



PROACTIVE RELEASE COVERSHEET

Minister	Watts	Portfolio	Climate Change
Title of briefing paper	BRF-5034 Proactive release of ERP2 discussion document advice	Date to be published	22 August 2024

List of documents that have been proactively released

Date	Title	Author
21 May 2024	CAB-441 Establishing a Strategy for Responding to Climate Change	Ministry for the Environment
	Appendix 1: Our response to a changing climate	
	Minute of Decision: Establishing a Strategy for Responding to Climate Change	
03 July 2024	CAB-416 Public consultation on the second emissions reduction plan	Ministry for the Environment
	Appendix 2: Table of primary CCRA requirements and the sections of the discussion document addressing them	
	Appendix 4: Table of Key ERP2 proposals	
	Appendix 5: Table of discontinued ERP1 policies for Cabinet to Note	
	Appendix 6: Discontinued actions already noted by Cabinet	
	Minute of Decision: Public consultation on the second emissions reduction plan	
1 December 2023	BRF-3941 Climate Change Commission final advice on the policy direction for the second emissions reduction plan	Ministry for the Environment
	Appendix 1: Talking points to support discussion	
	Appendix 2: Key messages from the Climate Change Commission's advice	

1 December 2023	BRF-3961 Secondary Briefing to the Incoming Minister	Ministry for the Environment
	Appendix 1: Statutory responsibilities on the Minister of Climate Change	
	Appendix 2: Climate Change Funding Profile	
11 January 2024	BRF-3987 The Climate Change Chief Executives Board: Progressing the second emissions reduction plan	Climate Change Chief Executives Board
01 February 2024	BRF-4091 Engagement on the Second Emissions Reduction Plan	Ministry for the Environment
	Appendix 1: Proposed approach to engagement for ERP2 – February to May 2024	
15 February 2024	BRF-4225 Draft papers for February's CPMG meeting	Ministry for the Environment
	Appendix 2: Setting our Net-Zero Strategy	
29 February 2024	BRF-4084 Content required for inclusion in the second emissions reduction plan	Ministry for the Environment
29 February 2024	BRF-4201 The NZ ETS and its role in reducing emissions	Ministry for the Environment
29 February 2024	BRF-4343 Draft Net-Zero Strategy	Ministry for the Environment
15 March 2024	BRF-4441 CPMG: Introducing the second emissions reduction plan	Ministry for the Environment
27 March 2024	BRF-4502 Managing the impacts of policies in the second emissions reduction plan	Ministry for the Environment
03 April 2024	BRF-4430 Advice on Climate Change Commission's recommendations to set gross emissions targets	Ministry for the Environment
05 April 2024	BRF-4458 Briefing: ERP2 – first tranche of discussion document chapters	Ministry for the Environment
10 April 2024	BRF-4321 Agreeing to a consultation approach (ERP2)	Ministry for the Environment
03 May 2024	BRF-4682 Interim emissions projections and modelling update	Climate Change Chief Executives Board
	Appendix 1: Interim projections update – A3 for CPMG	
	Interim compared to previous projections	
	Overview of models used in analysis	

09 May 2024	BRF-4718 NZ ETS and the second emissions reduction plan	Ministry for the Environment
	Appendix Two: Summary of key NZ ETS decisions for ERP2	
22 May 2024	BRF-4798 ERP2 – Early drafts of discussion document and approval to consult Cabinet paper	Ministry for the Environment
30 May 2024	BRF-4183 Briefing: ERP2 - Second drafts of discussion document and Cabinet paper	Ministry for the Environment
14 June 2024	BRF-4589 Briefing: ERP2 – Updated Cabinet paper and discussion document	Ministry for the Environment
14 June 2024	BRF-4913 Update to NZ ETS and ERP2 policy modelling	Ministry for the Environment
	Appendix 1: Slide deck – NZ ETS and ERP2 policy modelling	
14 June 2024	BRF-4840 Status of the first emissions reduction plan and emissions budget 1	Climate Change Chief Executives Board
	Appendix B: Discontinued ERP1 actions already noted by Cabinet	
	Appendix C: Discontinued ERP1 actions still to be noted by Cabinet	
	Appendix D: EB1 interim projections June 2024	
	ERP2 results summary for consultation document	
19 June 2024	BRF-4935 ERP2: Discussion document and Cabinet paper for Ministerial consultation	Ministry for the Environment
26 June 2024	BRF-4946 ERP2: Cabinet paper and discussion document – summary of feedback and approval to lodge	Ministry for the Environment

Information redacted

YES

Any information redacted in this document is redacted in accordance with the Ministry for the Environment's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Summary of reasons for redaction

Some information has been withheld for the reasons of confidentiality of advice tendered by Ministers, the maintenance of legal professional privilege, and the free and frank expression of opinions. This includes some advice which has been withheld in full and is therefore not being released proactively.

In Confidence

Office of the Minister of Climate Change

Cabinet Economic Policy Committee

Establishing our strategy for responding to climate change

Proposal

- 1 This paper seeks Cabinet approval for the Government's climate change strategy. It will form the basis for decisions this parliamentary term including upcoming decisions on ETS settings and the second Emissions Reduction Plan. An agreed strategy will help align advice from officials with the Government's approach.

Relation to government priorities

- 2 This proposed strategy supports and contains all the Government's climate change commitments contained in the Act-National, and New Zealand First-National Coalition Agreements.
- 3 The proposed strategy supports Prime Minister's ninth public service target to limit net emissions to 290 Mt for 2022-2025 and 305 Mt for 2026-2030. This paper primarily focuses on climate change mitigation. Cabinet recently considered and approved actions on adaptation.

New Zealand is not on track to meet our climate targets

- 4 The Government is committed to the successful delivery of our climate change targets including.
 - 4.1 The Nationally Determined Contribution under the Paris Climate Agreement for 2021 to 2030 ("the 2030 NDC")
 - 4.2 Net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050, and
 - 4.3 Biogenic methane targets in 2030 and 2050.¹
- 5 This Government has inherited no viable plan to meet those targets. Despite large amounts of expenditure, the previous Government has left us with a significant gap in emissions reductions to meet.
- 6 At the Glasgow climate conference in 2021 the Government extended New Zealand's international commitment under the Paris Agreement despite official advice warning the extra reduction in emissions could not be achieved domestically and would have to come from offshore mitigation. In the years

¹ New Zealand has 'split gas' emission targets, which consider biogenic methane separately from all other greenhouse gases. This reflects the different impact that methane has compared with other greenhouse gases.

after Glasgow, the previous Government did not take the necessary steps to achieve this goal.

- 7 The actions of the previous Government have put New Zealand's reputation at risk. Officials estimate New Zealand is between 60Mt and 97Mt off track for the 2030 NDC commitment. Despite net emissions declining since 2020, the decline needs to be at a greater rate to deliver the net zero target by 2050.

Proposed strategy

- 8 To address the lack of a credible and viable plan, I have developed an overarching strategy to support delivery of the commitments in our Coalition Agreements, domestic legislation, and international obligations. I have attached this strategy as **appendix 1**. This reflects a preferred approach which will be tested during the consultation process for the second Emissions Reduction Plan.
- 9 The strategy outlines, New Zealand will meet our targets to reduce the impact of climate change and prepare for its future effects. This will be delivered in five priority areas, as outlined below.
 - 9.1 Resilient infrastructure and well-prepared communities
 - 9.2 Credible markets to support the climate transition
 - 9.3 World-leading climate innovation is boosting the economy
 - 9.4 Nature-based solutions address climate change
 - 9.5 Clean energy is abundant and affordable
- 10 I propose to reduce net emissions at least cost using effective and efficient policies. Without such policies, New Zealand cannot deliver on our targets.
- 11 New Zealand will also continue to meet its international commitments regarding transparent reporting and provision of climate finance to developing countries.
- 12 We will not accept shutting down productive sectors of the economy to deliver emissions targets.
- 13 I propose a technology-led approach to allow production to increase as emissions come down. By definition, a least cost approach will minimise the economic impact of climate change targets which will, in turn, protect social license for action.
- 14 I propose to target net emissions of greenhouse gases as required by domestic legislation and as New Zealand has agreed to in our international commitments. New Zealand has made no commitment that requires any minimum reduction in gross emissions as part of our targets based on net emissions.

- 15 The previous Government's focus on gross emissions increased the cost of mitigation policies for no discernible benefit to New Zealand. Targeting net emissions reduces the cost of mitigation through flexibility by allowing discovery of the least-cost combination of gross reductions and removals (i.e. carbon capture).
- 16 The Emissions Trading Scheme is the main tool for reducing net emissions. The ETS puts a price on carbon for most of the economy except for agriculture. A carbon price encourages investments to reduce gross emissions, carbon capture and storage, and removals. Applying a single carbon price to both reductions and removals allows net emission to be lowered at least cost.
- 17 My goal is to restore the stability and credibility of the ETS to improve its effectiveness. The ETS experienced a significant period of volatility under the previous Government, in large part because of uncertainty about policy settings.
- 18 To restore confidence in the ETS, I propose to permanently rule out removal of forestry and other offsets within the ETS, or to introduce any form of vintaging (setting use by dates on ETS credits). These changes were proposed by the previous Government which led to an immediate and substantial fall in the ETS price, reflecting a loss of credibility. I will propose more modest changes to streamline and improve the ETS.
- 19 Complementary policies that operate outside of the ETS have an important role in removing barriers to investment in reductions and removals. Examples of complementary policies include investing in Research and Development and removing barriers to investment (e.g. in renewable energy). Complementary policies play their most important role in agriculture, where emissions pricing is not currently in place.

Forestry

- 20 Because exotic afforestation is a relatively cost-effective way reduce net emissions, a least cost approach that uses the ETS as its main tool is likely to encourage widespread afforestation, with likely impacts on wilding conifers, flood risk and fire risks. To protect agricultural production from the risk of excessive afforestation, the Minister of Forestry and I propose to introduce limits on new forests registering in the ETS if they are planted on high or medium versatility farmland.
- 21 Our approach will limit whole farm conversions and preserve flexibility for farmers to integrate forestry within their farms to support farm income and generate removals. Forests already in the ETS will not be affected by this change.
- 22 We also plan to partner with the private sector to plant trees on Crown land that is unsuitable for farming and has low conservation value.

- 23 I also intend to reduce the reliance on trees for removals by introducing other forms of carbon capture and storage into the ETS on a robust and additional basis. I will return to Cabinet later this year on these matters. We are also investigating other forms of carbon removals, such as wetlands and blue carbon.
- 24 Forestry limits illustrate a more general point that a least cost mitigation strategy can be safely pursued by introducing constraints to manage unwanted consequences of that strategy.

Agriculture

- 25 Agriculture will remain outside the ETS. Pricing of agricultural emissions will be introduced no later than 2030, with farm level measurement commencing before that. Since agriculture is exposed to trade, pricing of agricultural emissions will be aligned with other countries to avoid leakage. New Zealand farmers are among the world's most carbon efficient, so pricing agricultural emissions at a level that sends production offshore could raise global emissions.

Role of government

- 26 It is the role of the elected Government to choose how to deliver climate change targets. The role of agencies including the independent Climate Change Commission is to advise the Government. The Government has no obligation to agree with all advice from officials.
- 27 Some of the advice I have received is not aligned with the Government's priorities for least cost, effective and efficient policies, and rebuilding the credibility of the ETS.
- 28 The law requires the Minister of Climate Change to consider certain advice from the Climate Change Commission. As Minister, I intend to fully meet this and all statutory requirements. Subject to evidence of sufficiency to meet emissions budgets, I also intend to stop spending on policies that are inconsistent with the Government's approach. Consistency with the finalised Government's strategy will be an important consideration when I make decisions.

Cost-of-living Implications

- 29 There are no immediate cost of living implications from this paper.

Financial Implications

- 30 There are no immediate financial implications of this paper.

Legislative Implications

- 31 There are no immediate legislative implications from this paper, however Cabinet's agreement will be needed to progress legislative amendments to keep agriculture out of the ETS and to limit forestry entering the ETS. A

Cabinet paper relating to agriculture is expected to be considered by LEG on 30 May and Cabinet on 4 June.

Impact Analysis

Regulatory Impact Statement

32 A regulatory impact statement is not required for this paper.

Climate Implications of Policy Assessment

33 There are no immediate policy proposals that warrant a Climate Implications of Policy Assessment (CIPA).

Population Implications

34 There are no immediate population implications of this paper.

Human Rights

35 There are no immediate human rights implications of this paper.

Use of External Resources

36 No external resources have been engaged in core policy development processes for this work programme.

Consultation

37 The following agencies were consulted in the development of this Cabinet paper: Ministry for Primary Industries, the Treasury, Ministry of Business, Innovation and Employment, Ministry of Transport, the Department of Conservation, and the Ministry of Foreign Affairs and Trade.

38 The Climate Priorities Ministerial Group (CPMG) reviewed and discussed this paper on the 20th May.

39 The Department of the Prime Minister and Cabinet has been informed.

Communications

40 I plan to test this strategy by including it in upcoming consultation material for ERP2, which needs to be published this year.

41 I also plan to further test and refine the public-facing document to ensure the language resonates with New Zealanders.

42 I will then publicly release the strategy and in time, build supporting public engagement and communications to:

42.1 give confidence to, and empower, the private sector and households to make lower emission investment decisions

42.2 build social licence for New Zealand's climate change response.

- 43 I will also direct officials to develop a narrative with key messages on our priorities to be used across agencies to ensure a joined-up approach.
- 44 The Government also has a variety of other statutory obligations which will allow us to demonstrate our strategy, including the yearly updates to ETS settings and auction volumes which is currently out for public consultation, in advance of Cabinet decisions in August.

Proactive Release

- 45 I propose to proactively release this paper once consultation on ERP2 has begun.

Recommendations

The Minister for Climate Change recommends that the Committee:

- 1 **note** climate change is a critical challenge we face, and that we have not inherited a plan to meet New Zealand's climate targets.
- 2 **note** my strategy is for New Zealand to meet our targets to reduce the impact of climate change and prepare for its future effects
- 3 **agree** that, subject to public consultation, the Government's approach to climate mitigation will operate under the principle of least cost and target net emissions.
- 4 **endorse** my strategy for our climate change response which summarises the priority focus areas, and the key actions we need to take this parliamentary term
- 5 **note** the need to publicly outline our climate change response to build social licence and give confidence to the private sector and households to make investment decisions
- 6 **note** the need to refine the language in a public-facing strategy
- 7 **note** I plan to seek Cabinet's agreement in June to begin consultation on the second Emissions Reduction Plan, which will include elements of this climate change response

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

IN CONFIDENCE

Appendix 1: Our response to a changing climate

IN CONFIDENCE

OUR RESPONSE TO A CHANGING CLIMATE









OUR CLIMATE STRATEGY

We will meet our targets to reduce the impact of climate change and prepare for its future effects



WE ARE FOCUSING ON FIVE PRIORITY AREAS:

 Resilient infrastructure and well-prepared communities	 Credible markets to support the climate transition	 World-leading climate innovation boosts the economy	 Nature-based solutions address climate change	 Clean energy is abundant and affordable
 POLICIES WHICH HELP US MEET THESE PRIORITIES:				
<p>Deliver a fair and enduring Climate Adaptation Framework that provides clarity on costs.</p> <p>Improve quality and access to climate information, tools and guidance on future risks</p> <p>RMA Reform: Enable resilient infrastructure projects through fast-track consenting and Resource Management reforms</p> <p>Critical Infrastructure Resilience programme</p>	<p>Price carbon effectively, with the Emissions Trading Scheme (ETS) regulatory settings reviewed every year.</p> <p>Fair and sustainable pricing system for on-farm agricultural emissions by 2030 that reduces emissions without sending production overseas.</p> <p>Limits are placed on productive farms being turned into forests and registered in the ETS</p>	<p>Harness technology to reduce agriculture emissions and lift productivity</p> <p>Provide tools and remove barriers for businesses to innovate and prepare for the future</p> <p>Investigate carbon capture, utilisation and storage</p> <p>End the effective ban on genetic engineering and modification technologies</p>	<p>Investigate other ways to reduce emissions from the atmosphere, including wetlands and blue carbon</p> <p>Recognise other ways of removing emissions from the farm, beyond forestry</p> <p>Investigate trees being planted on Crown land</p> <p>Predator Free 2050</p> <p>Protect the Hauraki Gulf</p>	<p>Electrify NZ: Double renewable energy – solar, wind, hydro and geothermal – by 2050</p> <p>Deliver 10,000 public electric vehicle charge points across New Zealand by 2030</p> <p>RMA Reform: Enable cheaper, faster large-scale renewable energy projects through fast-track consenting and Resource Management reforms</p> <p>Ensure energy security so businesses can confidently grow their operation</p>

ENABLERS TO SUPPORT DELIVERY



Private investment
and partnerships



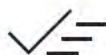
Access to the best
available data and
evidence



International
engagement and
knowledge sharing,



Competitive
markets



GOVERNMENT MEASURES:

By 2030

- Reduce net greenhouse gas emissions by 2030 (Target 9)
- New Zealand's Nationally Determined Contribution under the Paris Agreement to reduce net GHG emissions to 50 per cent below gross 2005 levels by 2030
- 10 per cent reduction in biogenic methane below 2017 levels by 2030.*

By 2050

- Net zero for long-lived gases by 2050
- 24 to 47 per cent reduction in biogenic methane below 2017 levels by 2050

*Methane target is currently subject to an independent expert review