

Reference: 20230506

20 December 2023



Dear 

Thank you for your Official Information Act request, received on 1 November 2023. You requested the following:

I request under the OIA all briefings relating to the cost of New Zealand's NDC under the Paris agreement. Please limit this to the last 12 months.

On 28 November 2023, the timeframe to respond to your request was extended by 10 days.

The *Climate Economic and Fiscal Assessment* published in April 2023 is relevant to your request and may be of interest. This publication is available on the Treasury website: [Ngā Kōrero Āhuarangi Me Te Ōhanga: Climate Economic and Fiscal Assessment 2023 | The Treasury New Zealand.](#)

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	26 January 2023	Joint Report T2022/2642: Climate Economic and Fiscal Assessment report	Release in part
2.	11 May 2023	Treasury Report T2023/805: Ministerial consultation on proposed Nationally Determined Contribution strategy	Release in part
3.	30 June 2023	Cabinet Briefing – NDC Strategy	Release in part
4.	21 June 2023	NDC Strategy – Ministerial consultation briefing	Release in part
5.	23 June 2023	DEV Briefing – NDC Strategy	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the OIA, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,
- section 9(2)(j) – to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations), and
- section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing, social engineering and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information to be withheld

There is one additional briefing in scope of your request, "International Cooperation for Mitigation" that forms part of a wider paper named *Cabinet Committee Briefing T2023/1517: Briefing for Cabinet and Cabinet Committees - 31 July 2023*. However, this part of the briefing is withheld under section 9(2)(f)(iv) of the Official Information Act to *maintain the constitutional conventions which protect the confidentiality of advice tendered by Ministers of the Crown and officials*.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Nicky Lynch
Manager, Climate Change

20230506

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Joint Report: Climate Economic and Fiscal Assessment Report

Date:	26 January 2022	Report No:	SH-10-8-3-M91186 / BRF-2508
		File Number:	T2022/2642

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Indicate whether you wish to discuss the attached draft report with officials Discuss the option of joint ownership of upcoming NDC strategy work	None (noting that the scheduled date of release for the CEFA report is 20 February)
Minister of Climate Change (Hon James Shaw)	Discuss attached report with officials Discuss the option of joint ownership of upcoming NDC strategy work	

Contact for telephone discussion

Name	Position	Telephone	1st Contact	
Tim Maddock	Senior Analyst, Climate Change, Treasury	s9(2)(k)	N/A (mob)	✓
Nicky Lynch	Manager, Climate Change, Treasury	s9(2)(g)(ii)		
Josh Finegan	Analyst, Sustainable Finance, Ministry for the Environment			✓
Rebecca Clement	Manager, Sustainable Finance, Ministry for the Environment			

Minister's Office actions

Return the signed report and provide any feedback to the Treasury and the Ministry for the Environment.

Enclosure: Yes (attached)

Joint Report: Climate Economic and Fiscal Assessment Report

Executive Summary

The purpose of this briefing is to give you visibility of the *Climate Economic and Fiscal Assessment* (CEFA) before it is published.

Attached is a near final (but yet to be designed) version of the CEFA report scheduled for publication on 20 February. This is a departmental (as opposed to Ministerial) report. You previously agreed for this report to be developed. The original rationale for the report was a desire to provide transparency about the potential fiscal costs of meeting climate change targets. The scope of the report has since expanded to cover the economic and fiscal impacts of climate change more generally.

We last updated you on the state of the report, including its expanded scope, in September 2022 [T2022/1396 BRF-1741 refers].

Overarching messages in the CEFA

- The economic and fiscal impacts of climate change will be large, wide ranging and felt unevenly, creating risks and opportunities for different groups and sectors. The economic impacts on Māori from climate change could be disproportionately high.
- The costs of physical climate change impacts will likely grow over time, due to the increased severity and frequency of natural hazards.
- The combined impact of climate change and the low-emissions transition on GDP is expected to be negative based on recent modelling, though investments in mitigation technologies could lead to cost savings and significant co-benefits over time.
- Meeting New Zealand's first Nationally Determined Contribution (NDC1) represents a significant fiscal liability, though its scale is highly uncertain.
- Our economy and public finances have shown resilience in the past, but climate change will test this. It will create multiple cost pressures for the Crown and likely have a negative effect on the Crown's tax bases.
- The choices governments, businesses and households in New Zealand make will influence the size of impacts and how they are spread across the economy. Factors outside of New Zealand's control also matter (for example the physical climate impacts we will face is highly dependent on global emissions pathways).
- Key areas of policy choice that will affect the size of impacts and how they are distributed include:
 - the mix and timing of policies to build resilience to climate change and drive emissions reductions;
 - the balance of domestic and overseas mitigation effort;
 - what sources of overseas mitigation New Zealand pursues and when;
 - the ambition of future emissions reduction targets; and
 - to what degree the equity impacts of climate change are addressed.

New analysis on the potential costs of overseas mitigation toward NDC1

The main piece of new analysis in the report is the scenario analysis of potential fiscal costs of purchasing overseas mitigation toward New Zealand's NDC1. The cost estimates from the different scenarios assessed range from \$3.7 billion to \$23.7 billion. The wide range is a function of the scenarios considered, which vary assumptions about both the volume and price of overseas mitigation purchases needed to meet NDC1.

The estimates are highly illustrative, reflecting that both the volume and price of these purchases are subject to high uncertainty. Ultimately, the total cost of overseas mitigation toward NDC1 depends on a number of uncertain factors including:

- the level of domestic emission reductions actually achieved in the NDC1 period
- what sources of overseas mitigation may be available to New Zealand, at what cost, in what timeframes, and through which institutional arrangements (including the relative roles of public and private sector action).

The range of cost estimates presented in the CEFA is wider than previous estimates you have been provided in advice to support considering the enhancement of New Zealand's NDC1. The wider range in the CEFA analysis is due to its consideration of a wider range of scenarios for both the volume of overseas mitigation that may be required and global mitigation costs (both lower and higher than those that supported the prior analysis).

Upcoming decisions on a strategy to achieve NDC1

In late 2022, ^{s9(2)(f)(iv)}

The report back on NDC strategy is currently expected to go to DEV on 29 March 2023.

Strategic policy decisions yet to be made will have a significant bearing on the total cost of offshore mitigation required to meet NDC1. However, despite this, the analysis in the CEFA makes it clear that the total cost is likely to be large. Given the significant fiscal implications of the NDC1 strategy, officials see value in considering joint Ministerial ownership of NDC strategy work, for example for the upcoming Cabinet Paper.

Recommended Action

We recommend that you:

- note** we have attached for you a near final, but yet to be designed, version of the Climate Economic and Fiscal Update (CEFA) report that is jointly owned by Treasury and the Ministry for the Environment.
- note** the CEFA is in the process of being signed-out by the Chief Executives of the Ministry for the Environment and the Treasury.
- note** the CEFA is scheduled to be released on 20 February 2023.
- note** that the estimates for the potential fiscal cost of purchasing overseas mitigation to achieve NDC1 provided in the CEFA reflect a broader range than advice provided to Cabinet in 2021 [CAB-21-MIN-0311 refers], due to a wider range of scenarios considered for the potential volume and cost of overseas mitigation required.
- note** that while the analysis presented in the CEFA reflects a wide range of fiscal cost estimates, the ultimate quantum of costs depends heavily on the decisions Government makes about its strategy to achieve its NDCs.

f **discuss** the option of joint Ministerial ownership of the March Cabinet Paper seeking high-level decisions on the NDC strategy.

g **indicate** whether you wish to discuss the attached CEFA report with officials.

Yes/No

Hon Grant Robertson

h **forward** this briefing for noting to your colleagues on the Climate Response Ministerial Group to provide visibility of the report.

Refer/Not referred.

Nicky Lynch
**Manager, Climate Change
The Treasury**

Rebecca Clements
**Manager, Sustainable Finance
Ministry for the Environment**

Hon Grant Robertson
Minister of Finance

____/____/____

Hon James Shaw
Minister of Climate Change

____/____/____

Joint Report: Climate Economic and Fiscal Assessment Report

Purpose of Report

1. This briefing provides you with a near final version of the report on the economic and fiscal implications of climate change – now with the title of *Ngā Kōrero Āhuarangi me te Ōhanga, Climate Economic and Fiscal Assessment (CEFA)*. You previously agreed that Treasury and the Ministry for the Environment (MfE) develop this report (T2022/422 BRF-1252 refers).
2. In addition to giving you visibility of the CEFA report ahead of its publication, this briefing informs you of how the paper relates to some existing work underway.

Background

The CEFA is a departmental report and its scope covers both the economic and fiscal implications of climate change

3. Following our progress update in early September 2022 [T2022/1396 BRF-1741 refers], you agreed that the report would be jointly owned by the Treasury and MfE.
4. The briefing also noted that we were planning to expand the scope of the report to more broadly present information on the potential economic and fiscal impacts of climate change to New Zealand.

Consultation and review of the report

5. In addition to internal Treasury and MfE analysis, the CEFA has been informed by:
 - Engagement with core government agencies, including the Ministry for Primary Industries, Ministry of Foreign Affairs and Trade, and the Ministry of Business, Innovation and Employment.
 - Engagement with other departments, including the Reserve Bank, the Climate Change Commission and the External Reporting Board.
 - External reviews of the CEFA carried out by David Smol, Christina Hood (head of Compass Climate and former head of the Climate Change unit at the International Energy Agency), and the International Monetary Fund (led by Nara Raman, a senior economist on the New Zealand desk).

Summary of the CEFA

Providing you with visibility of the report

6. The content of the CEFA is in the process of being signed-out by the Chief Executives of MfE and the Treasury. The Treasury Web and Publications team is currently designing and laying-out the report for publication.
7. We are providing you with the report now for visibility before it is published. Officials are scheduling a meeting to discuss the report with the Minister of Climate Change in the week beginning 7 February. We are seeking confirmation about whether the Minister of Finance wishes to discuss the report with officials.
8. Key messages from the report are summarised below. Refer to pages 10 and 11 of the attached CEFA for tables summarising the evidence presented in the report.

Summary of key messages in the paper

9. The economic and fiscal impacts of climate change are expected to be large, wide ranging and felt unevenly. Sectors such as land-based primary industry and the energy and transport sectors will be particularly exposed to both climate change and the low-emissions transition. Regions whose economies rely on industries that are emissions intensive or vulnerable to climate change, and those with high populations located in low-lying coastal areas are expected to be more affected. Impacts on consumer prices over time are likely to disproportionately affect lower-income households.
10. The combined effect of climate change and the transition to a low-emissions future on GDP is expected to be negative, based on recent modelling. While some new sectors are likely to be created (bringing economic and wellbeing benefits), some existing sectors are anticipated to shrink and, in some cases, disappear altogether, causing disruption for affected communities. However, over time, investments in low-emissions technologies could lead to cost savings and other co-benefits.
11. The economic and fiscal costs of physical climate change impacts will likely grow over time, thereby expanding New Zealand's already significant natural hazard risk profile. The future climate change New Zealand faces will be heavily dependent on global action since physical changes are a function of global emissions (of which New Zealand's emissions represent only a small amount).
12. Meeting New Zealand's first Nationally Determined Contribution (NDC1) represents a significant fiscal liability, though its scale is highly uncertain. The illustrative estimates produced for this report of the cost of purchasing overseas mitigation toward NDC1 range widely from \$3.7 billion to \$23.7 billion (see further detail below).
13. The wide range in estimates is a function of the scenarios considered – we have considered a range of scenarios for both the volume of offshore mitigation purchases required and price at which it can be purchased. Ultimately, how much overseas mitigation is required to achieve NDC1 will depend on a number of things including:
 - the level of domestic emission reductions actually achieved in the NDC1 period; and
 - what sources of overseas mitigation may be available to New Zealand, at what cost, in what timeframes, and through which institutional arrangements (including the relative roles of public and private sector action).
14. The combination of physical climate change impacts and the low-emissions transition will create a range of cost pressures for the Crown and is likely to negatively affect its revenue bases. Climate change also presents a unique challenge to the Crown's balance sheet due to the combination of discrete, slowly developing risks, alongside other acute and fast-moving risks. Alongside climate change, New Zealand will also face other long-run fiscal pressures (such as health and superannuation) in future.
15. New Zealand's strong institutions and economic and fiscal resilience have meant the country has navigated previous shocks well, and early modelling indicates the economy and the Crown's fiscal position are resilient to droughts and storms. However, how future changes will compare with prior experience is uncertain. Modelling of land-use change suggests they may exceed prior trends in some sectors.
16. The choices made by governments, businesses and households in New Zealand will influence the size of impacts and how they are distributed across the economy. The greater the ability of the economy and decision makers to recognise and act on opportunities in a timely way, the more efficient the overall climate response, with benefits for aggregate economic growth and broader wellbeing.

17. Key areas of policy choice include:

- The mix and timing of policies to build resilience to climate change and how responsibilities and costs of natural hazard risk management are shared across individuals, the private sector, local authorities and central government.
- The mix and timing of policies to drive domestic emissions reductions, including the balance of effort toward net and gross emissions (in particular those around land-use change and the role of sequestration in achieving New Zealand's targets) and the mix of spending and non-spending levers used.
- The balance of domestic and overseas mitigation toward New Zealand's NDCs.
- What sources of overseas mitigation New Zealand pursues and when, affecting the options available, and the cost and the achievement of NDC1.
- The ambition of future emissions reduction targets.
- To what degree and how governments choose to address the equity impacts of climate change.

New analysis presented in the CEFA


18. The key piece of new analysis presented in the report is a scenario analysis to estimate the potential fiscal costs of purchasing overseas mitigation toward New Zealand's NDC1. The rest of the report primarily collates existing research and analysis.
19. Both the volume of overseas mitigation required to meet NDC1 and the cost at which we could acquire it are highly uncertain. Volume estimates are subject to the significant underlying uncertainty ranges around New Zealand's emissions projections. Cost estimates are even more uncertain, depending on a range of factors particularly around the availability, source and price of overseas mitigation.
20. Reflecting this uncertainty, our analysis considered nine illustrative scenarios based on a range of assumptions about both the volume and price of overseas mitigation required.
21. Cost estimates for this scenario analysis are included in Table 1. They range from \$3.7 billion to \$23.7 billion.
- The low end of the range reflects a scenario in which New Zealand over-achieves its domestic emissions budgets and is able to secure overseas mitigation at a relatively low cost (about \$41 per tonne of CO₂e on average).
 - The high end of this range reflects a scenario in which New Zealand under-achieves its domestic emissions budgets and secures relatively high price overseas mitigation to achieve its NDC1 (about \$227 per tonne of CO₂e on average).
22. Cost estimates provided in the CEFA do not include any indirect costs resulting from identifying and actioning overseas mitigation opportunities. They also assume that the Crown bears the entirety of the purchase cost. These are both simplifying assumptions made for the purpose of undertaking illustrative analysis for the CEFA. ^{s 9(2)(f)(iv)}
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Table 1: Estimated fiscal costs of overseas mitigation purchases required to achieve NDC1 (NZD 2022)

		Price Scenarios		
		Based on the IEA's projected price for emerging and developing economies in its 2022 World Energy Outlook (average of \$41 per tonne over 2024-30)	Based on the average of current prices for selected markets (average of \$95 per tonne over 2024-30)	Based on the IEA's projected price for advanced economies in its 2022 World Energy Outlook under an ambitious global scenario (average of \$227 per tonne over 2024-30)
Volume scenarios	Based on MfE's baseline emissions projection under current policies (114.1 MT)	\$4.2 bn	\$9.9 bn	\$23.7 bn
	Based on New Zealand's domestic emissions budgets (99.2 MT)	\$3.7 bn	\$8.6 bn	\$20.6 bn
	Based on MfE's 'lower-emission' projection under current policies (88.0 MT)	\$3.3 bn	\$7.7 bn	\$18.3 bn

Comparing the analysis to previous advice on the cost of overseas mitigation

23. Previous advice on updating the NDC in 2021 [CAB-21-MIN-0311 refers] estimated the potential costs of purchasing overseas mitigation could range from \$7.9 billion to \$13.8 billion). These costs are contained within the wider range presented by our new analysis.
24. The wider range in the new analysis is primarily a function of considering a wider range of scenarios for both the volume of overseas mitigation that may be required as well as a broader consideration of global mitigation costs (both lower and higher than those that supported the prior analysis). The table in Annex 1 provides additional detail on how the approaches differ.

Effectively communicating the CEFA's analysis of potential costs of achieving NDC1

25. The amount of overseas mitigation New Zealand may need to purchase to achieve its NDC1, when it may do so, from where it sources this overseas mitigation, at what cost, and with what mix of public and private sector action are yet to be determined. While the analysis presented in the CEFA can be further refined once the Government formalises its direction of travel through decisions anticipated as a result of the NDC strategy work, a number of uncertainties are anticipated to endure (for example, how and when yet-to-be-established overseas mitigation markets under Article 6 may develop).


26. Given the broader state of uncertainty and the active consideration of the Government's NDC strategy, analysis in the CEFA intentionally does not pre-empt these decisions or provide indication of which illustrative scenario is most, or least, likely. Throughout the CEFA it is clearly articulated that the analysis is highly illustrative and only intended to provide a sense of the potential magnitude of costs under a range of scenarios.
27. As the work on the NDC strategy continues we will work to provide cost estimates that more strongly align with specific options Ministers wish to consider, in order to support decision making. As indicated in the CEFA and as directed previously by you, we will also look to update our public reporting to reflect future decisions and the evolving broader context.
28. The CEFA emphasises its analysis is illustrative, and its estimates are not to be treated as predictive or definitive. The provision of a technical appendix alongside the content in the body of the CEFA will also support clear communication of how scenarios were chosen and how the analysis was undertaken.
29. We are working on ensuring our communications plan for the CEFA pre-empts the risk that these figures are taken out of context. For example, we may provide an embargoed copy of the report to media and key influential stakeholders, which would give them time to digest and understand the report.

The release of CEFA

30. The scheduled date for the release of the CEFA is 20 February 2023.
31. The report is currently being designed and will soon go through quality assurance and a final editorial review.
32. We are providing the Climate Change Chief Executives Board with a copy of the report in early February.
33. Three technical appendices will be published following the release of the main report.

How the report relates to some key existing work underway

s 9(2)(f)(iv)



There could be value in joint Ministerial ownership of the March Cabinet paper seeking high-level decisions on the NDC strategy

38. Achieving New Zealand's NDCs will have significant fiscal implications through actions to support both domestic and international action. Given this significance, over time there could be value in Ministers co-owning work to set the Government's high-level strategy to achieve its NDCs. This could involve, for example, joint-ownership of the March Cabinet paper seeking high-level decisions on the NDC strategy.
39. Joint ownership of the high level NDC strategy could work similarly to your current joint responsibilities on climate funding and financing work (and would be aligned with this).
40. As a precursor to this, the upcoming Cabinet Paper on NDC strategy could be presented as a joint paper. Any and all underlying streams of work ^{s 9(2)(f)(iv)} would remain solely owned by the Minister of Climate Change and broader agency responsibilities would also not change. We suggest you discuss whether you are interested in this arrangement for Ministerial ownership.

Expansion of climate related disclosure to public sector

41. MfE is beginning policy work to consider how central and local government agencies could analyse and report on their climate-related risks and opportunities. This policy work is in response to National Adaptation Plan Action 3.5 which requires the Government to decide by 2024 whether to extend mandatory climate-related disclosure requirements to public entities.
42. Alongside this policy work, the External Reporting Board will also begin exploring the development of non-binding guidance for public sector reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) in early 2023.
43. MfE intends to provide further advice to Ministers on this in May 2023.

Targets Progress Update

44. MfE will publish a Target Progress Update on its website, with the specific focus on tracking progress towards our 2030 target. It will display the NDC1 emissions budget alongside emissions projections. This will replace the Net Position, which tracked progress towards New Zealand's 2020 target. MfE plan to publish the Target Progress Update around the same time as the CEFA (i.e., early February).

Annex 1 – Comparing the methodologies for estimating the cost of offshore mitigation required to meet NDC1 for the CEFA analysis and the analysis supporting the 2021 advice to Cabinet on enhancing NDC1

	2021 advice	CEFA analysis	Comment
General approach	A general assumption was made that New Zealand would source overseas mitigation to achieve NDC1 through ETS linking, starting in 2024, and that its domestic emissions would exactly align with the Commission's demonstration pathway.	Considered scenarios are agnostic as to what specific mechanism New Zealand leverages to source overseas mitigation to achieve NDC1. Multiple volume and price scenarios are presented to illustrate the implications of current uncertainty in both of these areas for the ultimate price New Zealand may pay.	Even if the same price assumptions were considered by each analysis, the CEFA analysis would have a greater range since it also varied the assumed required purchase volume.
Volume required	Constant assumption that New Zealand's domestic emissions would align with the Commission's demonstration pathway. (NB: The Government had not yet set its emissions budgets at the time of this analysis).	Three scenarios are considered that align to under-achievement, exact achievement or over-achievement of New Zealand's emissions budgets.	
Price per tonne	The range of prices considered were based on expectations of the future emissions prices in specific well-established international ETS's that New Zealand is considering links with – the EU ETS and the Western Climate Initiative (California and Quebec).	Three scenarios were constructed based on modelled estimates for prices aligned with <ul style="list-style-type: none"> • projected emissions prices in emerging and developing countries • current observed prices in a range of well-established international ETS's (including, but not limited to, the EU ETS and Western Climate Initiative). • projected emissions prices in advanced countries, under a scenario of strong ambition 	Given the CEFA scenario that assumes future prices align with observed prices in established international ETSs (including those specifically considered in the 2021 analysis), the estimates from the 2021 analysis are contained within the range presented in the CEFA. Considering price scenarios beyond ETS linking is consistent with Ministerial direction for New Zealand to explore other options for overseas mitigation, including in the Asia-Pacific. This direction was decided at the same time as the 2021 advice.



Treasury Report: Ministerial consultation on proposed Nationally Determined Contribution strategy

Date:	11 May 2023	Report No:	T2023/805
		File Number:	SH 10-8

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Provide feedback on the draft Cabinet paper.	16 May 2023

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Tim Borren	Senior Analyst, Climate Change	s9(2)(k) N/A (mob)	✓
Nicky Lynch	Manager, Climate Change	s9(2)(g)(ii)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Ministerial consultation on proposed Nationally Determined Contribution strategy

Executive Summary

The Minister of Climate Change has provided a Cabinet paper for Ministerial consultation on a proposed Nationally Determined Contribution (NDC) strategy, which aims to support the achievement of New Zealand's NDC1 (2021-2030) and future NDCs.

In our view, a strong NDC strategy would be based around the objective of investing in the highest “bang for buck” emissions reduction opportunities, whether they are domestic or international. This would both minimise costs to New Zealand of achieving its NDC targets and ensure we are contributing meaningfully with our investments. Ideally, we would want to choose between domestic and international options based on a good understanding of their relative value and risks.

In reality, the state of market development, information we have available and lags in the time it takes to investigate options mean that this will be challenging to achieve. The core choice for Ministers is whether you want to prioritise having greater confidence in value for money, or greater confidence that we will meet NDC1 (as this certainty could come at a very high cost).

We suggest a low regrets approach would be to cast a wide net early in investigating and developing both domestic and international emissions reduction opportunities but avoid locking in expensive options too soon.

In general, the strategy being proposed by the Minister is fairly well aligned with this sort of approach. ^{s9(2)(f)(iv)}

Recommended Action

We recommend that you:

- a **note** the contents of this report.
- b **provide** recommended feedback on the Cabinet paper and NDC strategy document to the Minister of Climate Change through formal Ministerial consultation on the paper.

Nicky Lynch
Manager, Climate Change

Hon Grant Robertson
Minister of Finance

_____/_____/_____

Treasury Report: Briefing for Ministerial consultation on proposed Nationally Determined Contribution strategy

Purpose of report

1. The Minister of Climate Change has circulated a Cabinet paper on a proposed NDC strategy for Ministerial consultation. This report provides you with background on the NDC strategy and suggested feedback for your Ministerial consultation response.

Background

2. New Zealand's first NDC (NDC1), covering 2021-2030, sets a target to reduce net emissions by 50 percent below gross 2005 levels by 2030. This target is more ambitious than can be achieved with domestic emissions budgets alone. Even if ambitious domestic budgets are achieved, New Zealand will still need to source an additional 99Mt of reductions, domestically or internationally, to achieve the NDC.
3. Countries will need to articulate their second NDC (NDC2) by 2025 for the period 2031-2035. ^{s9(2)(f)(iv)} [REDACTED]
4. ^{s9(2)(f)(iv)} [REDACTED]
5. The Minister of Climate Change is now seeking feedback on a draft NDC strategy, intended to cover the approach to meeting NDC1 and lay the foundation for meeting future NDCs.
6. ^{s9(2)(f)(iv)} [REDACTED]
7. The Climate Change Commission (the Commission) recently released their draft advice on the second Emissions Reduction Plan (ERP2) for the second budget period (2026-2030). CRMG Ministers have been circulated a briefing, prepared by the Ministry for the Environment, on the content of this draft advice. We understand discussion on a strategic direction for ERP2 will be an agenda item for the next CRMG meeting.

Characteristics of a strong NDC strategy

Efficient achievement of New Zealand's NDCs will require judgements about the balance of domestic and international emissions reductions

8. It is strongly in New Zealand's interest for global efforts to reduce net emissions to be successful.
9. Part of the intent of NDCs under the Paris Agreement is for developed countries to shoulder relatively more of the burden of achieving reductions than developing

countries. International cooperation for reductions allows for resources to be directed globally towards least-cost and lowest-effort abatement, up to the amount required to meet goals of constraining global warming. Using both domestic and international action can allow countries like New Zealand to enhance its contribution to global efforts while mitigating the risk of reliance on overly or prohibitively expensive domestic abatement.

10. In theory, in order to minimise the costs of meeting the NDC, while also contributing as much as possible to global mitigation efforts, New Zealand would seek to invest in opportunities that provide the best value-for-money, regardless of whether those opportunities are domestic or international.
11. In this context, value for money includes both:
 - 'emissions value' – the actual benefit to the climate (i.e., the volume of genuine emissions reductions achieved per dollar spent); and
 - 'non-emissions value' – other potential co-benefits of value for wider living standards (e.g., through growing trade opportunities internationally, or domestic co-benefits such as biodiversity).
12. Domestic emissions budgets and ERPs, supported by advice from the Commission, should serve as the foundation for robust domestic mitigation action that is in line with what is technologically and economically feasible, taking broader economic implications into account. An adaptive approach to domestic mitigation also supports addressing both headwinds and tailwinds as they arise.
13. s9(2)(f)(iv)

In reality, there are a number of practical constraints on “optimal” decision-making about which opportunities are best value for money

14. Information on international opportunities is currently limited as cooperation and markets are in an early stage of development.
15. Due to lag times in the development of opportunities, it is unlikely that perfect information about the relative value for money of opportunities domestically and internationally will ever be available.
16. There is considerable uncertainty about whether high value-for-money international options will emerge and when, and the level of competition New Zealand may face from other countries to secure these opportunities.
17. This all makes judgements about when to purchase international options, and the scale at which to purchase them, especially challenging.

We recommend an approach that focuses on identifying and implementing sensible opportunities as they arise, rather than overly focusing on achieving greater certainty for securing a defined amount of emissions reductions early on

18. The core strategic choice for Ministers is whether to prioritise pursuing opportunities that provide the best value-for-money over time, or whether to prioritise certainty in achieving the NDC targets, which might come at a significantly higher cost.
19. These decisions will have material economic and fiscal impacts, as outlined in the recently published Climate Economic and Fiscal Assessment 2023 report.¹ Treasury's analysis found the potential costs of purchasing the volume of international emissions reductions likely required to achieve NDC1 could range from \$3.3 billion to \$23.7

¹ www.treasury.govt.nz/publications/climate-economic-fiscal-assessment/nga-korero-ahuarangi-me-te-ohanga-2023
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billion. This wide range of possible outcomes depends largely on the type and price of international emissions reductions New Zealand is ultimately able to procure, meaning identifying and developing high-value options could save significant money in the long run.

20. We recommend an approach that focuses on developing and evaluating options both domestically and internationally as quickly as possible, with the best value-for-money opportunities taken up progressively, as these are likely to be low regrets. This can support New Zealand to take effective and efficient action towards its NDCs over time.
21. An argument has been made that there are a lot of countries looking for international credits so New Zealand may risk getting crowded out of low-cost opportunities if it does not act early. The extent of this risk is uncertain at this stage. However, this risk will need to be balanced against the potential for further development of lower-cost options later.
22. We think it makes sense to cast a relatively wide net with respect to investigating the feasibility and value-for-money of potential options. However, we would caution against an approach that locks in higher-cost options earlier on, as this could result in significantly higher costs (as illustrated in the Climate Economic and Fiscal Assessment).
23. As much as possible, a good NDC strategy should provide a structure for future decision-making that will enable New Zealand to take up high value-for-money opportunities choosing between domestic and international opportunities.
24. This will require:
 - an adaptive approach that is able to take into account the volume of domestic reductions actually achieved, as well as market developments and technological change both domestically and internationally
 - improving our understanding of options both domestically and internationally, in terms of relative cost and potential scale, so we are progressively better placed to make these judgements.

s9(2)(f)(iv)

25. s9(2)(f)(iv)

26. s9(2)(f)(iv)

27. s9(2)(f)(iv)

What the Minister of Climate Change is proposing

Paper overview

28. The Minister of Climate Change is proposing a strategy that:

- Enhances domestic ambition through the second ERP by identification, development, and assessment of significant new proposals capable of delivering emissions reductions well in excess of the second domestic emissions budget.

- s9(2)(f)(iv) [Redacted]

- Will use an adaptive management approach to balance the delivery of domestic action and international action over time to achieve NDC targets. This recognises it is not possible to determine the 'right' mix of domestic and international action up front, as this will change over time in response to factors such as the cost of abatement, availability of abatement opportunities, social and economic impacts and the short and long-term benefits to New Zealand.

- s9(2)(f)(iv) [Redacted]

- s9(2)(f)(iv) [Redacted]

- s9(2)(f)(iv) [Redacted]

- s9(2)(f)(iv) [Redacted]

29. s9(2)(f)(iv) [Redacted]

It proposes monitoring and reporting in two-year cycles to provide key assessment points for decision-making.

30. The Minister of Climate Change is proposing that the strategy (i.e. the content of slides attached to the Cabinet paper) is made publicly available (proposed for July this year).

Specific decisions sought

31. The Minister of Climate Change is asking that Cabinet agree:

- where ERP1 actions are not on track, as determined by the Climate Change Chief Executive Board's six-monthly report, agencies should respond urgently

- s9(2)(f)(iv) [Redacted]

- s9(2)(f)(iv) [Redacted]

- that the NDC strategy document will be made publicly available, with final editorial and design choices, as well as timing of publication, delegated to the Minister of Climate Change.

- to progress policy work to determine institutional arrangements needed for the wider NDC strategy in consideration of existing infrastructure, including the Climate Change Chief Executives Board.
- s9(2)(f)(iv) [Redacted]

Comments on the proposed approach

32. The proposed strategy is broadly aligned with what we consider would be a strong NDC strategy. However, we have comments on some of the Minister's specific proposals.

s9(2)(f)(iv) [Redacted]

33. s9(2)(f)(iv) [Redacted]

34. s9(2)(f)(iv) [Redacted]

35. s9(2)(f)(iv) [Redacted]

36. s9(2)(f)(iv) [Redacted]

Additional monitoring arrangements/processes

37. We support an adaptive management approach that builds on existing processes, including an enduring role for the Climate Change Chief Executives Board (CCIEB) and existing emissions reduction monitoring infrastructure. s9(2)(f)(iv) [Redacted]

38. We are unsure of the value that the proposed additional institutional arrangements/processes would bring to NDC monitoring and achievement, above what will be provided under the existing governance processes for overseeing

implementation of the domestic budgets, s9(2)(f)(iv)

39. We recommend deferring decisions on these until additional detail can be provided, including a stronger case for the value it would provide on top of existing processes and information on what the funding requirements for the new arrangements are likely to be.

Risk in publishing a future NDC pathway

40. We see risks in publishing a pathway for future NDC targets in the strategy document. While we see value in providing a future pathway for illustrative purposes, we recommend doing so in a way that is sufficiently caveated and illustrative that does not risk pre-empting future decisions.



Recommended feedback

41. Draft feedback to provide to the Minister of Climate Change is provided in Appendix 1.




Appendix 1: Recommended feedback on the strategy and Cabinet paper

Feedback on the NDC strategy document

I am supportive of:

- The overall structure of the proposed strategy and the principles.
 - In particular, I endorse Principle 5 “Align with New Zealand’s national priorities”, which includes that domestic and international emissions reduction action should be balanced over time in a way that is “economically and fiscally responsible”.
- Prioritising domestic emissions reductions and removals through a strong focus on the setting and implementation of suitably ambitious domestic emissions budgets and ERPs.
- s9(2)(f)(iv) 
- The use of existing monitoring and implementation infrastructure as much as possible, in particular for domestic mitigation action.
- s9(2)(f)(iv) 
- Clear assessment and decision-making points over time.

I have some concerns with:

- Publishing a pathway of future NDC targets (Slide 5). I would prefer to do so in a way that is sufficiently caveated and illustrative, in order to not pre-empt future decisions.
- s9(2)(f)(iv) 
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s9(2)(f)(iv)

- I would also like to see the issues above addressed before the strategy is published.

Feedback on the Cabinet paper and recommendations

s9(2)(f)(iv)

- My preference is that the existing processes for developing the second domestic emissions reduction plan should consider all of the options for action to give effect to domestic ambition, taking into account technological and economic feasibility, including strong consideration of broader economic feasibility and potential broader wellbeing impacts.
- I would suggest that recommendation 11 and 12 as currently written be replaced with:
 - **agree** that the development of ERP2 should include a process to identify, develop and assess proposals that could support over-achievement of the second emissions budget, noting that any over-achievement would help further close the gap between domestic emissions and New Zealand's NDC target.
 - **note** that further investigation and assessment of options is required before Cabinet can decide whether delivering domestic reductions in excess of current budgets is desirable and possible.
 - **agree** that, in line with the proposed NDC strategy principles, assessment of these proposals should include consideration of how well a proposal aligns with New Zealand's national priorities and best overall interests, including economic and fiscal responsibility and the ability to create future opportunities and benefits for New Zealand.
 - **note** that developing new proposals for ERP2 does not commit us to any particular action and that further Cabinet consideration and decisions will be required.
- I note that too much additional monitoring and reporting could be overly costly and cumbersome in an already complex climate monitoring and reporting system, so would like this considered as the work progresses.

s9(2)(f)(iv)

NDC Strategy

Hon James Shaw, Minister of Climate Change

Treasury contact: Tim Borren s9(2)(k)

Sign out contact: Nicky Lynch s9(2)(g)(ii)

Description:

The paper proposes a strategy to meet New Zealand's Nationally Determined Contribution (NDC) emissions reduction commitments under the Paris Agreement.

The strategy proposes prioritising domestic action as much as possible and supplementing this with purchase of international emissions reductions. It also details how the approach to the balance of domestic and international action will be adapted over time.

Comments:

This paper was discussed at DEV on 28 June and referred to Cabinet for further discussion. We understand that Ministers wished to have further discussion on:

- amending or adding to recommendation 25 (now 27), which sought agreement in principle to New Zealand's NDC target covering all types of land, so that further work on the implications of this decision can occur before it is made, while also enabling a positive message about intentions to be communicated to interested stakeholders.
- s9(2)(j)

The revised lodged paper includes the following changes in response:

- Recommendation 28 has been added which seeks agreement that, prior to final Cabinet confirmation of the proposal in recommendation 27 and as part of more detailed advice on accounting implications, the Ministry for the Environment and the Treasury will provide further advice to the Minister of Climate Change and the Minister of Finance on any potential future fiscal implications.
- s9(2)(j)

We note that there remains some risk in communicating a strong intention to widen the scope of NDC accounting before further work on implications has been undertaken, should the issues turn out to be more material than expected.

However, if you are comfortable with the proposed changes, we recommend you support the paper.

Treasury Recommendation: Support the paper, subject to confirming that the approach to proactive release is in line with your intentions s9(2)(f)(iv)

We also recommend that you seek clarification on whether the Minister for Climate Change intends to proactively release Appendix 1 of this paper.

Fiscal Implications:

There are no direct financial decisions in this paper. However, decisions made later under the strategy will have significant fiscal and economic consequences. The paper notes the estimates of the costs of meeting the NDC contained in the Climate Economic and Fiscal Assessment.

The two subsequent processes for: 1) developing additional domestic action through ERP2 and s9(2)(f)(iv) provide mechanisms for identification and assessment of fiscal and wider economic implications of specific proposals as these come up for decision.

Title of paper	NDC Strategy
Minister and agency	Minister of Climate Change, Ministry for the Environment
Description	<p>The paper proposes a strategy to meet New Zealand’s Nationally Determined Contribution (NDC) emissions reduction commitments under the Paris Agreement.</p> <p>The strategy proposes prioritising domestic action as much as possible and supplementing this with purchase of/investment in international emissions reductions. It also details how the approach to the balance of domestic and international action will be adapted over time.</p>
Comments	<p>In May, we provided you with a Treasury Report (T2023/805) for Ministerial Consultation on an earlier version of the NDC Strategy cabinet paper and Strategy document. This report outlined our view of what constitutes a strong NDC strategy and provided you with feedback to provide to the Minister of Climate Change with suggested changes. s9(2)(f)(iv)</p> <p>[Redacted]</p> <p>s9(2)(f)(iv)</p> <p>[Redacted]</p> <p>Most of our suggested changes have been incorporated in this version of the paper, including the recommendations.</p> <p>s9(2)(f)(iv)</p> <p>[Redacted]</p> <p>s9(2)(f)(iv)</p> <p>[Redacted]</p> <p>s9(2)(f)(iv)</p> <p>[Redacted]</p>

	<p>[REDACTED]</p> <p>The paper also seeks agreement in principle, subject to more detailed advice on accounting implications, that the NDC target cover all different types of land, and that we work towards including non-forest land-use and management interventions by 2030. The paper notes that based on current estimates, this could result in a net increase in our emissions (that is, require greater abatement to reach our targets). Incorporating other forms of land into NDC accounting would mean that these forms of land would need to be captured in the GHG inventory, which forms the basis for emissions reporting and projections. Therefore, the main implication is likely to be that the task of meeting the NDC could either become easier or harder. There are likely to be significant measurement challenges involved.</p> <p>s9(2)(f)(iv) [REDACTED]</p> <p>[REDACTED] We are supportive of this work progressing, but given that the implications have not been worked through at this point, we suggest that Ministers agree to further advice being prepared, rather than agreeing in principle to the proposal.</p> <p>The Minister is proposing that this Cabinet paper be proactively released (Paragraph 118) s9(2)(f)(iv) [REDACTED]</p>
Consulting Minister's due date	Wednesday 21 June
Cabinet or Cabinet Committee	Cabinet Economic Development Committee
Fiscal implications	<p>There are no direct financial decisions in this paper. However, decisions made later under the strategy will have significant fiscal and economic consequences. The paper notes the estimates of the costs of meeting the NDC contained in the Climate Economic and Fiscal Assessment.</p> <p>The two subsequent processes for: 1) developing additional domestic action through ERP2 and s9(2)(f)(iv) [REDACTED] provide mechanisms for identification and assessment of fiscal and wider economic implications of specific proposals as these come up for decision.</p>
Recommended action	<p>We recommend that you support the paper, but suggest the following changes and clarifications:</p> <ul style="list-style-type: none"> I would ask that recommendation 25 relating to recognising all forms of land in the NDC target be amended to:

	<p>“Agree to progress detailed advice on accounting implications of New Zealand’s NDC target covering all different types of land, with a view to working towards including non-forest land use and management interventions by 2030”. I would like to better understand the implications of this change before we take this decision.</p> <ul style="list-style-type: none">• The Minister is proposing that this Cabinet paper be proactively released (Paragraph 118) s9(2)(f)(iv) [Redacted]• s9(2)(f)(iv) [Redacted]• s9(2)(f)(iv) [Redacted]
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<p>NDC Strategy</p> <p>Hon James Shaw, Minister of Climate Change</p> <p>Treasury contact: Tim Borren s9(2)(k)</p> <p>Sign out contact: Nicky Lynch s9(2)(g)(ii)</p>
<p>Description:</p> <p>The paper proposes a strategy to meet New Zealand’s Nationally Determined Contribution (NDC) emissions reduction commitments under the Paris Agreement.</p> <p>The strategy proposes prioritising domestic action as much as possible and supplementing this with purchase of international emissions reductions. It also details how the approach to the balance of domestic and international action will be adapted over time.</p>
<p>Comments:</p> <p>In our view, a strong NDC strategy should be based around the objective of investing in the highest “bang for buck” emissions reductions opportunities, whether they are domestic or international. This would minimise costs to New Zealand of achieving its NDC targets and ensure we are contributing meaningfully with our investments. Ideally, we would want to choose between domestic and international options based on a good understanding of their relative value and risks. Given the international market is in the very early stages of development, we suggest a low-regrets approach would be to cast a wide net early in investigating and developing opportunities but avoid locking in expensive options too soon. Our previous advice (T2023/805) further outlines our view of what constitutes a sensible NDC strategy.</p> <p>In general, the strategy being proposed by the Minister is fairly well aligned with this sort of approach.</p> <p>s9(2)(f)(iv)</p> <p>s9(2)(f)(iv)</p> <p>However, the body of the paper still proposes that “<i>the development of ERP2 should include a process to identify, develop and assess significant new proposals</i>”, and that these proposals “<i>should be capable of delivering emissions reductions well in excess of the second emissions budget, in order to further close the gap with the first NDC.</i>” We are less concerned about developing options provided it is clear that Ministers have yet to decide on the overall level of ambition.</p> <p>At the Ministerial consultation stage, we also noted some further points of feedback. We understand these have not yet been considered due to the very tight timeframes provided for Ministerial consultation. These are provided below.</p> <p>s9(2)(f)(iv)</p>

s9(2)(f)(iv)

The paper also seeks agreement in principle, subject to more detailed advice on accounting implications, that the NDC target cover all different types of land, and that we work towards including non-forest land-use and management interventions by 2030. The paper notes that based on current estimates, this could result in a net increase in our emissions (that is, require greater abatement to reach our targets). Incorporating other forms of land into NDC accounting would mean that these forms of land would need to be captured in the GHG inventory, which forms the basis for emissions reporting and projections. Therefore, the main implication is likely to be that the task of meeting the NDC could either become easier or harder. There are likely to be significant measurement challenges involved.

s9(2)(f)(iv)

We are supportive of this work progressing, but given that the implications have not been worked through at this point, we suggest that Ministers agree to further advice being prepared, rather than agreeing in principle to the proposal.

The Minister is proposing that this Cabinet paper be proactively released (Paragraph 118) at the same time s9(2)(f)(iv) We understand that Ministers did not wish the NDC Strategy slides document (Appendix 1) to be published for public release, so we suggest seeking clarification on this point.

Treasury Recommendation: Support the paper, subject to the following changes:

- Ask that Recommendation 25 relating to recognising all forms of land in the NDC target be amended to:
“Agree to progress detailed advice on accounting implications of New Zealand’s NDC target covering all different types of land, with a view to working towards including non-forest land use and management interventions by 2030”. We think it is important to better understand the implications of this change before this decision is taken. s9(2)(f)(iv)

- s9(2)(f)(iv)

We also suggest you seek clarification as to whether this proactive release is intended to include releasing Appendix 1 to the public.

Fiscal Implications:

There are no direct financial decisions in this paper. However, decisions made later under the strategy will have significant fiscal and economic consequences. The paper notes the estimates of the costs of meeting the NDC contained in the Climate Economic and Fiscal Assessment.

The two subsequent processes for: 1) developing additional domestic action through ERP2 and s9(2)(f)(iv) provide mechanisms for identification and assessment of fiscal and wider economic implications of specific proposals as these come up for decision.