



PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	Portfolio	Climate Change
Name of package	Final second emissions reduction plan Cabinet paper and associated briefings	Date to be published	19/12/2024

List of documents that have been proactively released

Date	Title	Author
11 November 2024	Cabinet paper: New Zealand's second emissions reduction plan. Finalising and publishing the plan	Ministry for the Environment
11 November 2024	Climate Implications of Policy Assessment on the amendment to ERP1	Climate Change Interdepartmental Executive Board Unit
4 December 2024	BRF-5615: ERP2 – finalising the plan	Ministry for the Environment
2 October 2024	BRF-5025: Amending the first emissions reduction plan	Climate Change Interdepartmental Executive Board Unit

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 from *Cabinet paper: New Zealand's second emissions reduction plan. Finalising and publishing the plan* and *BRF-5025: Amending the first emissions reduction plan* under Section 9(2)(f)(iv) of the Official Information Act to maintain the confidentiality of advice tendered by Ministers of the Crown and officials.

Some information has been withheld from *Cabinet paper: New Zealand's second emissions reduction plan. Finalising and publishing the plan*, *Climate Implications of Policy Assessment on the amendment to ERP1* and *BRF-5025: Amending the first emissions reduction plan* under Section 9(2)(h) of the Official Information Act to maintain legal professional privilege.

I N C O N F I D E N C E

Policy and Privacy

In-Confidence

Office of the Minister of Climate Change

ECO - Cabinet Economic Policy Committee

New Zealand's second emissions reduction plan: finalising and publishing the plan

Proposal

- 1 This paper seeks agreement to finalise New Zealand's second emissions reduction plan (ERP2) (Appendix 1) and technical annex (Appendix 2).
- 2 I intend to launch the plan the week commencing 9 December, before the statutory deadline of 31 December 2024. I will work with the Prime Minister's office to confirm the timing for and details of the launch.
- 3 This paper also seeks agreement to the amendment to the first emissions reduction plan (ERP1) (Appendix 3).

Relation to government priorities

- 4 The proposals in this paper are consistent with the climate commitments in the National-Act and National-New Zealand First Coalition Agreements. They are also consistent with New Zealand's recently published Climate Strategy, which sets out how the Government will achieve its emissions budgets and targets.

Executive Summary

- 5 Under the Climate Change Response Act 2002 (the Act), I have a statutory responsibility to publish an emissions reduction plan for the second emissions budget (2026-30) (EB2) by 31 December 2024. This plan will support the delivery of EB2, which aligns with the Government Target 9 to reduce net greenhouse gas emissions.
- 6 The Government consulted on a draft plan in July and August 2024. I have considered consultation feedback and worked with relevant Ministers to prepare policies and strategies for the final plan.

Finalising the strategy and policy package for ERP2

- 7 Addressing climate change is an economic challenge and opportunity. It is part of how we ensure New Zealand has a strong economy and continues to be well positioned as a trading nation.
- 8 I confirm that we will take a cost-effective approach to reducing emissions and meeting emissions budgets and targets. This approach allows New Zealand to decarbonise efficiently over time, by getting regulatory settings right and by ensuring that the Government makes best use of taxpayers' funds.

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- 9 Our ERP2 strategy will enable businesses and households to decarbonise. It will also see a strong role for forestry. Our strategy will be achieved through a market-led approach that focusses on the New Zealand Emissions Trading Scheme (NZ ETS) and complementary sector policies to reduce emissions.
- 10 Key changes from the draft plan, reflecting public feedback, include new chapters on technology and innovation, building and construction, and an implementation plan for ERP2.

ERP2 meets the statutory requirements for emissions reduction plans

- 11 I must be satisfied ERP2 sets out the policies and strategies that will ensure New Zealand remains within EB2. The Act requires that I ensure the emissions budget is not exceeded.¹
- 12 Modelling shows that net emissions, when factoring in policies, are projected to be 302.7 ±16 Mt, which is within the 305 Mt limit for EB2. The range of ±16 Mt highlights the level of uncertainty involved in projecting emissions and the risk that needs to be managed over time. Through this year's NZ ETS settings decisions, the Government has reduced the risk posed by the NZ ETS stockpile to achieving emissions budgets.
- 13 After considering final modelling of projected emissions, the level of uncertainty, and delivery risk of government policies and actions, I am satisfied that ERP2 will meet EB2. We are also considering contingency options and monitoring to stay on track over the course of EB2.

9(2)(h)

- 15 The Act sets out specific requirements for emissions reduction plans. In preparing the plan, I have included the following sections to meet these requirements: sector specific policies are covered in chapters 7 to 13, a multi-sector strategy to meet emissions budgets and improve ability of those sectors to adapt is set out in chapters 1 and 16, and a strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees and employers, regions, iwi and Māori, and wider communities, including the funding for mitigation action is set out in chapters 14 and 15.

Implementing the plan

- 16 To ensure that New Zealand stays within the limit for EB2, I propose the Government take an adaptive management approach within ERP2, including via existing reporting for Government Target 9. This means, as well as monitoring the implementation of ERP2 policies, the Government will regularly monitor risks and factors that can influence emissions reductions and seize opportunities for further emissions reductions as they emerge.

Amending ERP1

- 17 I also seek agreement in this paper to amend ERP1, by removing 41 actions from that plan (paragraphs 57 to 60 below). The first emissions budget period (EB1) and ERP1 are in place until the end of 2025. Cabinet has previously noted the extent of

¹ Section 5X(4) of the Act

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changes to ERP1 requires the plan to be amended to present an updated record of our plan to meet EB1 [CBC-24-MIN-0064 refers]. New Zealand is on track to keep emissions under the EB1 limit of 290 Mt CO₂-e, based on the central projections estimate of 284.1 Mt CO₂-e, ± 7 Mt, even accounting for amendments to ERP1.

Background

- 18 New Zealand's Zero Carbon Framework sets out:
- 18.1 domestic emissions reduction targets (the 2050 target);
 - 18.2 emissions budgets that act as stepping stones to the 2050 target; and
 - 18.3 a requirement to publish emissions reductions plans that set out the policies and strategies needed to achieve emissions budgets.
- 19 As the Minister of Climate Change, I have a statutory duty to prepare and publish an emissions reduction plan for EB2 by 31 December 2024.
- 20 Public consultation on the draft plan occurred from July to August of this year. Following consultation, I have worked with relevant Ministers with portfolio responsibility to prepare ERP2.

ERP2 sets the strategic and policy direction for achieving emissions budgets and targets

- 21 ERP2 sets out the Government's strategy and policies to reduce emissions, meet EB2, and set towards the 2050 target.
- 22 I propose retaining the strategy and policy direction from the draft plan. ERP2 will focus on cost-effective climate action that reduces gross emissions and increases removals. Cost-effective climate action ensures we maximise the benefits of every taxpayer dollar spent, while minimising the overall cost to New Zealanders of reducing emissions and moving to net zero emissions.
- 23 A market-led approach will support cost-effective net emissions reductions across the economy. Carbon markets support innovation and investment, allowing firms to discover where they can reduce emissions cost-effectively. Emissions pricing through the NZ ETS will continue to be a key tool to reduce emissions and increase removals. Agricultural emissions pricing will be introduced by 2030 to support abatement in that sector.
- 24 The NZ ETS will be supported by a package of enabling sector policies. By reducing regulatory barriers, supporting research and development, unlocking private investment, and addressing market failures, the key ERP2 policies will complement the NZ ETS and support cost-effective emissions reductions and removals.

Aligning the NZ ETS cap with the Government's ERP2 strategy

- 25 To ensure the NZ ETS aligns with our market-led approach, I recommend that we specify the portion of fixed emissions budgets that is intended to be covered by the NZ ETS (the NZ ETS cap) in ERP2, subject to consultation through the 2025 NZ ETS settings process. Based on ERP2 projections, this portion would equate to a NZ ETS cap of 92Mt CO₂-e for EB2. This would provide certainty to the market, and support participants in making investment decisions to decarbonise. Previously, the NZ ETS

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cap was based on the Climate Change Commission's demonstration pathway projections and the ERP1 sector sub-targets.

- 26 Under this approach, NZ ETS sectors will continue to be responsible for most of the net emissions reductions required to meet EB2. Non-ETS sector emissions are projected to be on track to meet their share of EB2, with the 2030 biogenic methane target finely balanced. I will review the NZ ETS cap as part of the adaptive management framework of the ERP2, to ensure that it remains aligned with achieving emissions budgets.

ERP2 meets the statutory requirements for emissions reduction plans

ERP2 sets out the policies and strategies for meeting EB2

- 27 The Act requires me to be satisfied that ERP2 sets out the policies and strategies for meeting EB2 and that I ensure the emissions budget is not exceeded.
- 28 Officials have used the Emissions in New Zealand (ENZ) model to understand emissions projections. This is a widely used model, which projects the cost and emissions outcomes for sectors, and how such outcomes may vary given changes in future 'state-of-the-world' drivers, or policy settings.
- 29 Modelling shows that net emissions are projected to be 302.7 ±16 Mt, which is within the 305 Mt limit for EB2. This is based on the 'central scenario', which officials consider to be the scenario that uses the assumptions that are most likely to hold true. The margin of error (based on historical uncertainty) highlights the level of uncertainty involved in projecting emissions out to 2030. Uncertainty also reflects the level of risk that needs to be managed over time. I have considered and tested a range of modelling approaches to give me confidence that ERP2 sets out the policies and strategies to keep New Zealand within the budget.
- 30 As with any work programme, ERP2 carries delivery risk. Absolute certainty over projections is not possible, and our understanding of progress against budgets may change over time due to external factors outside of the Government's control. To manage this uncertainty over the life of ERP2, the Government will take an adaptive management approach. This will require monitoring of policy implementation and effectiveness in line with expectations outlined in the final plan. Through this year's NZ ETS settings decisions, the Government has reduced the risk posed by the NZ ETS stockpile to achieving emissions budgets.
- 31 In addition to EB2, modelling also indicates:
- 31.1 EB1 is expected to be met, with net emissions projected to be 5.9 Mt favourable to the budget;
 - 31.2 The third emissions budget (2031-2035) is more challenging, with net emissions projected to be 11 Mt unfavourable against the 240 Mt limit for the budget;
 - 31.3 Net emissions are projected to be above our highest international commitment, the first Nationally Determined Contribution (NDC1), by 84-85 Mt;
 - 31.4 The 2030 biogenic methane target is favourable with a projected 10.0 per cent reduction, right on the 10 per cent target;

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- 31.5 The 2050 biogenic methane target is favourable, with a projected 24.5 per cent reduction, which is at the lower end of the 24 – 47 per cent reduction target; and
- 31.6 Net emissions are projected to be 5.0 Mt unfavourable against the net zero 2050 target, with uncertainty of ± 10 Mt.
- 32 I have carefully considered relevant evidence and information in making my assessment that ERP2 sets out policies and strategies for meeting the relevant emissions budget. This includes modelling results, the assumptions underpinning the modelling, the sensitivity and uncertainty of modelling, and risks to delivering government policies and actions.
- 33 I am satisfied the evidence shows the mix of policies and strategies in ERP2 will meet EB2. Chapter 2 of ERP2 provides this assessment.
- 34 These projections do not account for the potential impact of afforestation on Crown-owned land (CAB-489 *Afforestation on Crown-owned land* refers). This is not expected to directly contribute to achievement of the second emissions budget (2026-2030)², but can nonetheless make an important contribution to achieving longer-term targets including the net zero 2050 target. Pending Cabinet's agreement, the Minister of Forestry and I will work through the best way to reflect the potential emissions impacts of this in ERP2, given the range of scenarios and uncertainty at this stage.
- 35 In addition to existing ERP2 policies, there will be opportunities for further emissions reductions over the emissions budget period that are still in development. Examples include afforestation on Crown land, and potential emissions reduction projects being considered by business. These potential emissions reductions are not factored into the modelling, as they do not have final policy decisions and do not yet have clearly quantified emissions reduction potential. However, they do give me further confidence that New Zealand can keep within the emissions budget. I will continue to explore opportunities for additional abatement throughout the life of ERP2 as part of an adaptive management approach as discussed in paragraphs 45-48.

ERP2 sector policies

- 36 The Act requires emissions reduction plans include sector-specific policies to reduce emissions and increase removals. In line with taking a market-led approach for ERP2, I propose implementing a package of complementary sector policies to support the NZ ETS as the Government's key cross-sector tool to reduce net emissions.
- 37 I have worked with relevant Ministers to develop policies to support emissions reductions in agriculture, forestry and wood processing, energy and industry, transport, non-forestry removals, waste and the building and construction sector. Chapters 7 to 13 in the plan include sector policies and a table of key ERP2 policies is included as Appendix 4.
- 38 Some ERP2 policies depend on further Cabinet consideration for implementation. This includes waste sector policies, such as regulatory improvements towards

² Due to initial carbon losses that occur when new forests are planted, and the lag between planting and carbon removals, additional afforestation is expected to generate some additional emissions during this period.

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organic waste disposal and landfill gas capture, and the decision on a Refrigerants Regulated Product Stewardship Scheme.

Multi-sector strategy for ERP2

- 39 The Act requires that ERP2 include a multi-sector strategy to meet emissions budgets and improve the ability of those sectors to adapt to the effects of climate change. I have already described how the Government will take a market-led approach in ERP2 to increase emissions reductions and removals and cost-effectively achieve emissions budgets and targets. This strategic approach to meeting emissions budgets is set out in chapter 1 of ERP2.
- 40 Chapter 16 of final plan includes a strategy to help sectors adapt while they reduce emissions.

Strategy to manage the impacts of reducing emissions and increasing removals

- 41 As required under the Act, ERP2 includes a strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees and employers, regions, iwi and Māori, and wider communities, including the funding for any mitigation action (chapters 14 and 15).
- 42 There is a range of existing and funded support measures available that are well placed to reduce the impacts on affected New Zealanders and give people options to manage disruptions from emissions reduction policies. Existing supports, such as government financial assistance and the income support system, retraining support, as well as targeted support for Māori, form our strategy to mitigate ERP2 impacts.
- 43 We know that impacts are uncertain and may emerge over time. The Government will continue to monitor impacts and respond with further support when necessary.

Considering the Climate Change Commission's advice on ERP2

- 44 Under the Act, I have a statutory obligation to consider the Climate Change Commission's advice when preparing and finalising ERP2. I have considered this advice throughout the year, and it has informed my work with other Ministers, public consultation, and my decisions on the ERP2.

Implementation of ERP2

- 45 The Government needs to stay on track to achieve emissions budgets, year in and year out. ERP2 includes an implementation chapter (chapter 3) that sets out how the Government will ensure that we remain on track for EB2 using an adaptive management approach. I propose Cabinet agree to the adaptive management approach to manage the risks during EB2 in addition to agreeing to an annual decision point for Cabinet to evaluate EB2, and agree to any response, if necessary.
- 46 We will monitor and respond to risks and factors that can influence emissions reduction during EB2. Every year, we will progress through this approach in three stages:
- 46.1 tracking implementation progress and leading indicators, including via existing reporting for Government Target 9;


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- 46.2 annually reviewing risks and progress against the emissions budget through Cabinet; and
- 46.3 responding proportionally to stay on track to meet EB2 and maintaining awareness and understanding of alternative options.
- 47 Implementation of ERP2 will be coordinated by the Climate Change Chief Executives Board. The Board is responsible for delivering the quarterly report on Target 9, and reporting on implementation progress of the Government's climate priorities, including emissions reductions.
- 48 The Climate Change Commission prepares an annual emissions reduction monitoring report assessing progress against emissions budgets and emissions reduction plans. The Government is required under the Act to respond to this report.³ I propose this response be incorporated into Cabinet's review of progress, as part of the adaptive management approach.

Publishing the plan

- 49 Subject to Cabinet approval of the final policy package for ERP2, I will prepare the plan for publication. I intend to present the final plan to the House of Representatives, and I will formally publish the final plan in the New Zealand Gazette in December.
- 50 I do not expect to make any further material changes after Cabinet has considered and approved the final plan. Any further editorial and technical changes that are in line with the policy direction agreed to by Cabinet will be made by me, after consultation with the Prime Minister's office, and relevant Ministers where required.
- 51 I have also considered a technical annex (Appendix 2), which will be published as part of ERP2. This will provide information on the modelling used for the final plan and the impacts of policies on different groups.
- 52 I intend to launch the plan in the week commencing 9 December, ahead of the statutory deadline of 31 December 2024. I will work with the Prime Minister's office to confirm the timing for and details of the launch.

9(2)(h)



³ Section 5ZK of the Act

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9(2)(h)

9(2)(h)

Amending ERP1

- 57 In June 2024, Cabinet noted that work has stopped on 35 actions in ERP1 as they are not aligned with the Government's approach for meeting emissions budgets as set out in the Government's Climate Strategy. Six actions were also stopped by the previous Government. Cabinet noted that the extent of these changes to ERP1 requires the plan be amended to present an updated record of our plan to meet EB1 and agreed to consult on the impact of these changes through the ERP2 discussion document [CBC-24-MIN-0064 refers].
- 58 In line with the provisions of the Act,⁴ I have considered the submissions received from public consultation on the impact of the 41 discontinued actions. I have also considered the Climate Change Commission's policy advice on meeting EB1⁵ on matters relevant to the ERP1 areas most affected by the discontinued actions.
- 59 I am confident the amended ERP1 sets out policies and strategies for meeting EB1. The ERP2 baseline projections account for the impacts of stopping the 41 discontinued ERP1 policies and indicate, based on the central estimate, we remain on track to meet the EB1 limit of 290 MT CO₂-e (with a central emissions estimate of 284.1 Mt CO₂-e, ±7 Mt).
- 60 I propose to amend ERP1 as provided in Appendix 3. I intend to present the amended ERP1 alongside ERP2 to the House of Representatives, and then formally publish the amendment in the New Zealand Gazette in December 2024.

Cost-of-living Implications

⁴ Section 5ZI(3) of the Act requires that when an amendment is undertaken, and is more than minor or technical, I must publicly consult on the amendments to the plan and consider the Commission's original policy advice on EB1.

⁵ Part 2 of its 2021 report, *Ināia tonu nei: a low emissions future for Aotearoa*, and relevant findings from its 2024 advice Monitoring report: Emissions reduction.

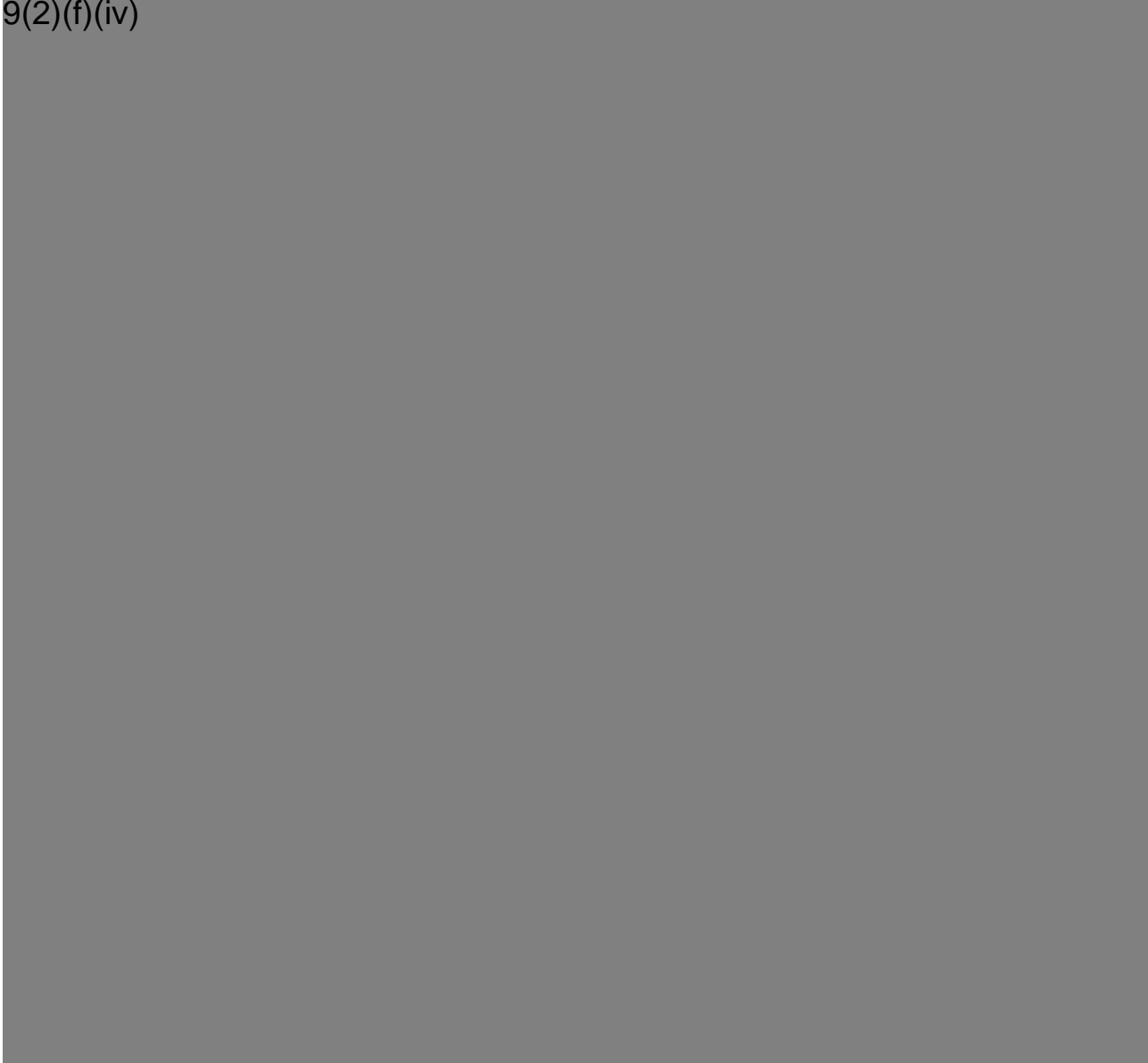
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- 61 ERP2 is likely to increase the cost of living for New Zealanders to some extent, primarily due to changes to the NZ ETS settings increasing household costs. However, our focus on cost-effective climate action has minimised these impacts as much as possible. I have considered these impacts, and ERP2 outlines how support, such as inflation-adjusted Government financial assistance and the Climate Dividend tax relief, further help mitigate these impacts. We will keep monitoring impacts and alert Cabinet to implications over time. Chapter 14 of the final plan outlines the Government's strategy for managing the cost impacts of ERP2 policies.

Financial implications

- 62 This Government's preference is to support the effective operation of markets over the use of policies that require direct public investment. ERP2 also outlines how the Government plans to support private investment in climate change mitigation.

9(2)(f)(iv)


Legislative Implications

- 74 This paper has no direct legislative implications. Individual policies included in ERP2 will have legislative impacts in the future.

IN C O N F I D E N C E**Impact analysis***Regulatory Impact Statement*

- 75 This paper does not seek policy decisions from Cabinet on regulatory proposals for ERP2. Regulatory proposals will be considered separately by Cabinet and impact analysis will be provided unless exemptions apply.

Climate implications of the ERP2

- 76 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do apply to this proposal. An explicit objective of the policy proposal is to decrease greenhouse gas emissions, and the emissions impact meets the threshold for significance.
- 77 CIPA assessments have been conducted for individual ERP2 policies (e.g. Electrify NZ; Carbon capture, utilisation, and storage), and their emissions impacts have been quantified where possible. The CIPA assessments are included in their respective Cabinet papers. Additionally, there are ERP2 policies that have not yet reached the final Cabinet stages. These policies will undergo individual CIPA assessments and abatement quantified where possible.
- 78 Under the latest projects available modelling, new policies included within ERP2 are expected to deliver 3.6 Mt additional abatement in EB2. Considering the impacts of key ERP2 policies, the central projection of net emissions is 302.7 Mt, which is within the EB2 limit of 305 Mt. This projection reflects the best current estimates of the factors affecting emissions, suggesting that emissions are likely to remain below the EB2 limit, though this is finely balanced.
- 79 There is some degree of uncertainty surrounding both the impact of individual measures and the baseline projected emissions for EB2 (± 16 Mt CO₂-e). The uncertainty decreases as the projection period shortens, making short-term projections more reliable, while long-term projections face more variable changes.

Climate implications of amending ERP1

- 80 The Climate Implications of Policy Assessment (CIPA) team has been consulted. This is an update to the CIPA assessment for 'Emissions Reduction Plan: completion and launch of the first Plan.'
- 81 This proposal is to amend ERP1 and remove 41 actions. The emissions impact of these removals has been estimated where possible. The removal of these actions is not expected to affect New Zealand's ability to meet EB1. The appended CIPA disclosure sheet contains the cumulative impact, the abatement impact for each action, and additional information.
- 82 The central projection currently indicates that emissions during EB1 will be 284.1 Mt. This is within the statutory limit of 290 Mt, with a possible 5.9 Mt 'surplus' that, assuming this projection does eventuate, could be counted towards achieving EB2.
- 83 There is some degree of uncertainty regarding the impact of individual measures and the baseline projected emissions for EB1 (± 7 Mt CO₂-e). The uncertainty decreases as the projection period shortens, making short-term projections more reliable while long-term projections face more variable changes.

IN C O N F I D E N C E**Population Implications**

- 84 Climate change is expected to have a range of impacts on different groups, particularly on rural communities, lower-income households, and future generations. ERP2 includes a strategy to mitigate some of these impacts.
- 85 Māori are likely to experience greater impacts from emissions reduction policies due to historical socio-economic disadvantages and overrepresentation in sectors such as agriculture and forestry. This is because Māori workers make up a significant proportion of the workforce in these industries, particularly in meat processing and forestry, which are expected to face negative impacts from land-use changes driven by climate policies.
- 86 These changes may disproportionately affect Māori communities, who also face barriers to land development and access to capital. As a result, the impacts of emissions reduction policies on Māori are likely to be both economic and cultural, exacerbating existing inequities.
- 87 Policies within ERP2 that have direct population impacts will be further outlined as they progress to Cabinet for decisions.

Human Rights

- 88 There are no inconsistencies between ERP2 and the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of External Resources

- 89 External resources were used to assist the modelling for ERP2 and design the final plan. The emission projections for ERP2 have been developed using the Emissions in New Zealand (ENZ) model. ENZ was originally developed by Concept Consulting and additional changes have been made to the model by Concept Consulting over the last year to ensure it meets the modelling needs for ERP2. In addition, the wider economic and distributional impacts have been assessed by a consultancy consortium led by Principal Economics.
- 90 External resources will be used to produce the final plan, as is standard for publishing all Ministry documents. These include editors, proofreaders, designers and document formatters.

Consultation

- 91 Public consultation of the draft plan and amending ERP1 took place from 17 July to 25 August 2024. Consultation included 41 events or discussions with stakeholders, including many Post-Settlement Governance Entities. The Ministry for the Environment received 1,836 written submissions, including 153 from children and from a wide range of groups and demographics (including community groups and non-governmental groups, business and industry stakeholders, NZ ETS participants, young people, Iwi and Māori, academics). Feedback from public consultation was considered in the development of the final plan.
- 92 The predominant theme from submitters was a call for the final plan to be more ambitious and include a wide range of policies focused on gross reductions.

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- 93 There was support for using the NZ ETS as a key lever alongside views that improvements should be made (such as ending industrial allocation). Specifically, there were views that more should be done to ensure a rising emissions price, and that the NZ ETS could do more to incentivise businesses and consumers to reduce their emissions. Concerns were raised around a reliance on technology as many submitters believed the tools/products are unlikely to be widely available over the next five years to reduce emissions.
- 94 We invited feedback from the following agencies on this paper: the Ministry of Transport, Ministry of Primary Industries, the Ministry of Business, Innovation and Employment, the Treasury, Department of Internal Affairs, Energy Efficiency & Conservation Authority, Ministry of Housing and Urban Development, the Climate Change Chief Executives Board, Kāinga Ora, Land Information New Zealand, Ministry for Culture & Heritage, Ministry of Foreign Affairs & Trade, Ministry of Education, Ministry of Health, Ministry of Social Development, New Zealand Infrastructure Commission, Natural Hazards Commission, New Zealand Transport Agency, Te Arawhiti, Te Puni Kōkiri and the Department of Conservation. The Department of Prime Minister and Cabinet was informed.

Communications

- 95 I intend to launch ERP2 in the week commencing 9 December. The amendment to ERP1 will be published on the Ministry for the Environment's website after it is presented to the House of Representatives. Officials will work to confirm the approach to media engagement for the launch of both products, and will provide key messages, Q&A and any other supporting materials required, such as press releases and speeches.
- 96 I will explore opportunities for ERP2 announcements to demonstrate emissions progress domestically, both in the lead up to the 29th Session of the UN Climate Change Conference of Parties (COP29) from 11-22 November 2024 and during 2025 ahead of implementation.

Proactive release

- 97 I propose that this paper is proactively released on the Ministry for the Environment's website after the plan has been agreed and published, subject to redactions in keeping with the Official Information Act 1982.

Recommendations:

The Minister of Climate Change recommends that the Committee:

- 1 **Note** that I must publish New Zealand's second emissions reduction plan (ERP2) by 31 December 2024 – I intend to launch ERP2 in the week commencing 9 December;
- 2 **Note** that I am satisfied that ERP2 meets the statutory requirements for emissions reduction plans as set out in the Climate Change Response Act 2002;
- 3 **Agree** to the policy package outlined in this paper and in Appendix 4, noting that implementation of some aspects of this policy package will be subject to future Cabinet and/or funding decisions;

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- 4 **Agree** that I may make further editorial and technical changes to ERP2 and the associated technical annex, in line with the policy direction agreed to by Cabinet and in consultation with the Prime Minister's office and relevant Ministers, where required;
- 5 **Agree** to include a proposal in ERP2 for an NZ ETS cap of 91 Mt for the second emissions budget, subject to consultation through the 2025 NZ ETS settings process;
- 6 **Agree** to work with the waste sector to implement the combination of policy measures required to support reduction of waste emissions from the disposal and management of organic waste streams in landfills in line with ERP2;
- 7 **Invite** Ministers responsible for ERP2 policies and me to report back to Cabinet annually, as part of the Government response to the Climate Change Commission's emissions reduction monitoring report, to confirm whether we remain on track to meet the second emissions budget and, if not, to recommend further actions that might be necessary to get back on track as outlined in the adaptive management approach for ERP2;
- 8 **Note** that in June 2024, Cabinet noted the extent of changes to ERP1 and the change in approach to meeting New Zealand's climate targets requires ERP1 to be updated to present an accurate record of our current approach to meet EB1 [CBC-24-MIN-0064];
- 9 **Agree** to formally amend ERP1 to better align with the Government's new approach, as attached in Appendix 3, including to remove the 41 discontinued actions that were set out in the ERP2 discussion document;
- 10 **Authorise** me to present the ERP1 amendment to the House of Representatives alongside the final ERP2, and to then make it publicly available.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

Date:

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Appendix 1: Second emissions reduction plan**Appendix 2: Second emissions reduction plan technical annex****Appendix 3: ERP1 amendment****Appendix 4: Table of ERP2 policies**

Sector	Policies in ERP2	Projected impact of key policies for EB2
Agriculture Hon Todd McClay	<ul style="list-style-type: none"> Reviewing methane science and targets Accelerating the development of mitigation tools and technologies to reduce on-farm emissions Developing measurement of on-farm emissions for use by 2025 Implementing a fair and sustainable pricing system for on-farm emissions by 2030 	Agricultural emissions pricing and mitigation technologies: 0.2Mt
Transport Hon Simeon Brown	<ul style="list-style-type: none"> Target a network of 10,000 electric vehicle charge points by 2030 Amending the Clean Car Vehicle Standard Applying road user charge to all light vehicles from as early as 2027 Introducing Time of Use pricing schemes, and returning to regular increases to Fuel Excise Duty and road user charge signalled in the Government Policy Statement 24 Review of regulatory barriers to zero emissions heavy vehicles, including Vehicle Dimension and Mass Rule and driver license weight category Launch Low Emission Heavy Vehicle Fund 	10,000 public EV chargers: 0.01Mt
Energy and industry Hon Simeon Brown	<ul style="list-style-type: none"> Electrify NZ – reduce consenting burden Enable carbon capture utilisation and storage (CCUS) Enable woody bioenergy 	Electrify NZ – reduce consenting burden: 0.1Mt Incentivise CCUS: 1.0Mt Enable woody bioenergy: 0
Forestry and wood processing	Encouraging afforestation through appropriate incentives	Small increase in emissions across EB2 (but projected to have increased impacts across EB3, EB4, NDC2, NDC3)

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Sector	Policies in ERP2	Projected impact of key policies for EB2
Hon Todd McClay	<ul style="list-style-type: none"> Restoring price stability and confidence in the NZ ETS to give certainty to forestry (Climate Change portfolio responsibility) Managing whole-farm conversions to forestry on high-quality land to protect highly productive farmland Partnering with the private sector to plant trees on Crown-owned land Boosting Wood Processing <ul style="list-style-type: none"> Improving the consenting framework for wood processing Ensuring the Wood Processing Growth Fund continues to support commercial investment 	
Non-forestry removals Hon Simon Watts	<ul style="list-style-type: none"> Assessment framework supporting recognition of non-forest removals 	No direct impact on emissions in EB2
Waste & F-gases Hon Penny Simmonds	<ul style="list-style-type: none"> Waste Minimisation Fund Organic waste management and landfill gas capture Refrigerant Regulated Product Stewardship Scheme 	Waste Minimisation Fund: 1Mt Organic waste management and landfill gas capture: 0.8Mt Refrigerants Regulated Product Stewardship: 0.4Mt
Building and construction Hon Chris Penk	<ul style="list-style-type: none"> Reduce emissions from buildings 	No impact on emissions in EB2
NZ Emission Trading Scheme	<ul style="list-style-type: none"> Impacts of updated NZ ETS settings not captured elsewhere* 	0.2Mt

*At the time NZ ETS settings decisions were made, the total impact of tightening NZ ETS unit and price control settings was estimated at 0.7 Mt in EB2 and 3.1 Mt in EB3. The numbers in this row of the table refer to the impacts of tighter NZ ETS settings that have not been captured in the baseline and elsewhere. See the ERP2 technical annex for further details.

Climate Implications of Policy Assessment: Disclosure Sheet

This disclosure sheet provides the responsible department's best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand's future emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	Amendment to the first emissions reduction plan
Agency responsible for the Cabinet paper:	Ministry for the Environment
Date finalised:	29 October 2024
Short description of the policy proposal:	The Minister of Climate Change is providing Cabinet with an amendment to the first emissions reduction plan that reflects policy decisions previously made by Ministers relating to 41 actions within ERP1. This analysis relates to the 41 actions that are included in the formal amendment to ERP1 and being formally removed from the plan. Many of the actions included in the analysis have previously had a CIPA at the time of the policy decision.

Section 2: Greenhouse gas emission impacts

Sector & source	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (Mt CO ₂ -e)						Cumulative impact
	2020–25	2026–30	2031–35	2036–40	2041–45	2046–50	
Electricity	0	0	0	0	0	0	0
Transport	1.25 - 1.38	3.629 - 4.199	4.938 - 6.448	0	0	0	9.817 – 12.027
Industry	0.255	3.03	3.95	0	0	0	7.235
Waste	0	0	0	0	0	0	0
Agriculture	0.1	0	0	0	0	0	0.1
Land use, land use change and forestry	0	0	0	0	0	0	0

Sector & source	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (Mt CO ₂ -e)						Cumulative impact
	2020–25	2026–30	2031–35	2036–40	2041–45	2046–50	
Total	1.605 - 1.735	6.659 - 7.229	8.888 - 10.398	0	0	0	17.152 - 19.362

Section 3: Additional information

Additional information

Table 1 below sets out the 41 discontinued actions that are being formally removed from ERP1. Cabinet has previously noted these actions as discontinued. Through the process of formally discontinuing actions, the responsible Minister/s and Cabinet have been advised on the climate impact of those individual policy decisions.

We note that while the amendment to ERP1 does not amount to Cabinet taking policy decisions, officials consider it is useful to set out the cumulative impact of the discontinued actions for Cabinet.

This assessment has been developed with a mix of quantitative and qualitative data provided by agencies responsible for the 41 actions. Our most recent emissions projections indicate that, based on the central estimate, New Zealand remains on track to achieve the first emissions budget and limit net emissions for the period to below 290 Mt (284.1 ±7 Mt CO₂-e) (see ERP2 baseline projections outlined in Table 2). The ERP2 baseline projections reflect the impact of ERP1 policy changes that can be modelled. They show these changes are not expected to materially impact our ability to meet the first emissions budget.

Most of these actions are only indirectly related to emissions reductions, such as developing a circular and bioeconomy strategy. Removal of these initiatives is anticipated to have no direct abatement impact. Enabling or foundational policies were intended to help deliver abatement in future emissions budget periods. The second emissions reduction plan (ERP2) sets out the approach to achieving the necessary emissions reductions to deliver our second emissions budget and support achievement of future emissions budgets.

Notably, this Government has introduced several new actions to address climate change mitigation. These include Electrify NZ; enabling carbon capture utilisation and storage; enabling a network of 10,000 public EV charge points; lowering agricultural emissions through a technology-led approach; restricting land-use conversions and increasing confidence in the forestry sector and forestry pricing. These are in the process of being implemented. The abatement potential of these new actions has been modelled as part of finalising ERP2.

Table 1: Discontinued ERP1 actions included in the ERP2 discussion document, as of 30 June 2024

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact
3.2.1	Develop an equitable transition strategy	Minister for social development, Minister for economic and regional development	Nil direct abatement impact.

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact
3.2.2b	Support regions and industries to manage the transition.	Minister for Social Development and Employment, Minister for Economic Development	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.
3.2.3	Implement the Just Transition Partnerships Programme.	Minister for Economic Development	Nil Direct abatement impact.
3.3.1	Develop an income insurance scheme.	Minister for Social Development and Employment, Minister for Economic Development	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.
5.2.1	Adjust the NZ ETS to drive a balance of gross and net emissions reductions.	Minister for Climate Change	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.
5.2.3	Assess how the NZ ETS can support indigenous biodiversity.	Minister for Climate Change	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.
6.1	Establish the Climate Emergency Response Fund (CERF) to ensure the climate is prioritised in the Budget process.	Minister of Finance	There was not a CIPA done to disestablish the CERF as Treasury determined there were no direct abatement impact. This is because the funding was uncommitted and there was never any assumed contribution. From DEV-21-SUB-0237 (2021) – “While the programme seeks to ensure funding and financing for policies which will decrease greenhouse gas emissions and increase climate resilience as key policy objectives, the overall strategy and components of this ongoing work programme do not directly have any emissions impact at this stage.”
7.5	Promote innovation in low-emissions, liveable neighbourhoods, through Crown-led urban regeneration projects.	Minister for Housing and Urban Development	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.
8.1.1	Establish a portfolio of Climate Innovation Platforms to support and coordinate strategic, effective, and innovative initiatives.	Minister of Science, Innovation and Technology	Nil direct abatement impact.
8.2	Te Ara Paerangi Future Pathways science-system reform programme.	Minister of Science, Innovation and Technology	Nil direct abatement impact.

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact						
9.1	Commence a Circular Economy and Bioeconomy Strategy.	Minister for Economic Development	Nil direct abatement impact.						
9.4	Support businesses moving to circular economy models.	Minister for Economic Development	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.						
10.1.1.6	Require new investments for transport projects to demonstrate how they will contribute to emissions-reduction objectives and set a high threshold for approving new investments for any transport projects if they are inconsistent with emissions-reduction objectives.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.						
10.1.4	Establish a high threshold for new investments to expand roads, including new highway projects, if the expansion is inconsistent with emissions-related objectives.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.						
10.1.2	Set sub-national VKT reduction targets for Aotearoa New Zealand’s major urban areas (Tiers 1 and 2) by the end of 2022.	Minister of Transport	The CIPA for the 2023 Rapid Savings Exercise included the following estimates of gross emissions reductions from the actions to deliver Mode-Shift and reducing light vehicle kilometres travelled. Estimates of the impact of the four individual actions under this heading are not available. <table><tr><th>2020–25</th><th>2026–30</th><th>2031–35</th></tr><tr><td>0.0 kt CO2-e</td><td>9 kt CO2-e</td><td>18 kt CO2-e</td></tr></table>	2020–25	2026–30	2031–35	0.0 kt CO2-e	9 kt CO2-e	18 kt CO2-e
2020–25	2026–30	2031–35							
0.0 kt CO2-e	9 kt CO2-e	18 kt CO2-e							
10.1.2	Revise Waka Kotahi’s national mode shift plan (Keeping Cities Moving) to ensure nationally led activities align with the pace and scale of VKT reduction and mode shift required in urban areas.	Minister of Transport							
10.1.2	Develop VKT reduction programmes for Aotearoa New Zealand’s major urban areas (Tiers 1 and 2) in partnership with local government, Māori, and community representatives.	Minister of Transport							
10.1.2	Support initiatives to increase the uptake of e-bikes.	Minister of Transport							

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact						
10.1.2	Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme and consider the future of the Road User Charge exemption for light vehicles beyond 2024.	Minister of Transport	<p>The <u>CIPA for the 2023 Mini Budget</u> included the following estimates of gross emissions reductions from discontinuing the Clean Car Discount from 31 December 2023.</p> <table><tr><th>2020–25</th><th>2026–30</th><th>2031–35</th></tr><tr><td>0.05-0.08 Mt CO₂-e</td><td>0.32-0.59 Mt CO₂-e</td><td>0.32-0.63 Mt CO₂-e</td></tr></table>	2020–25	2026–30	2031–35	0.05-0.08 Mt CO ₂ -e	0.32-0.59 Mt CO ₂ -e	0.32-0.63 Mt CO ₂ -e
2020–25	2026–30	2031–35							
0.05-0.08 Mt CO ₂ -e	0.32-0.59 Mt CO ₂ -e	0.32-0.63 Mt CO ₂ -e							
10.1.2	Establish whether the Clean Vehicle Discount can be extended to other vehicle classes.	Minister of Transport	See action 10.1.2 - Continue to incentivise the uptake of low- and zero-emissions vehicles through the Clean Vehicle Discount scheme., above for CCD abatement impact estimate.						
10.2.2	Support social leasing schemes to make access to cleaner vehicles affordable for low-income households.	Minister of Transport	This action was primarily aimed at addressing equity concerns related to decarbonising transport rather than primarily aimed at emissions reductions. Abatement impact for this initiative was not modelled at the time it was included in the ERP1. In August 2022, at a stage when the scheme was being developed, it was considered to not meet the 0.5 Mt CO ₂ e threshold to require a CIPA.						
10.2.2	Implement an equity-oriented vehicle scrap-and-replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households.	Minister of Transport	This action was primarily aimed at addressing equity concerns related to decarbonising transport rather than primarily aimed at emissions reductions. Abatement impact for this initiative was not modelled at the time it was included in the ERP1. In November 2022, the scheme was considered to not meet the 0.5 Mt CO ₂ e threshold to require a CIPA.						
10.2.2	Investigate whether further targeted support is required to make low-emissions vehicles more accessible and affordable for other disadvantaged groups and communities.	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.						
10.3.5	Implement the Sustainable Biofuels Obligation, which requires liable fuel suppliers to reduce the total emissions of the fuels they supply by a set percentage each year through the deployment of biofuels (in blended or neat form).	Minister of Transport	From ENV-21-MIN-0058 “The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal. A CIPA disclosure sheet is appended to this paper. The sustainable biofuels mandate will have a substantial impact on emissions, resulting in a reduction of 1.2 – 1.3 MtCO ₂ -e for the first emissions budget, 3.3 to 3.6 MtCO ₂ -e for the second, and 4.6 – 5.8 MtCO ₂ -e for the third.						
10.4.1	Ensure the next Government Policy Statement on Land Transport (GPS-LT) guides investment consistent with the emissions reduction plan	Minister of Transport	Abatement impact for this initiative was not modelled at the time it was included in the ERP1. There is likely to be some abatement impacts however this is difficult to quantify at this time.						

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact						
11.1.1	Provide rebates for energy efficient equipment.	Minister for Energy	This is a subcomponent of GIDI – see 11.4.1- Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.						
11.2.2	Investigate options for dry-year electricity storage through the New Zealand Battery Project.	Minister for Energy	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.						
11.2.2	Ban new fossil-fuel baseload generation.	Minister for Energy	Officials consider there is a low likelihood that generation developers will build new fossil fuel baseload due to its higher cost compared with renewables coupled with the ETS making fossil-fuel baseload generation less competitive. There are also uncertainties with future gas supply. It is therefore not likely to have an emissions reduction benefit.						
11.3.1	Manage the phase out of fossil gas. Develop a gas transition plan.	Minister for Energy	Nil direct abatement impact. Workstreams will continue under the Gas Security of Supply workplan.						
11.4.1	Set an action plan for decarbonising the industrial sector.	Minister for Energy	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.						
11.4.1	Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.	Minister for Energy	<table><tr><th>2020–25</th><th>2026–30</th><th>2031–35</th></tr><tr><td>0.255 Mt CO₂-e</td><td>3.03 Mt CO₂-e</td><td>3.95 Mt CO₂-e</td></tr></table> <p>From the CIPA for the 2023 Mini Budget</p>	2020–25	2026–30	2031–35	0.255 Mt CO ₂ -e	3.03 Mt CO ₂ -e	3.95 Mt CO ₂ -e
2020–25	2026–30	2031–35							
0.255 Mt CO ₂ -e	3.03 Mt CO ₂ -e	3.95 Mt CO ₂ -e							
11.4.1	Fund further decarbonisation of industry and heat through expansion of the GIDI.	Minister for Energy	This is a subcomponent of GIDI – see 11.4.1- Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.						
11.4.1	Provide grant funding for commercial space and water heating and high efficiency electrical equipment.	Minister for Energy	This is a subcomponent of GIDI – see 11.4.1- Continue the roll out of the Government Investment in Decarbonising Industry (GIDI) fund.						
11.4.1	Finalise and implement the Advanced Manufacturing Industry Transformation Plan.	Minister for Energy	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.						
11.4.1	Develop a mandatory energy and emissions reporting scheme.	Minister for Energy	Nil direct abatement impact.						
11.5.1	Monitor progress towards the aspirational renewable electricity target.	Minister for Energy	Nil direct abatement impact.						

Action Number	Discontinued Action	Responsible Minister(s)	Approximate Direct Abatement impact
13.1.1	An emissions pricing mechanism is developed, and agricultural emissions are priced by 1 January 2025.	Minister of Agriculture	From ENZ modelling (BRF-4840) as of 18 June 2024: 0.1 MT in EB1.
13.1.2	All producers will have emissions reports by the end of 2022 and a farm plan in place by 2025.	Minister of Agriculture	Nil direct abatement impact.
13.3.1	Develop further climate-focussed extension and advisory services.	Minister of Agriculture	Nil direct abatement impact.
14.1.1a	Ensure regulatory settings deliver the right type and scale of forests, in the right place.	Minister of Forestry	Nil direct abatement impact.
14.4.1	Develop forestry and wood processing industry transformation plan (ITP).	Minister of Forestry	Abatement impact for this action was not modelled at the time it was included in ERP1. It is unlikely that the discontinuation of this action will have a quantifiable abatement impact during EB1.

Table 2: Emissions Projections as of 29 October 2024

	EB1 (2022-2025)	EB2 (2026-2030)	EB3 (2031-2035)
Emissions Budgets (Mt CO ₂ -e)	290	305	240
Projected central estimate (Mt CO ₂ -e)	284.1	302.7	251.0
Uncertainty ranges from central estimate (Mt CO ₂ -e)	±7	±18	±33

Section 4: Quality assurance

Quality assurance

The Climate Implications of Policy Assessment (CIPA) team has been consulted. This is an update to the CIPA assessment for ‘Emissions Reduction Plan: completion and launch of the first Plan.’

This proposal is to amend ERP1 and remove 41 actions. The emissions impact of these removals has been estimated where possible. The removal of these actions is not expected to affect the ability for New Zealand to meet the first emissions budget (EB1). The appended CIPA disclosure sheet contains the cumulative impact, the abatement impact for each action, and additional information.

Quality assurance

The central projection currently indicates that emissions during EB1 will be 284.1 Mt (under the ENZ Integrated approach). This is within the statutory limit of 290 Mt, with a possible 5.9 Mt 'surplus' that, assuming this projection does eventuate, could be counted towards achievement of EB2.

There is some degree of uncertainty regarding the impact of individual measures and the baseline projected emissions for EB1 (± 7 Mt CO₂-e). The uncertainty decreases as the projection period shortens, making short-term projections more reliable while long-term projections face more variable changes.
