Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata

Commentary on the Government response to the Climate Change Commission: Monitoring report: Emissions reduction 2024

To the Environment Committee

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Submitter details

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The Parliamentary Commissioner for the Environment

The Parliamentary Commissioner for the Environment (PCE) was established under the Environment Act 1986. As an independent Officer of Parliament, the Commissioner has broad powers to investigate environmental concerns and is wholly independent of the government of the day. The current Parliamentary Commissioner for the Environment is Simon Upton.

Introduction

Thank you for the opportunity to provide comment on the *Government response to the Climate Change Commission: Monitoring report: Emissions reduction 2024*.[1]

The short deadline of five working days for PCE to provide considered analysis would have been challenging had the Government's response been detailed. In the event, the response presents a few broad policy statements with little in the way of detail or supporting evidence, meaning there is little in the document to analyse.

As such, the best I can do is suggest some points on which the committee might like to ask the Minister and officials for more detail. They concern:

- the alleged primacy of the New Zealand Emissions Trading Scheme (NZ ETS)
- the role of complementary measures
- what constitutes "least cost".

There are also questions about whether emissions budgets and targets are likely to be met given the Government's proposed approach.

New Zealand Emissions Trading Scheme

In its response, the Government asserts that "emissions pricing through the New Zealand Emissions Trading Scheme (NZ ETS) is the main tool to determine where and how to reduce emissions and increase removals". It goes on to state that its objectives are to "ensure New Zealand has a more

[1] See https://environment.govt.nz/publications/government-response-to-the-climate-change-commission-monitoring-report-emissions-reduction-2024.

credible market", to align "the NZ ETS with New Zealand's climate targets", and give "participants confidence their investments to reduce emissions will be rewarded".

The Government's recent decision to accept the Climate Change Commission's advice to reduce auction volumes has stabilised the carbon price and in fact pushed it up a little. I welcome this step. However, the current settings, including the unlimited use of forestry offsets, are unlikely to raise the price high enough to drive significant future emissions reductions. According to government modelling, in the longer term the NZ ETS price will be $50 per tonne (or below). This price will only reduce gross emissions by around 10%.[2] That means the NZ ETS will have to drive high levels of forestry planting to meet emissions budgets.

The Government is planning to limit the class of land on which new forestry eligible for entry into the NZ ETS may be planted. This is a rather bureaucratic – and potentially arbitrary – way to limit offset-driven afforestation. Notwithstanding that, if its effect is to limit forestry, the NZ ETS price must rise over time. It is not possible to meet budgets, limit forestry *and* keep a low NZ ETS price.

The committee may like to ask the Government what plans it has to strengthen and tighten the design and settings of the NZ ETS, and in particular whether its goal is to limit forest offsetting or to keep the NZ ETS price low.

Complementary measures

Complementary measures are likely to be important in meeting emissions budgets for many reasons, including that:

- more than 50% of New Zealand emissions (those from agriculture) are outside the NZ ETS
- export-intensive trade exposed businesses currently receive free credits that constitute a liability to the Crown
- the NZ ETS, at least on current settings, provides weak incentive to reduce emissions in covered sectors.

Tucked away at the end of the document, the Government acknowledges that "complementary policies have an important role alongside the NZ ETS." It goes on to list general areas where such measures might be required – "research and development, removing regulatory barriers or addressing market failures, such as lack of information" – but without providing any detail.

In this context, it should be noted that the Government's response notes that it has discontinued 35 actions from the current emissions reduction plan (ERP1) – most of which were complementary measures driving down emissions. An example is the clean car standard that the Government has recently weakened.[3] In addition, removing regulations to improve agricultural water quality is likely to increase intensification of agriculture and drive up emissions.

The Committee should also note that while research and development are important investments in future emissions reductions, the climate gains from them are both highly uncertain and likely to be well into the future i.e., several emissions budgets away.

The committee may like to ask the Government what regulatory barriers it has identified that are preventing emissions reductions; what market failures its sees and how it will address them; and what research and development plans it has.

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[2] According to MfE's NZ ETS model, under the base case (zero price), emissions will be 14.5 MT per year by 2050. Access to unlimited forestry offsets will keep the NZ ETS price constrained around $50 per tonne (barring short-term fluctuations). With an NZ ETS price of around $50 this will reduce to 13.2 MT per year – a drop of around 1.3 MT per year.

[3] The Government has aligned settings with Australia but crucially the fines for non-compliance are lower than Australia.

Least cost approach

The Government's response emphasises the concept of taking a "least cost approach".

At one level, given the scale of what will be required to achieve an economic transition that eliminates greenhouse gas emissions from fossil fuel combustion, no one can seriously object to an approach that is "least cost". The scale of the challenge is such that we cannot afford an expensive transition. But beyond that, what least cost means becomes more complicated.

What is meant by a least cost approach depends on the answers to these questions:

1. What costs are included or excluded in a least cost policy?
2. Who bears those costs – for whom is the policy least cost?
3. Over what timeframe is the policy judged to be least cost?

In answer to the first question, the Government's plans seem to be narrowly focused on the cost of achieving our national and international carbon *accounting* obligations (or, more accurately, the lowest NZ ETS price required for this goal). There is little or no evidence that serious thought has been given to the wider environmental costs at stake or the economic impact of those costs; trade and market access costs; and the long-term environmental and economic impact of the massive expansion of exotic forestry that is implied.

On the second and third questions, the plan seems to focus on the least cost for *current generations*. From what we have seen, the Government's plans run a number of risks that are likely to see costs being passed to future generations. These risks can be traced to a willingness to make unlimited use of forestry credits, a belief that emissions reduction technologies will inevitably be significantly cheaper tomorrow (which is not necessarily true) and an unwillingness to take action now even where alternatives are available. If the Government's plan falls short of meeting its targets (which is a very real risk – see below), the bill for additional action to meet the 2050 target and ongoing maintenance will be passed to future generations.

Unlimited forestry offsets come with a number of hidden costs that are not being made explicit. Future generations will inherit a vastly expanded forestry estate that will have to be maintained in the face of a changing climate and the risks of extreme weather events, disease and fire. Because carbon stays in the atmosphere effectively forever these forests will also need to remain on the land in perpetuity. The decision to plant forests as an offset effectively removes any option value the land may have for future generations.

The committee may like to ask the Government for more detail on how it has considered costs over time to determine whether or not its proposed approach is indeed lowest cost. It may also like to ask how the Government intends to mitigate the risks inherent in its proposed approach.

Meeting budgets at risk

While the Government has expressed confidence that it can meet its emissions budgets and targets, its ability to achieve them is far from certain.

The first emissions budget is at risk. The Climate Change Commission's monitoring report notes that, while available data and projections are consistent with the first emissions budget being met, there is high uncertainty.[4] The risks stem from unknown levels of forest harvest, the potential for dry years to decrease hydroelectricity generation (and increased reliance on fossil energy), and an anticipated rise in transport emissions. As it stands, these concerns remain valid. In particular, New Zealand has recently experienced a dry year and as a result, large amounts of coal are being used to keep the

[4] See https://www.climatecommission.govt.nz/our-work/monitoring/emissions-reduction-monitoring/erm-2024.

lights on. The Government's response does not adequately address those risks, nor has it responded to the Commission's call for "further action to reduce emissions [to] reduce the risk of missing the budget."[5]

PCE's analysis of the Government's draft second emissions reduction plan (ERP2) also found that there is a real risk that New Zealand will fail to achieve the second budget with the policy mix that has been proposed.[6] The margin by which ERP2 is sufficient to meet the budgets is very thin. That analysis also showed that the Government's proposed plan was almost certainly insufficient to meet the third emissions budget.

There is also a risk the methane emissions reduction targets will not be met. The 2030 target is on track due to reductions in livestock numbers, but its achievement remains uncertain. Achievement of the 2050 methane target is even more uncertain. It depends upon mitigation technologies that are not yet commercially available, and the design and implementation of an agricultural emissions pricing system correctly calibrated to achieve the required emissions reductions.

Further detail

In providing this advice, PCE drew on its own analysis of the draft ERP2. In its proposed ERP2 the Government gave more detail about what its broad policy directions might mean in practice than it has in its response to the Climate Change Commission's monitoring report. A copy of PCE's ERP2 submission is attached. It provides a lot more detail that supports the claims made in this commentary about the risks to meeting future emissions budgets, the risks from forestry implicit in relying predominately on a net approach, and how the lowest cost now will unlikely be the lowest cost over the long term.

Rt Hon Simon Upton

Parliamentary Commissioner for the Environment
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Attachment: PCE submission to the Ministry for the Environment on the second emissions reduction plan discussion document – 26 August 2024.

[5] See https://www.climatecommission.govt.nz/our-work/monitoring/emissions-reduction-monitoring/erm-2024/erm-2024-summary.

[6] See https://pce.parliament.nz/publications/submission-on-the-2nd-emissions-reduction-plan-consultation.