3.1 Note that in the May Cabinet report back on Funding and Financing the Climate Transition [DEV-23-MIN-0081 refers], Ministers agreed to progress work around the distributional impacts of emissions pricing</p> <p>3.2 Note that the Minister of Finance requested that MfE, MBIE, MSD and Treasury report back to CRMG in July on this work</p> <p>3.3 Note that ahead of this commission, analysis was completed on the impacts of emissions pricing on households, which indicated that the impact of emissions pricing on households is small but regressive</p> <p>9(2)(f)(iv)</p> <p>3.5 Indicate if you would like officials to provide further advice on options to address the distributional impacts of emissions pricing</p> <p>9(2)(f)(iv)</p>
4	4.25-4.30pm	Oral update on the Equitable Transitions Strategy Lead Speaker: Hons Sepuloni and Edmonds
	<p>Supporting document: <i>None</i></p>	<p>Note the oral update on the Strategy</p>

To: Climate Response Ministers Group
From: Hon. James Shaw, Minister of Climate Change
Date: [19/07/2023]

Cover note: Delivering Aotearoa New Zealand's second emissions reduction plan

Purpose

1. Attached to this note are a set of slides setting out my proposed approach to developing the second Emissions Reduction Plan (ERP2). Climate Response Ministerial Group meeting on 26th July is a first opportunity for Ministers to provide direction on the overall approach to the plan and to confirm the areas for officials to focus on in the coming months. Decisions made now will guide policy work between now and December 2023.
2. I have three primary aims for the next phase of work on the second emissions plan:
 - a) The second plan will be more strategic and impactful. Building on lessons learnt from the first emissions reduction plan, officials will prioritize early cross-government work on key policy decisions that impact multiple agencies, such as whether to set a gross reduction target and, if so, at what level. It will also be informed by an early priority on 'system' planning, rather than sector planning, in order to better understand policy dependencies between sectors.
 - b) ERP2 will put New Zealand on a pathway to 2050. Officials will develop scenarios of what 2050 might look like and the potential pathways to get there, in order to inform that Ministers can ensure decisions will continue to support us in meeting our emissions budgets and NDC commitments. This will help Ministers set the ambition of ERP2 and build a stronger direction towards achieving New Zealand's climate targets.
 - c) Development will be informed by strong partnership with Māori. Enabling early partnership supports meaningful participation and ensures that Māori perspectives and values are fully integrated in the decision-making progress. Officials will engage early with Māori in a way that gives effect to the principles of te Tiriti o Waitangi and supports the integration of te Ao Māori values and Māori-inclusive policies within ERP2.
3. I also seek your agreement on key milestones over the next nine months, as well as confirmation of roles and responsibilities for relevant ministers and officials.
4. I am proposing to bring an initial package of advice on ERP2 to Ministers in December 2023. This will include further analysis on the key questions identified in the strategic policy roadmap, recommendations on committing to a specific level of gross emissions, and initial advice on the transition required in each system.



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Delivering Aotearoa New Zealand's second emissions reduction plan

Material to support a discussion at the Climate Response
Ministerial Group (CRMG) meeting on 26 July 2023

Purpose

The direction you provide today will guide interagency work on the second emissions reduction plan between now and December 2023.

This pack seeks direction to ensure that the second emissions reduction plan (ERP2) is:

- a) **More strategic and impactful.** Officials will prioritize early cross-government work on key policy decisions that impact multiple agencies, such as whether to set a gross reduction target and, if so, at what level. It will also be informed by an early priority on ‘system’ planning, rather than sector planning, in order to better understand policy dependencies between sectors.
- b) **Put New Zealand on a pathway to 2050.** Officials will develop scenarios of what 2050 might look like and the potential pathways to get there, in order to inform future Ministerial decisions about the amount of mitigation to deliver through ERP2 and to sequence longer-term policy planning across future ERPs .
- c) **Informed by strong partnership with Māori.** Enabling early partnership supports meaningful participation and ensures that Māori perspectives and values are fully integrated in the decision-making progress. Officials will engage early with Māori in a way that gives effect to the principles of te Tiriti o Waitangi and supports the integration of te Ao Māori values and Māori-inclusive policies within ERP2.

This pack also sets out **how ERP2 will be delivered.** This includes clarifying Ministerial responsibility for key components of the plan and the key milestones over the next eighteen months.



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A more strategic, impactful plan

A more strategic, impactful plan (1)

Officials will develop a cross-system perspective on key policy questions

- A key lesson learned from ERP1 was the need for officials to prepare integrated cross-government advice on key policy questions. Officials have responded to this advice by developing a strategic policy roadmap (Appendix 1) which has identified the key policy questions which we plan to tackle as a system.
- The critical cross-cutting questions that have been identified in the strategic policy roadmap focus on:
 - The 2050 vision and how we will get there – *see slide 8*
 - Cross-cutting foundations that will inform policy development across the emissions reduction plan including Māori rights and interests, equitable transition, working with nature, and adaptation policy.
 - The system settings needed to enable and support actions across the plan for example: funding and finance, emissions pricing, planning and infrastructure, as well as research, science and innovation.
 - Our response to reducing emissions from New Zealand's large single emitters.
- Officials will commence work on these questions on a cross-system basis, with agencies assigned to lead policy responses on each question. I propose to report back to Cabinet in December 2023 with our preliminary advice. It is important that we aim for these timeframes in order to enable more detailed policy work to be done in 2024 to implement this advice.
- The Climate Change Chief Executives Board reviewed this roadmap and agreed that they would govern a limited subset of the most critical questions. This will be actioned across agencies, as commissioned by the Board.

RECOMMENDATION

- **Direct** officials to commence work on the strategic policy roadmap, with an initial report back to Cabinet in December 2023. (*Recommendation 1*)

Funding actions in emissions reduction plans



- The extent of funding required for the continued implementation of the first emissions reduction plan (ERP1) and for development and implementation of ERP2 will depend significantly on the overall strategy pursued.
- Fiscal constraints and increasing costs (including pressure on the Climate Emergency Response Fund (CERF)) mean that there will be several aspects to consider about how climate investment is enabled/mobilised in the longer term, including:
 - the appropriate role for government
 - the range of levers available to the government besides public investment
 - the potential role of private sector finance
 - consideration of non-financial levers that will encourage behavioural shifts.

9(2)(f)(iv)

- As ERP2 is developed, officials will prepare advice on the scale of public investment required to deliver the plan and how best to fund that investment. We will provide further advice on this through ERP2.

RECOMMENDATIONS

9(2)(f)(iv)

A more strategic, impactful plan (2)

We will tackle initial policy development through systems, not sectors

- The societal and economic changes needed to meet our climate targets are complex and wide-ranging. Taking a purely sectoral approach to climate policy design risks overlooking critical dependencies and broader outcomes we're aiming to achieve.
- International best practice shows that considering the changes needed at 'system' level can bring more coherence, make the most of interconnections, and ensure policies across different sectors are mutually reinforcing. For example, climate policies in the transport sector have interdependencies with planning, infrastructure, building, and energy sector policies, as well as social norms and preferences. Considering these elements together ^{9(2)(f)(iv)} will ensure policies work together towards a common goal. Taking a 'systems' approach also includes considering how different elements of the current system may reinforce each other to create resistance to change, and what can be done to overcome this.
- Officials have prepared a preliminary list of systems (Appendix 2) and plan to commence work on that basis. Officials will refine this list as the work progresses. By December 2023, I plan to report back to Cabinet on an initial view of the key policy choices in each system, with detailed decisions to be taken in April 2024. One agency will be assigned to lead work for each system, in strong collaboration with other agencies, with planning guidance provided by MfE officials, and will produce a system plan to guide more detailed policy work.
- This decision does not affect future decisions about the final structure of the published ERP2 or Ministerial accountabilities for individual sector content. This will be confirmed during 2024.

RECOMMENDATION

- **Direct** officials to commence system-focused planning in order to inform future decisions on the second emissions reduction plan and to report back by December 2023. (*Recommendation 2*)



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Putting New Zealand on a pathway to 2050

Articulating clear pathways and decisions to 2050 and beyond



A successful transition requires looking beyond the next emissions budget

- While ERP2 must set out the policies and strategies for meeting the second emissions budget, it is important to acknowledge that this is only a step in Aotearoa New Zealand's journey to 2050 and beyond.
- As part of ERP2, it is important to develop a clearer understanding of what a low-emissions, climate-resilient future looks like and the policy pathways to get there. This will create a long-term roadmap of policy decisions and clarify when various policies and investment choices are needed to smooth New Zealand's transition
- This 2050 pathways work will seek to:
 - develop a small number of plausible policy impact scenarios covering key sectors/systems for New Zealand to 2050 and beyond
 - Provide provisional calculations on the associated emissions reduction potential, the possible mitigation and adaptation costs, and distributional impacts of each pathway
 - identify the key decisions, actions, and investments that are required, and by when, to achieve differing levels of abatement within those pathways
 - 9(2)(f)(iv)
- Better understanding the risks and opportunities around the emissions reduction impact of different policy pathways and the relative size and distribution of costs and benefits, in order to inform Ministerial decisions on:
 - Whether to commit to a specific level of gross emissions for the second and third emissions budgets (as recommended in the Climate Change Commission's draft advice)
 - how quickly to decarbonise the economy through abatement during emissions budget 2 and subsequent emissions budgets.

Contributing to global efforts

The emissions reductions and removals achieved through ERP2 will count towards our international commitments and affect the amount of offshore mitigation needed

- There is an estimated 99 Mt CO₂-e gap between the emissions reductions required to meet our emissions budgets for 2021-2030 and New Zealand's first Nationally Determined Contribution (NDC1) under the Paris Agreement.
- Cabinet has agreed that development of ERP2 should include a process to identify, develop and assess significant new proposals that could support over-achievement of the second emissions budget (2026-2030), (CAB-23-MIN-0283). These proposals will be brought back to Cabinet for decision as part of the ERP2 package.
- Achieving more abatement than is needed to meet New Zealand's second emissions budget will help to close the gap with NDC1 and determine how much offshore mitigation needs to be purchased.
- The Minister of Climate Change intends that future NDCs will be better aligned with future emissions budgets. Over time, this will increase the amount of domestic abatement that contributes to New Zealand's NDCs. Given NDC2 must be more ambitious than our first, this will require significantly more domestic action between 2031-2035.
- Officials will keep NDC2 in mind as policies are developed for ERP2. Using the ERP2 will be a useful opportunity to allow lead time for policies to increase our domestic contribution to future NDCs. ERP3 will not be developed until shortly before the NDC2 period commences.

Pathways and decisions to 2050

Officials will progress work to report back to Cabinet in December 2023

RECOMMENDATIONS

- **Direct** officials to explore different pathways to 2050 and beyond, including the key shifts that will need to occur. This work will include:
 - Identifying possible futures (2050 scenarios) and the different pathways to achieve those futures
 - 9(2)(f)(iv) [REDACTED]
 - An analysis of the implications of identified pathways, including associated costs, co-benefits and distributional implications
 - Developing policy pathways and identifying ways to incorporate adaptation

(Recommendation 5)
- **Direct** officials to consider the Minister of Climate Change's intention to drive maximum domestic action for the period 2031-2035 and onwards by better aligning domestic and international targets, noting that options to achieve this will be analysed as part of officials' advice on setting NDC2. *(Recommendation 6)*



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A plan informed by strong partnership with Māori

Engagement with Māori

Quality engagement in line with Te Tiriti principles supports the integration of te Ao Māori values and Māori-inclusive policies within the ERP2.

Officials will ensure an engagement and communication process that:

- Gives effect to Tiriti o Waitangi principles in how the Crown interacts with Māori, with particular emphasis on partnership, protection, participation, and equality, as highlighted in the Commission's advice.
- 9(2)(f)(iv) [REDACTED], including an early phase of engagement with iwi/hapū and other affected Māori representatives (August – Nov 2023)
- Identifies how ERP2 issues, interests and impacts are distributed across Māori society and regions, and targets engagement resources and timelines accordingly
- Strengthens on-going relationships with iwi/hapū and national-level collectives such as the National Iwi Chairs Forum, and improves their visibility of ERP2 work
- Aligns efforts across agencies for good faith engagement throughout the entire policy process, complementing formal consultations to incorporate Māori views, insights, and priorities into ERP2

Officials will also create an interagency working group to support consistent Tiriti o Waitangi analysis. This group will help ensure that the ERP2 decision-making process upholds the Crown's obligations regarding Tiriti principles.

Structures for upholding the Treaty relationship



Improving the ERP process and outcomes for the Crown and Māori

In addition to the engagement process, and building on previous Cabinet decisions, officials plan to:

- **Explore the integration of an Ao Māori framework** such as He Ara Waiora into the Crown-facing work to determine a clear vision for 2050. This will help ensure our long-term strategic thinking has been informed by an indigenous Māori worldview prior to engagement.
- **Establish a reference group** of Māori representatives to inform on-going decisions about key policy decisions in ERP2 2050 vision and pathways. This will support the development and implementation of ERP policies out to 2050 and complement direct engagement. Officials will provide further advice to the Minister of Climate Change and Minister for Māori-Crown Relations on this during August 2023, with an initial assumption that the reference group will be appointed by these two Ministers.

RECOMMENDATIONS

- **Direct** MfE officials to establish a reference group comprised of Māori representatives to input into ERPs as they are developed and implemented, including on-going decisions about the 2050 vision and pathways. (*Recommendation 7*)
- **Agree** membership of the reference group will be agreed by the Minister of Climate Change and Minister for Māori-Crown Relations. (*Being discussed with Minister of Māori-Crown Relations*) (*Recommendation 8*)



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How we will deliver the second emissions reduction plan

Key milestones

Ministers will have several opportunities to engage with integrated cross-agency advice on the second emissions reduction plan and provide direction

August 2023

Cabinet will be asked to confirm the scope, process, accountability and timeframes for delivering ERP2

December 2023

Cabinet report back on progress towards ERP2, including initial advice on key policy issues and choices

April 2024

9(2)(f)(iv)

July – August 2024

Nov – Dec 2024

Delivering the ERP2 package in December will require officials to focus on :

- Preparing advice on the main questions identified in **strategic policy roadmap** (*slide 18*). Officials will prioritize preparing advice (*slide 8*), in order to inform a recommendation to Ministers on whether to commit to a specific level of gross emissions in ERP2
- Preparing initial advice on the transition required in each system and identifying the main choices for Ministers in 2024
- **Improving the evidence base.** This includes work to improve our understanding of the economic costs, co-benefits and distributional impacts of policies.

RECOMMENDATION

Direct officials to provide further advice to Cabinet over the next 18 months as proposed. (*Recommendation 9*)

Confirming roles and responsibilities

Delivering the second emissions reduction plan will require significant work across Ministerial portfolios



Ministers' accountabilities will be consistent with those agreed under ERP1. Additional to portfolio responsibilities, the Prime Minister, Minister of Finance and Minister of Climate Change will have oversight of content that will contribute to the multi-sector strategy as it is developed. Cabinet will be asked to confirm these accountabilities in August 2023.

Accountable entities	Responsibilities
Prime Minister	<ul style="list-style-type: none"> To collectively govern the development of multi-sectoral policy, including the Government's response to the questions identified in the policy roadmap (Appendix 1) and the overall approach to preparing the second emissions reduction plan. Statutory obligation remains with the Minister of Climate Change to prepare and publish the emissions reductions plan
Minister of Finance	
Minister of Climate Change	
Portfolio Ministers	<ul style="list-style-type: none"> Unchanged from ERP1. To note, as in ERP1, that the Minister for Social Development and the Minister for Economic Development will retain responsibility for content relating to an equitable transition, with support from the Ministers of Climate Change and Education.
Climate Change Chief Executives Board (the Board)	<ul style="list-style-type: none"> To oversee and govern selected system-level workstreams in ERP2 – including commissioning lead agencies to undertake analysis and providing advice on these areas.

RECOMMENDATIONS

Agree that the Prime Minister, Minister of Finance and Minister of Climate Change will have oversight of the development and implementation of the multi-sector strategy. (*Recommendation 10*)

Agree that Ministerial roles and responsibilities for policy development and implementation be consistent with those agreed in ERP1 (*Recommendation 11*)

Agree that Ministerial and agency responsibilities will be confirmed by Cabinet in August 2023. (*Recommendation 12*)

9(2)(f)(iv)



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Appendix 1: Strategic policy roadmap



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Appendix 2: Proposed systems

What do we mean by systems?

Preliminary scope: will continue to be refined

The following table sets out the indicative key systems that we propose are used to organise the initial work the second emissions reduction plan. While policies specifically targeted at reducing emissions in key emitting sectors will still be needed, a systems approach will ensure that we do not lose sight of the significant connections within (and across) the wider system(s). This approach will lead to more coherent and integrated policy mixes in the second emissions reduction plan and is not intended to provide its final structure.

9(2)(f)(iv)



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Addressing the distributional impacts of emissions pricing

Climate Response Ministerial Group

26 July 2023

