

## Briefing with new Minister of Climate Change, Hon Simon Watts – 5pm, 28 November 2023

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## Goals

- Reinforce understanding of the Commission's role, and our independence.
- Ensure Minister understands the key thrust of ERP2 advice – and his responsibilities under the CCRA in relation to releasing the advice
- Ensure the Minister understands key upcoming events or issues, and where he will need to take action/make decisions
- Ask questions about:
  - Work from the Commission the Minister wants to better understand.
  - How he understands his role and the Associate Minister role will work together
  - The new Govt's approach to climate policy, to aid our understanding.
  - Driving action across portfolios
  - How our Chair should engage with the Minister, eg frequency of meetings.
- Explain that our work programme is set out in legislation, and that we do not function like a ministry or government agency where he can commission work directly at any time.

## Key messages

- **Government has choices** - The Government has choices about how to meet the country's climate goals. Policies that support reducing climate pollution provide direction to businesses, communities and households open-up better choices for us all.
- **Commission supports action** - We provide independent, evidence-based advice on the direction of policy to the Government. How that direction is implemented is a political choice for the Government
- **We monitor progress** - The Commission's monitoring role supports clarity and accountability across the climate policy system. First monitoring reports coming mid-2024.
- **We deliver under the Act** - We deliver what we are legislated to deliver, and we do so efficiently and with good value for money

## ERP2 messages

- **Choices must deliver** - Whatever the mix of policies the Government decides on for the second emissions reduction plan, they must add-up to meet our immediate climate goals and keep the country on the path to net zero.
- **More, sooner, together** - While the Commission's analysis shows the country has made progress, it is not on track to meet its climate goals for the end of this decade. This risks missing out on benefits like new jobs, a more resilient economy and healthier communities.
- **Forests, but ...** - Forests, which remove and store carbon from the atmosphere, are critical to the pathway to achieving net zero – but forests planted now won't make a serious dent in the amount of offshore purchasing that Aotearoa needs to meet the second emissions budget or the first NDC. The country needs to reduce greenhouse gas emissions at source.
- **Energy Opportunities** - Renewable, not fossil - The biggest opportunity is to replace fossil fuels - like coal, gas and petrol - with renewable energy, to power our industries, our buildings and our transport systems. This is a critical step where, in many cases, investments made now in energy efficiency, electric vehicles, and renewable energy will more than pay for themselves in the long term.
- **Agriculture options** - There are clear options to achieve the further shifts needed to meet the biogenic methane components of the 2050 target. With an effective emissions pricing system for agriculture, new technologies, some land-use diversification, and on-farm efficiency increases, the sector could make the changes needed to meet Aotearoa New Zealand's emissions reduction targets while limiting impacts on agricultural production.

## Key events or issues for your attention

### *Commission's advice on second emissions reduction plan*

**What ERP2 is** - ERP2 provides a strategic direction of policy and recommendations on the most urgent, highest priority actions required to achieve Aotearoa New Zealand's 2026-2030 emissions budget and enable the country to meet its future emissions reduction goals.

**Act requires the Minister to present the advice, or ...** - You are required to present the advice in the House no later than 10 working days after receiving it. We are required to make the advice publicly available as soon as practicable after its presentation to the House but no later than 20 working days after having provided it to you – this means it will be publicly released before the end of the year.

**Govt must deliver** - While the second emissions budget (for 2026-2030) has been set, the Government needs a plan to deliver on it. As the Minister of Climate Change, you will be responsible for delivering the next emissions reduction plan for Aotearoa New Zealand by the end of 2024.

### *Commissioner appointments*

**Two Commissioner appointments require a decision** - There are two current Climate Change Commissioners whose terms end mid-December 2023. You are responsible for the appointment of Commissioners, supported by a nominating committee run out of the Ministry for the Environment. The Commission understands that the nominating committee is in a position to provide recommendations to you on appointments/reappointments with respect to these two positions.

### *Annual NZ ETS advice*

- Due March 2024
- Each year, the Commission must provide advice to Minister on the New Zealand Emissions Trading Scheme (NZ ETS), including recommending limits on units available each year in the NZ ETS, and price control settings.
- The Commission's advice on this will cover a rolling five-year period, with settings recommended for each year.
- The purpose of our advice is to help ensure that the NZ ETS operates effectively and in accordance with the emissions budgets, nationally determined contributions, and the 2050 target (as set out in the Climate Change Response Act 2002).
- The next NZ ETS auction is on 6 December

Our advice feeds into the Government's annual update of the regulations that set limits and price control settings for the NZ ETS.

### *Judicial Review*

- A High Court decision on an application for a judicial review of the Climate Change Commission's first advice to the Government, Ināia tonu nei, was appealed by Lawyers for Climate Action New Zealand (LCANZI) earlier this year. In the decision on the Judicial Review

released in November 2022, the High Court found in favour of the Commission on all grounds.

- The previous Minister of Climate Change was also party to the case when it was heard in the High Court.
- The appeal hearing was held in the Court of Appeal last week, from 21–23 November. A decision has been reserved.
- The point of difference between the Commission and LCANZI is how quickly emissions should be reduced between now and 2030. Under its obligations in the Climate Change Response Act, the Commission's advice must be based on delivering an economically and technically achievable transition to net zero in an equitable and inclusive way by 2050.

#### *NDC 5k request from previous Minister*

- Under 5k of the CCRA, the previous Minister of Climate Change has asked us for advice to help inform Aotearoa New Zealand's second Nationally Determined Contribution (NDC) under the Paris Agreement.
- Aotearoa New Zealand's second NDC must be set by 2025 and will be the country's international commitment to reducing climate pollution from 2031-2035.
- The Commission's advice will be provided to the Minister of Climate Change by 31 December 2024.
- We will need to discuss the resources required to deliver this advice. It is critical that any extra pieces of work are appropriately resourced to ensure the Commission is able to deliver all of its statutory advice within the agreed and legislatively specified timeframes.
- The Commission is unable to begin the substantive work on this advice in the absence of additional funding, though preliminary work such as scoping and planning for the advice can begin.

#### *Funding for agricultural emissions pricing*

- In Budget 23, the Commission was appropriated \$3 million per annum to support a possible function for advising on agricultural emissions pricing. The Commission is investigating how to add to its capability, irrespective of whether or when the Commission is asked to provide further advice on emissions pricing.
- There is currently no dedicated capability, supporting tools or policy settings across the public sector that would allow the efficient and effective pricing of agricultural emissions. Some of the supporting pieces do exist, such as underlying data and models that could be used, but they are spread through different agencies and have not been pulled together for this purpose.

#### *Monitoring reports*

- A key purpose of the Commission's monitoring role is to support transparency and accountability across the climate policy system, and take an independent and evidence-based look across the wider system and economy.

- Our first two progress reports are due for release in 2024. These will be the first reports in an ongoing cycle.

### **Mitigation**

- Our first annual progress report on mitigation is due in July 2024 and will assess the first emissions reduction plan and Aotearoa New Zealand's progress towards meeting the emissions budgets and 2050 target.

### **Adaptation**

- On the adaptation side, we must report on the progress of the Government's national adaptation plan every 2 years, with our first report due in August 2024.

### *Additional warming (back pocket only)*

- IPCC has pulled together all the studies that look at what reductions in the different greenhouse gases would limit warming to 1.5°C or well below 2°C as required under the Paris Agreement.
- There is strong agreement that CO2 needs to go to zero by the middle of the century and net negative in the second half of the century (any remaining emissions more than offset through removals of CO2 from the atmosphere).
- For methane, levels don't need to go to zero and the reductions are in the order of a quarter to a half of recent levels by the middle of the century. This means there is ongoing warming from methane, but it is less than today.
- If methane is only reduced to a level that adds no additional warming beyond what it is already causing, we will miss our temperature targets unless faster or deeper reductions are made in other gases.
- We have received submissions on the additional warming approach, and will consider them as part of the target review.

## Questions for the Minister

- Previously, the Chair, CE and Minister have met six weekly - How do you want to engage and how frequently?
- What aspects of the Commission's work are most important for you to get across? (Suggestions – any aspects of ERP2, ETS advice, monitoring and adaptation)

- To help the Commission's work, what aspects of climate policy are likely to receive the most focus from the Government? (Or any other question that will give insight into approach and provide helpful context to the Commission.)
- How will the Minister and Associate Minister roles work together?
- Has the Minister considered how he will drive action across portfolios? Currently there is the Inter-Agency Executives Board and the Climate Response Minister's Group.
- It would be helpful to understand the division of the Climate Change portfolio across a Minister and an Associate Minister – especially with an Associate Minister in Cabinet.

Key numbers

### For the second emissions budget

- **43.5 MtCO<sub>2</sub>e** – estimated total quantity of emissions reductions needed
- the largest share (around 40%) is expected to come from energy and industry, totalling **17.4 MtCO<sub>2</sub>e**
- the transport, agriculture, and forestry sectors are each expected to deliver reductions of **7-8 MtCO<sub>2</sub>e**
- the remaining **3.3 MtCO<sub>2</sub>e** is expected to come from waste and F-gases

### Effort needed to meet the second emissions budget

- **20.7 MtCO<sub>2</sub>e** - amount of emissions reductions required to meet EB2, in addition to policies and measures already in place.
- **14.0 MtCO<sub>2</sub>e** – amount needed if further planned policies and measures from first emission reduction plan were put in place

### \$ health benefit of reducing emissions

Acting to reduce emissions can provide health benefits, including improving mental health for young people and addressing the causes of physical health challenges related to cold, damp housing and air pollution, which research suggests costs Aotearoa New Zealand **\$15.6 billion per year** in health impacts

### GDP – cost of delay

We assessed that the level of GDP could be around **1.2%** lower in 2050 than it would be otherwise.

Delaying key actions like transitioning to electric vehicles and embedding more efficient farm practices could result in the level of GDP in 2050 falling by around **2.3%**.

### \$ investment in renewables (BCG report)

**\$42 billion** by 2030 total across electricity generation, transmission and distribution including BAU spend, network upgrades/enhancements, and to bring things up to current standard

### \$ savings - replacing fossil fuels with renewables

The Commission's analysis shows that by the 2040s, replacing fossil fuels with renewable electricity in areas like transport and heating could save businesses and households in Aotearoa New Zealand around **\$2 billion each year**.



### Gross electricity demand increase

Gross electricity demand has been relatively stable over the past two decades but is projected to increase **26% by 2035** and **65% by 2050**, compared to 2021.

**Each year from 2025, generation that can supply over 1 TWh per year** will need to be built to meet anticipated demand. For scale, this is equivalent to around two very large wind farms being completed every year (although we expect a mixture of renewable generation types, including geothermal and solar).

### EVs now and needed by 2030

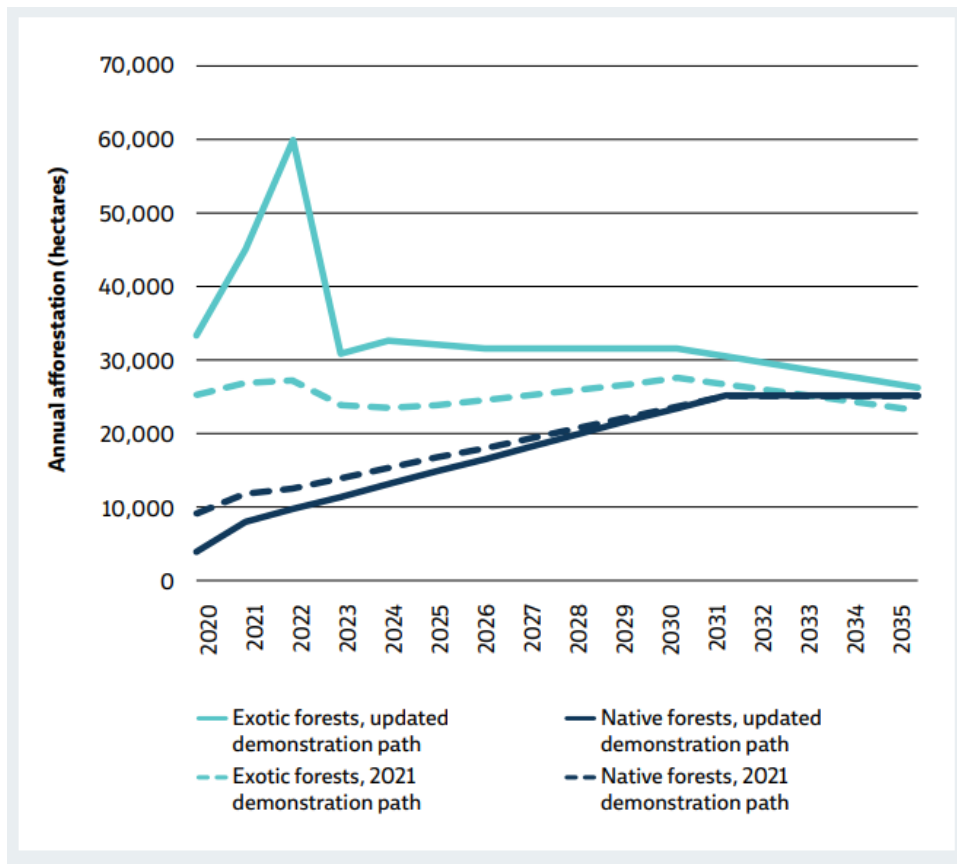
- **90,000 EVs** (just cars) at the moment.
- By 2030 we've said we need to have **~620,000** - which means we need to grow the current number of EVs by around 7x in the next 6 years. Even then EVs will only be 16% of the car fleet.
- By 2035 EVs there will need to be **1.2 million EVs** - or a 13x increase.

### Forests – scale of actual planting

- New exotic forest planting is currently proceeding well above earlier expectations: **over 64,000 hectares was estimated to be planted in 2022**, compared with the government's baseline projection of around **32,000 hectares per year between 2022 and 2030** when the emissions budgets were set.
- If similar rates were sustained, carbon removals from forestry would significantly exceed sector sub-targets for the second and third emissions budgets.

### Forests – demonstration path

- In the updated demonstration path, total exotic afforestation over the period 2021–2035 increased from **380,000 ha to 500,000 ha**.
- Total native afforestation decreased in the updated demonstration path from **300,000 ha to 280,000 ha** for the same period.
- The updated demonstration path still assumes that native afforestation rates reach **25,000 ha per year** by 2030.



#### Cost containment reserve price

Calendar Year	Auction reserve price (\$)		Cost containment trigger price (CCR volume)	
	2022 decisions	2023 decisions	2022 decisions	2023 decisions
2023	\$33.06	\$60	\$80.64 (8.0)	Tier 1 \$173 (2.9) Tier 2 \$216 (5.1)
2024	\$35.90	\$64	\$91.61 (7.7)	Tier 1 \$184 (2.8) Tier 2 \$230 (4.9)
2025	\$38.67	\$68	\$103.24 (7.1)	Tier 1 \$194 (2.6) Tier 2 \$243 (4.5)
2026	\$41.45	\$72	\$115.84 (6.5)	Tier 1 \$205 (2.3) Tier 2 \$256 (4.2)
2027	\$44.35	\$75	\$129.97 (5.9)	Tier 1 \$215 (2.1) Tier 2 \$269 (3.8)
2028	Not set	\$79	Not set	Tier 1 \$226 (1.9) Tier 2 \$283 (3.4)

### Current NZU price

- Spot NZUs opened at **\$72.75** bid and **\$72.80** offered on CommTrade this morning, after last fixing at \$72.75.

### % emissions outside of ETS, and covered by free allocation

- Industrial allocation is taking up an increasingly large portion of the NZ ETS cap and the units available for auction.
- In 2022 more units were released into the market than the ETS cap and then ended up being surrendered – i.e., additional supply from the CCR added to the surplus when the intention was for this to be used up.
- In 2023 no auctions have cleared – complete opposite of the year before, when everything including CCR was sold!
- Units currently in regulation to 2028, show that IA would increase to taking up to 46% of total IA + base auction supply volumes.

	<b>ETS cap</b>	<b>ETS limit on units (i.e., all auction volumes + CCR Industrial allocation)</b>	<b>ETS base auction volumes</b>	<b>ETS cost containment reserve volume</b>	<b>Industrial allocation (IA)</b>	<b>Official Surrender s</b>
2022	32m	34.5m	19.3 (sold)	7m (sold)	6.1m (16% of ETS cap; 24% of base auction + IA)	31.5
2023	30.8	29.2m	15m available 0 sold to date	8m available, 0 sold to date	NA (6.2m estimate) (17% of cap; 29% of base auction + IA)	NA

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## APPENDIX I - Coalition agreements – what relates to the Commission's work

Note: This is background information only summarising from the coalition agreements. It does not contain policy that individual parties campaigned on.

### **Overall system**

Deliver Net Zero by 2050 including by doubling New Zealand's renewable electricity and supporting new technology to reduce agricultural emissions.

Stop the current review of the ETS system to restore confidence and certainty to the carbon trading market.

### **Transport**

National's commitment to supercharge electric vehicle infrastructure with a comprehensive, nationwide network of 10,000 public EV chargers by 2030 will specifically take into account ACT's concern that there be robust cost benefit analysis to ensure maximum benefit for government investment

Repeal the Clean Car Discount.

Work to replace fuel excise taxes with electronic road user charging for all vehicles, starting with electric vehicles.

Work with Auckland Council to implement time of use road charging to reduce congestion and improve travel time reliability.

Cancel Auckland Light Rail and Let's Get Wellington Moving and reduce expenditure on cycleways

Build infrastructure with 13 new Roads of National Significant and four major public transport upgrades.

Facilitate the development and efficiency of ports and strengthen international supply networks

Progress further work examining connecting the railway to Marsden Point and Northport from the Northern Main Truck Line. Progress the detailed business case for a dry dock at Marsden Point to service domestic and international shipping needs and to support our Navy vessels, with investigation of funding options including commercial partnerships

### **Infrastructure/urban systems**

Legislate to make the MDRS optional for councils, with the need for councils to ratify any use of MDRS, including existing zones.

Repeal the Natural and Built Environment Act 2023 and the Spatial Planning Act 2023 by Christmas

Amend the Resource Management Act 1991 to:

- o Make it easier to consent new infrastructure including renewable energy, allow farmers to farm, get more houses built, and enhance primary sector including fish and aquaculture, forestry, pastoral, horticulture and mining.

- o Streamline the plan preparation process in Schedule 1 of the RMA.

- o Simplify the planning system and related statutes including the Public Works Act and the Reserves Act.

- o The Parties commit to establish a fast-track one-stop-shop consenting and permitting process for regional and national projects of significance. The process will include a referral by Ministers for suitable projects. A Bill to introduce this process and make other essential statutory amendments will have its first reading as part of the government's 100 day plan.

Establish a National Infrastructure Agency under the direction of relevant Ministers, to coordinate government funding, connect investors with New Zealand infrastructure, and improve funding, procurement, and delivery to:

- o Prioritise regional and national projects of significance.
- o Facilitate or procure funding for regional and national projects of significance.
- o Procure from government agencies for appropriate Crown projects.
- o Oversee procurement from the private sector.

## **Agriculture**

Maintain a split-gas approach to methane and carbon dioxide through to 2050 and review the methane science and targets in 2024 for consistency with no additional warming from agricultural methane emissions.

Enable farmers and landowners to offset sequestration against their on-farm emissions.

Liberalise genetic engineering laws.

Progress work to recognise other forms of carbon sequestration, including blue carbon.

Incentivise the uptake of emissions reduction mitigations, such as low methane genetics, and low methane producing animal feed.

Support Farm Environment Plans administered by regional councils and targeted at a catchment level.

Adopt standardised farm level reporting

## **Energy**

Update the Crown Minerals Act 1991 to clarify its role as promoting the use of Crown minerals.

Repeal the ban on offshore oil and gas exploration

Stop work notice: Lake Onslow Pumped Hydro

Commission a study into New Zealand's fuel security requirements.

Investigate the reopening of Marsden Point Refinery. This includes establishing a Fuel Security Plan to safeguard our transport and logistics systems and emergency services from any international or domestic disruption.

Examine transmission and connection pricing to facilitate cost effective connection of new renewable generation resources, both on-shore and off-shore.

Plan for transitional low carbon fuels, including the infrastructure needed to increase the use of methanol and hydrogen to achieve sovereign fuel resilience.

Future-proof the natural gas industry by restarting offshore exploration and supporting development of hydrogen technology to produce hydrogen from natural gas without co-production of CO<sub>2</sub>.

Ensure that climate change policies are aligned and do not undermine national energy security.

Ensure the government's energy settings allow for the exploration of natural geological hydrogen in New Zealand, to maximise future energy resilience.

Investigate the strategic opportunities in New Zealand's mineral resources, including vanadium, and develop a plan to develop these opportunities.

### **Māori engagement**

Require the public service departments and Crown Entities to communicate primarily in English - except those entities specifically related to Māori.

Confirm that the Coalition Government does not recognise the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) as having any binding legal effect on New Zealand.

Conduct a comprehensive review of all legislation (except when it is related to, or substantive to, existing full and final Treaty settlements) that includes "The Principles of the Treaty of Waitangi" and replace all such references with specific words relating to the relevance and application of the Treaty, or repeal the references.

### **Further notes:**

One thing to note is the agreements only include policies relevant to NZF or Act so either giving a commitment to them or modifying a National Party policy.

We might see more emerge through media over the next few weeks of the Government's overall climate change position.

Further policy commitments are likely to be confirmed in the Speech from the Throne which will be given when Parliament resumes which typically includes the key commitments of the main governing party.

The speech from the throne is usually the day after the first day of the sitting of Parliament which has been scheduled for 5 December.