



Cabinet Environment, Energy and Climate Committee

Minute of Decision

McGuinness Institute title:
[ENV-23-MIN-0017] Review of the
New Zealand Emissions Trading
Scheme to Incentivise Emission
Reductions: Release of
Discussion Document

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Review of the New Zealand Emissions Trading Scheme to Incentivise Emission Reductions: Release of Discussion Document

Portfolio Energy and Resources / Environment / Forestry / Climate Change

On 1 June 2023, the Cabinet Environment, Energy and Climate Committee:

Background

- 1 **noted** that the New Zealand Emissions Trading Scheme (NZ ETS) will play an important role in achieving Aotearoa New Zealand's climate change goals, including the Nationally Determined Contributions (NDCs) under the Paris Agreement and domestic emissions budgets and 2050 target;
- 2 **noted** that in its advice *Ināia tonu nei: a low emissions future for Aotearoa*, the Climate Change Commission (the Commission) recommended that the government amend the NZ ETS to strengthen incentives for gross emissions reductions and to manage the amount of exotic forest planting the scheme drives, in line with its advice on the emission reductions and removals needed to meet emissions budgets (recommendations 11.1 and 25.2a of the Commission's report);
- 3 **noted** that the Commission recently released its draft advice for the second emissions reduction plan, which recommended amending the NZ ETS to achieve specific levels of gross emissions reductions in emissions budgets two and three, and separating the incentives for emissions reductions and removals in the NZ ETS (proposed recommendation 3);
- 4 **noted** that, under the Climate Change Response Act 2002, in preparing an emissions reduction plan and supporting policies and strategies for an emissions budget period, the Minister of Climate Change must consider the advice received from the Commission for meeting emissions budgets;
- 5 **noted** that on 20 December 2021, Cabinet agreed to prioritise gross emissions reductions in the emissions reduction plan, alongside maintaining support for net emissions reductions, in line with the Commission's analysis and advice on emissions budgets [CAB-21-MIN-0547.02];

- 6 **noted** that, as part of the first emissions reduction plan, Cabinet has agreed in principle to the Commission's recommendations to amend the NZ ETS to strengthen the incentives for gross emissions reductions and manage the amount of exotic forests driven by the scheme, subject to the outcomes of a targeted review of the NZ ETS [CAB-22-MIN-0152];
- 7 **noted** that the definition of 'prioritising gross' being proposed for consultation is 'incentivising the uptake of low-emissions technology, energy efficiency measures, and other abatement opportunities as quickly as real-world constraints allow';
- 8 **noted** that the definition of 'maintaining support for net emissions reductions' being proposed for consultation is 'driving levels of removals sufficient to help meet New Zealand's climate change goals in the short-to-medium term and to provide a sink for hard-to-abate emissions in the longer term';

Consultation on the NZ ETS review

- 9 **noted** that the current design and settings of the NZ ETS are expected to:
- 9.1 deliver significant removals, predominantly through exotic afforestation;
 - 9.2 drive limited gross emissions reductions to deliver significant removals, predominantly through exotic afforestation;
 - 9.3 result in limited native afforestation;
- 10 **noted** that the expected outcomes of the current design and settings of the NZ ETS (paragraph 9 above) suggest the NZ ETS needs to be amended to prioritise gross emissions reductions and maintain support for removals, subject to feedback from public consultation;
- 11 **agreed** that the discussion document will seek feedback on the following four options to incentivise greater gross emissions reductions through the NZ ETS, while maintaining support for net emissions reductions:
- 11.1 Option 1: use existing NZ ETS levers to strengthen incentives for net emissions reductions;
 - 11.2 Option 2: create increased demand for removal activities to increase net emissions reductions;
 - 11.3 Option 3: strengthen incentives for gross emissions reductions by changing the incentives for removals;
 - 11.4 Option 4: create separate incentives for gross emissions reductions and emissions removals;
- 12 **agreed** to release the discussion document *Te Arotake Mahere Hokohoko Tukunga/Review of the New Zealand Emissions Trading Scheme* (the discussion document), attached to the paper under ENV-23-SUB-0017, for an eight-week public consultation from 19 June to 11 August 2023;
- 13 **noted** that it is proposed to publicly consult on the proposals to redesign the permanent forest category in the NZ ETS, alongside the consultation on the NZ ETS review;
- 14 **authorised** the Minister of Forestry and the Minister of Climate to approve any minor or technical changes to the discussion document prior to its release;

- 15 **noted** that the changes referred to in paragraph 14 above are likely to include updates to the discussion document's description of early engagement with key pan-Māori national representative bodies (following feedback from the National Iwi Chairs Forum and the Federation of Māori Authorities);

Next steps for the NZ ETS review

- 16 **invited** the Minister of Energy and Resources, the Minister for the Environment, the Minister of Forestry and the Minister of Climate Change to report back to Cabinet when appropriate on the outcomes of consultation and with advice on next steps of the NZ ETS review;
- 17 **noted** that the government has committed to engaging with the National Iwi Chairs Forum technicians from Pou Take Āhuarangi, Pou Taiao and Pou Tahua to support collaboration across NZ ETS and transitional forestry issues, and are also committed to engaging with Te Taumata Māori Forestry Landowners Collective (Te Taumata) and the Federation of Māori Authorities (FOMA) alongside wider engagement with Māori;
- 18 **noted** that, to support the approach referred to above, the Ministers responsible for the NZ ETS review will be expected to engage with key Treaty partners (for example, Pou Chairs) at key decision points (including the announcement of the review and the finalisation of the discussion document, as well as throughout consultation and before final Cabinet decisions);
- 19 **noted** that a Tiriti analysis is being carried out and will be referenced alongside the Cabinet report back referred to in paragraph 16 above.

Rebecca Davies
Committee Secretary

Present:

Hon Kelvin Davis
Hon Dr Megan Woods
Hon Willie Jackson
Hon Damien O'Connor
Hon David Parker (Chair)
Hon Jo Luxton
Hon James Shaw

Officials present from:

Office of the Prime Minister
Officials Committee for ENV