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Champions for a climate positive, economically thriving and socially just Aotearoa New Zealand

SUBMISSION ON THE MINISTRY FOR THE ENVIRONMENT'S "NEW ZEALAND'S SECOND EMISSIONS REDUCTION PLAN (2026-30): DISCUSSION DOCUMENT"[1]

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A Introduction

1 This submission responds to the Ministry for the Environment's (**MfE**'s) Discussion Document on New Zealand's Second Emissions Reduction Plan (**ERP2**) (**Discussion Document**).

2 Pure Advantage is a registered charity backed by leaders in business and academia and supported by a collective of researchers and writers who investigate, communicate and promote opportunities for Aotearoa New Zealand to fulfil its potential for green growth.

Scope and structure of submission

3 The scope of this submission focuses predominantly on the following aspects of the Discussion Document:[2]

(a) The (in)appropriateness of a least cost, market-led, removals-based approach, including the (in)efficacy of, and (therefore erroneous) reliance on, the New Zealand Emissions Trading Scheme (**NZ ETS**);

(b) The proposed approach to (exotic) forestry removals and how this aligns with the Nature-based Solutions Climate Strategy pillar; and

(c) Climate resilience and adaptation.

4 Our responses are structured as follows:

(a) Section B - Key concerns

(b) Section C - Recommendations

(c) Section D - Concluding remarks

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[1] Ministry for the Environment. 2024. *New Zealand's second emissions reduction plan (2026–30): Discussion document.* Wellington: Ministry for the Environment - cited hereafter as **DD**.

[2] Though we note in passing that the complementary policies, particularly for transport (where emissions are rising), are weak. A number of low or no-cost emission reduction opportunities are barely considered, if at all, including active transport, regenerative agriculture and reduced herd size, and that the best energy use is no energy use. The suggestion that enabling a network of 10,000 EV charge points will realise significant emissions reductions is dubious in light of the more fundamental barrier to EV uptake: cost, which the now-removed feebate scheme was addressing with considerable success.

B Key concerns

5 The Discussion Document states that the Government "is committed to successfully delivering our climate targets."[3] Whilst we welcome this stated commitment,[4] there is a staggering disconnect between the Government's rhetoric and the actual level of ambition and scope of policies set out in the Discussion Document

6 The Minister of Climate Change argues that his Government did not inherit a "viable" emissions reduction plan. Yet, since taking office, it has discarded a raft of effective climate policies and funding,[5] watered down others,[6] and generally deprioritised climate action and environmental safeguards, seemingly ignorant of how critical both are to the nation's economic resilience and prosperity (which it claims to prize).

7 This shortsighed, naïve and reckless trend is reflected in the 'least cost', 'market-led', removals-centric approach that underpins the Government's underwhelming 5 pillared "Climate Strategy"[7] 'brochure' and proposals set out in the Discussion Document.

8 The global effort required to limit average warming to 1.5C will require nearly complete decarbonisation by 2050. The International Energy Agency's Net Zero scenario indicates advanced economies must be net zero by 2045, ***with gross emissions to reduce by around 90%***. The European Union (**EU**) is aiming to achieve an 80% reduction in gross emissions by 2040.

9 Paradoxically, the Discussion Document for New Zealand's plan to reduce emissions for the period 2026-2030 contains no unequivocal (let alone ambitious) commitment to reducing gross emissions at all.

10 Like many New Zealanders, we are dismayed by this Government's lack of urgency, ambition and leadership on enabling, investing in, and accelerating the decarbonisation and climate resilience of the New Zealand economy.

11 Not only will the proposals outlined in the Discussion Document jeopardise the likelihood that New Zealand will achieve its emissions budgets, and domestic and international

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[3] DD, at 8.

[4] Whilst observing that New Zealand's net-zero domestic and international climate targets are described by Climate Action Tracker as "Poor" and "Insufficient" respectively and should therefore be revised: https://climateactiontracker.org/countries/new-zealand/targets/

[5] Including removal of the Clean Car Discount (which had encouraged EV uptake beyond projections), GIDI funding stopped, introduction of road user charges for electric vehicles, funding cuts to public transport, walking and cycling, increased funding to motorways, and removal of climate as a consideration in transport decision-making in the draft Government Policy Statement on land transport. For more see: https://www.rnz.co.nz/news/national/518301/budget-2024-what-survived-and-what-was-cut-from-climate-emergency-response-fund

[6] Eg the Clean Car Standard - we note the Discussion Document refers to setting "a standard that is achievable and, for consumers, supports availability, affordability and choice." Such weak wording is likely to make New Zealand a dumping ground for advanced nations with a more credible approach to tailpipe emissions.

[7] https://environment.govt.nz/assets/J001281-MfE-Climate-strategy-brochure-FF_webV2.pdf

emissions reduction targets; they put us completely out of step with the efforts and ambition of other advanced nations and will deprive current and future generations of the opportunities and benefits that going further, faster would realise. And perhaps, even, of a livable future at all.

12 This is not hyperbole. The Intergovernmental Panel on Climate Change (**IPCC**) has warned that:[8]

> "The cumulative scientific evidence is unequivocal… ***Any further delay in concerted anticipatory global action on adaptation and mitigation will miss a brief and rapidly closing window of opportunity to secure a livable and sustainable future for all***…. Global targets require ***deep and rapid, and in most cases, immediate greenhouse gas emissions reductions in all sectors this decade.***"

The role of Government: Ambition, leadership and investment

13 With key global partners increasing the ambition of their climate change response,[9] and multinational retailers committing to reducing emissions throughout their supply chain, it is *in New Zealand's own self-interest* to rapidly decarbonise in order to stay competitive[10] and enjoy the social, economic and environmental benefits of a thriving, low emissions economy.

14 As the Climate Change Commission has highlighted, "[t]he products and services that will have fast-growing demand in affluent markets are those that have low emissions in their production, or support low emissions ways of living." And by reducing the emissions footprint of our exports, New Zealand can both contribute to our global commitments and ensure our export products remain sought after by global retailers and consumers.[11]

15 Framed this way, how quickly and ambitiously we reduce our emissions at source presents *opportunities*.

16 The role of Government in framing the rationale for ambitious climate action is critical to influencing the choices individuals and businesses take. Making the direction, scale and pace of change required clear will encourage investor certainty and confidence to seek and secure these competitive advantages.

17 Similarly, the way the Government invests public funds to lower emissions sends "a message about what is important to New Zealanders and demonstrate[s] the kind of change possible at a large scale."[12]

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[8] https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_LongerReport.pdf
[9] Including the United States, Australia and the EU - CCC ERP2 advice refers, at 75.
[10] Nestlé, our dairy industry's biggest customer, says New Zealand farmers are not moving quickly enough to reduce emissions: https://www.farmersweekly.co.nz/news/nestle-cautions-nz-dairy-farmers-to-improve-efficiency/
[11] Climate Change Commission, 2023 advice on the direction of policy for the Government's second emissions reduction plan, 12 December 2023, at 4 - cited hereafter as **CCC ERP2 advice**.
[12] CCC ERP2 advice, at 43, 198.

18 In response to the Climate Change Commission's draft advice on ERP2, "[m]any submitters called for [the Commission] to go further with [its] advice, expressing a desire to see more ambition and greater urgency from both the Commission and the Government."[13]

19 Contrary to this, the Discussion Document confirms that this Government does not intend to lead with ambition and urgency on climate action, nor contribute any meaningful public funding to support and accelerate a smoother transition for New Zealand businesses.[14]

20 The Climate Change Commission has advised that:[15]

> "***[t]o give clarity and confidence to those who decide where to invest, the Government could set a path focused on reducing greenhouse gas emissions at source. This fundamental step****, along with aligning policies to this path, will help move New Zealand towards a better future*."

21 Rather than taking this "fundamental step", and committing critical enabling public investment, the Discussion Document maintains that:[16]

> "[t]he Government's core role is ***getting the policy and regulatory settings right*** to reach net zero. Its role is not to direct where emissions reductions occur in the economy. This would be inconsistent with a net-based, least-cost approach. We intend to take a market-led approach, using sector policies that support reductions where it is most cost-effective and efficient to do so."

22 This hands-off, no responsibility approach seeks to place the burden of the transition (and the reforestation of Crown land!) on the private sector, and ultimately on future generations who will inherit the consequences of delayed action.

23 There is no question that the private sector has a critical role to play in realising the decarbonisation of the New Zealand economy. But, as the Discussion Document acknowledges, the required investment in low-emissions technologies and adaptation is significant,[17] and is not - despite what the Discussion Document claims[18] - incentivised by the NZ ETS settings, compatible with a 'least cost' austerity approach, nor encouraged by the Government's negative climate signalling.

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[13] CCC ERP2 advice, at 101.
[14] The IPCC's latest report emphasises that effective climate action is enabled by **political commitment**, well-aligned multilevel governance, institutional frameworks, laws, policies, and strategies, as well as access to finance and technology. Mainstreaming climate change considerations and "**[c]onsistent signalling** across investments, policy statements, directions to officials, and internal policies and directives is important to ensure that all regulatory and policy frameworks are aligned with low emissions objectives." CCC ERP2 advice, at 92 refers.
[15] CCC ERP2 advice, at 5.
[16] DD, at 28.
[17] DD, at 44.
[18] DD, at 11.

24 The Government's 2024 budgetary cuts to a slew of climate-related programmes and funding[19] will stymy progress, including:

(a) Stopping the Government Investment in Decarbonising Industry Fund, which enabled New Zealand Steel to bring forward investment in an electric arc furnace which will reduce its emissions by more than 45%;

(b) The redirection of NZ ETS auction funds from the Climate Emergency Response Fund to fund tax cuts; and

(c) The removal of the Clean Car Discount.

25 In his ERP2 submission, Professor Robert McLachlan succinctly explains the overall effect of the Government's least cost, low ambition, anti-leadership approach:

> "Government policy settings establish social norms that influence the way the population thinks about climate friendly behaviour. The EV rebate is a way of the Government saying "we think the EVs will be good for the country/world - the benefits outweigh the costs." Most people tend to be influenced by (reasonably argued/presented) social norms - setting a new norm should increase knowledge and motivation to engage in climate-friendly behaviours.
>
> ERP2 is laden with language about 'cost' - the word itself occurs 159 times. This framing, itself based around a restrictive conception of costs and benefits, encourages climate delay. In addition, there have been frequent, almost daily statements of climate delay and denial from members of the Government. This sends the signal that individuals and businesses don't have to do anything and the urgency is gone."

26 How the Government expects such an approach to support its "world-leading climate innovation" strategic pillar or reliance on the uptake of high-cost agricultural and CCS/CCUS technologies, let alone an economy-wide low emissions transition, is baffling.

Emissions budgets and targets: Progress, projections, and de-risking our approach

27 The Climate Change Response Act 2002 (**CCRA**) requires that the Minister must:[20]

> "[h]ave ***particular regard*** to how the emissions budget and 2050 target may ***realistically*** be met, including consideration of the
>
> (i) Key opportunities for emissions reductions and removals in New Zealand; and
>
> (ii) ***Principal risks and uncertainties*** associated with emissions reductions and removals."

28 More importantly, the Climate Change Minister has a *legal obligation* to ensure that emissions budgets are met.[21]

29 Current projections already suggest there is a growing gap between actual and required action. MfE's baseline modelling suggests New Zealand is not on track to meet the second

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[19] https://www.rnz.co.nz/news/national/518301/budget-2024-what-survived-and-what-was-cut-from-climate-emergency-response-fund

[20] CCRA, s 5ZH(3), s 5ZC(2).

[21] CCRA, s 5X(4).

emissions budget, and the Climate Change Commission has warned that meeting even the first emissions budget is subject to high uncertainty due to risk factors.[22]

30 With regard to the meeting the second emissions budget, it is only when additional potential policy measures - many of them speculative, unproven, and/or not yet commercially available - are considered that MfE's modelling suggests New Zealand is likely to meet them.

31 The margins of uncertainty that apply to these projections are significant.

32 Such a highly uncertain and therefore high risk strategy could put the Minister of Climate Change in breach of his duty to ensure emissions budgets are actually met under s 5X(4) of the CCRA. As Lawyers for Climate Action observe:[23]

> *"Under the Climate Change Response Act 2002, the central legal requirement of an ERP is that it must set out the policies and strategies the Government will rely on to meet the relevant emissions budget.* ***The Minister for Climate Change also has a legal obligation to ensure that the emissions budgets are met.***
>
> *However, the Ministry for Environment's own modelling indicates 'significant uncertainty' about New Zealand's ability to meet its next emissions budget.*
>
> *According to the Draft ERP's* ***baseline*** *model,* ***which factors in optimistic emissions reductions driven by the ETS, New Zealand is not on track to meet the second emissions budget.*** *It is only when additional potential policy measures are considered that the modelling suggests New Zealand is likely to meet the net emissions target.*
>
> *But many of those policies are speculative, reliant on technological advances that don't exist yet or are unproven, and will likely be offset by some of the Government's other policy decisions. We are also concerned about a continued focus on 'net emissions', which ignores the importance of reducing emissions at source."*

Risk

33 De-risking New Zealand's approach is key to meeting our budgets and targets with greater certainty and minimising the risk (or extent) of intergenerational injustice (if we don't).

34 This requires both a precautionary and adaptive approach: precautionary in that it seeks to *overachieve* our emissions budgets - which are the *upper limits* for emissions - to buffer against circumstances that may be unforeseeable and/or outside Government control (for example, the Tiwai Point aluminium smelter remaining open for a further 20 years), as well

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[22] https://haveyoursay.climatecommission.govt.nz/comms-and-engagement/cc2f075f/user_uploads/monitoring-report---emissions-reduction---july-2024--final-web-ready.pdf

[23] https://www.lawyersforclimateaction.nz/news-events/new-zealands-draft-second-emissions-reduction-plan?ss_source=sscampaigns&ss_campaign_id=66a9a54e84625c4ae0d2a58d&ss_email_id=66a9aed291ecb47916508618&ss_campaign_name=July+Newsletter+-+Lawyers+for+Climate+Action&ss_campaign_sent_date=2024-07-31T03%3A26%3A29Z

as for the effect of timelags or gaps in data, whilst being adaptive to new technologies and innovation *when* their availability, affordability, credibility and suitability are established.

35 Overachieving our emissions budgets will also help us close the gap between our domestic and global commitments to mitigate climate change.[24]

36 A net-based approach that relies heavily on exotic forestry removals is inherently uncertain and therefore risky: the goal should be to overachieve *specified* levels of gross reductions, building in a margin for uncertainty, error, and/or unforeseeable circumstances.

37 Pure Advantage acknowledges the need for both gross emissions reductions and removals to meet and sustain New Zealand's climate targets. Removals are needed to draw down historical and hard-to-abate emissions, and to realise net-negative emissions in the second half of the century as a result of overshoot; so "in any path to net zero, removals from new and existing forests will have an important part to play."[25]

38 But *reliance* on removals should not displace gross reductions and should thus be carefully - and separately - incentivised and calibrated to achieve those ends.

39 Similarly, legitimate reliance on technological solutions should only occur when the technology is proven, commercially available, affordable, appropriate and any potential unintended consequences are well understood. In support of this, we note that the ability to "have regard to" existing and anticipated technological developments[26] is subject to the requirement to "have *particular* regard" to how the emissions budget and 2050 target may ***realistically*** - not speculatively - be met.

40 De-risking our climate response to increase the degree of certainty with which we are likely to achieve our budgets and targets also requires mainstreaming resilience and co-benefits across decision-making. Removals that prioritise exotic afforestation present high risks of reversal in a warming climate, and will not the secure biodiverse, durable and resilient landscapes, long-term carbon sequestration and multiple co-benefits that native reforestation and afforestation would achieve.

Pace

41 What we do before 2030 matters most, to give ourselves more options later, avoid locking in emissions and hopefully mitigate the worst impacts of climate change. In its advice, the Climate Change Commission has consistently counselled in favour of urgent and immediate action, warning that without it:[27]

[24] CC ERP2 advice, at 139.
[25] CCC ERP2 advice, at 162.
[26] CCRA, s 5ZH(3)(b)(iii).
[27] CCC ERP2 advice, at 5.

> "New Zealand's chance for a prosperous and thriving future will be traded for maintaining an increasingly unaffordable status quo. It will also shift the burden of reducing emissions to the next generation, while simultaneously reducing the options they have to tackle the problems ahead. Delay will mean an opportunity denied for us all."

42 That is because it takes time to implement and scale up actions: "time lags and practical limits on the pace of change highlight the importance of prompt and decisive action to get on track for future emissions budgets and the 2050 target, as emissions accumulate over time",[28] as do the effects of even small delays.[29] Delayed action will lock in higher emissions infrastructure and make future change more difficult.

Least-cost, market-led, offsetting approach is shortsighted, selfish and reckless

'Net-based' approach favours offsetting

43 The Discussion Document explains that the Government's generously titled climate 'strategy' "sets the direction for our climate change response". It proposes taking what it describes as "a strong, net-based approach to reduce emissions at least cost"[30] underpinned by five pillars:

(a) Infrastructure is resilient and communities are well prepared;[31]
(b) Credible markets support the climate transition;
(c) Clean energy is abundant and affordable;
(d) World-leading climate innovation[32] is boosting the economy; and
(e) Nature-based solutions address climate change.

Failure to prioritise gross emissions reductions

44 Alarmingly, none of these pillars prioritises the urgent, rapid and deep emissions reductions required before 2030 to keep hopes of a 1.5C average global temperature increase - and a liveable future - alive.

45 Instead, the Government justifies its "net-based" approach out of concern "[t]o increase productivity".[33] It "consider[s] that a net-based approach provides greater flexibility, which can help keep costs down".[34]

46 However, removals must not displace or undermine the impetus for urgent and deep gross emissions reductions, which are fundamental to any hope of a 1.5C-aligned future.

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[28] CCC ERP2 advice, at 144.
[29] Ibid, at 145.
[30] DD, at 20.
[31] This seems to prioritise the resilience of the built environment over communities (who need to be "well prepared") and natural or 'green' infrastructure.
[32] The conditions to drive "world leading climate innovation" are unlikely to be present under a net-based, least cost approach. We further note that reliance on innovation and technology that is not yet commercially available nor proven to be effective within a domestic context is high risk due to significant uncertainty.
[33] DD, at 23.
[34] DD, at 24.

47 That risk is highly likely without:

(a) Specified levels of gross emissions and removals for emissions budgets 2 and 3, and indicative levels to 2050 (as recommended by the Climate Change Commission);

(b) A more aggressive phasing out of industrial free allocations;

(c) Quantitative and qualitative restrictions on the use of forestry offsets under the NZ ETS; and

(d) A willingness to have NZ ETS unit supply and price control settings realise a materially increasing carbon price.[35]

48 In the absence of comprehensive, highly-targeted and effective complementary policies to try to correct for the displacement of gross reductions under the NZ ETS, meeting and sustaining our climate targets under an unqualified net-based, least-cost, market-led approach is subject to significant uncertainty and risk.

49 Significant uncertainty and risk arises as a result of the NZ ETS's limited ability to drive the levels of afforestation needed to meet and sustain net zero from the mid-2030s, and the inherent risk of reversal associated with forestry (particularly monocultural pine) removals. We explore these inconvenient truths further in paragraph 77 below.

50 Reducing absolute emissions as much and as quickly as possible is key to keeping global warming within the bounds of a 1.5 degrees Celsius average increase with less risk and thus more certainty. That is the goal of the Paris Agreement to which New Zealand is a party and under which, as a developed nation, we need to undertake our fair share of global efforts.

51 A net-based approach underpinned by an emissions trading scheme that allows (and incentivises) participants to offset 100% of their emissions through forestry removals rather than reduce them (at all), is clearly incompatible with our international commitments and obligations to this end. It could also, therefore, be argued that it contravenes the climate commitments to which New Zealand is subject under its free trade agreement with the European Union.[36]

52 Aside from the issues of false equivalence and finite land availability, such unconstrained reliance on exotic forestry removals is risky in a warming climate that is increasingly characterised by more frequent and severe weather events. The risk of reversal from fire, storm, drought, pests or disease - and thus failing to meet or sustain our climate targets - is growing, particularly for the relatively short-lived monocultural exotic forests[37] that are now prevalent across New Zealand as a result of NZ ETS incentives.

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[35] That said, we welcome the Government's recent decision to adopt the Climate Change Commission's advice on unit supply and price control settings: https://www.beehive.govt.nz/release/updated-settings-restore-ets-market-confidence.

[36] Which, among other commitments, requires the parties to refrain from any act or omission that materially defeats the object and purpose of the Paris Agreement (Article 19.6(3)).

[37] Compared to our old growth native forests. Although it is acknowledged that all forestry offsets risk reversal and are based on false equivalence, there is, nevertheless, a clear distinction to be drawn in both respects between relatively short-lived exotic monocrops and old growth native forests. Regenerative and self-sustaining native forests can sequester and store carbon across timescales more equivalent to long-lived GHG emissions whilst delivering climate, ecological and landscape resilience. CCC ERP2 advice, at 304 refers.

53 By failing to prioritise gross emissions reductions, New Zealand's equitable transition to a low carbon economy will be delayed, if not indeed denied. This will put our economy at odds with comparable jurisdictions that are realising the opportunities of moving quickly to decarbonise, whilst presenting reputational risks and jeopardising access to premium markets.

54 It will also make the transition a more expensive, disruptive, unmanaged and unjust one.

55 It will be particularly unjust for the youth of today and those to come, who will inherit the legacy of such a shortsighted, selfish and unsustainable approach, the burden of trying to maintain and sustain a collapsing pine forest estate, whilst simultaneously grappling with the existential but avoidable challenges that a warmer climate will inevitably entail.

'Least cost' approach flawed

56 The Discussion Document asserts that "[c]limate change is an economic issue."[38] This reductive framing appears to justify the Government's heavy emphasis on taking a "least cost" approach to climate action.

57 Although economic circumstances are *one* legislative consideration to which the Minister of Climate Change, in preparing an emissions reduction plan, must have regard under the CCRA, it is not the *only* nor indeed *primary* consideration.

58 The legal criteria require that the Minister must:[39]

(a) Have *particular* regard to how the emissions budget and 2050 target may ***realistically*** be met, including consideration of the
  (i) Key opportunities for emissions reductions ***and*** removals in New Zealand; and
  (ii) ***Principal risks and uncertainties associated with emissions reductions and removals***; and

(b) Have regard to:
  (i) ***The emission and removal of greenhouse gases projected for the emissions budget period***;
  (ii) ***A broad range of domestic and international scientific advice***;
  (iii) Existing technology and anticipated technological developments, including the costs and benefits of early adoption of these in New Zealand;
  (iv) The need for emissions [plans] that are ***ambitious*** but likely to be technically and economically ***achievable***;
  (v) The ***results of public consultation on emissions reduction budgets and plans***;
  (vi) The ***likely impact of actions*** taken to achieve an emissions budget and the 2050 target, including on the ***ability to adapt*** to climate change:
  (vii) ***The distribution of those impacts*** across the regions and communities of New Zealand, and ***from generation to generation***;

[38] DD, at 9.
[39] CCRA, s 5ZH(3), s 5ZC(2).

(viii) ***Economic circumstances*** and the likely impact of the Minister's decision on taxation, public spending, and public borrowing;

(ix) The implications, or potential implications, of land-use change for communities;

(x) ***Responses to climate change taken or planned by parties to the Paris Agreement or to the Convention*** (i.e. what comparable jurisdictions are doing);

(xi) ***New Zealand's relevant obligations under international agreements (including our free trade agreements)***.

59 Many of these considerations appear to have been overlooked or given only cursory consideration.

60 "Least cost" is defined in the Discussion Document as:[40]

> ***"The overall lowest cost to the nation, by 2050, of reducing emissions and shifting to a net zero 2050. The costs are to businesses investing in gross emission reduction (many of which are passed on to households as consumers), fiscal costs to the Government, and the wider costs or benefits from changes to the things people value, such as clean air."***

61 However, in defining climate change as an "economic issue" and resolving to take a net-based, market-led approach, the Government's 'least cost' approach is quite evidently confined to minimising immediate fiscal impacts.

62 Notwithstanding this reductive lens, the Government appears to overlook its 'least cost' approach to the looming fiscal risk of meeting the emissions gap between our domestic progress and what we have committed to under our first Nationally Determined Contribution. Analysis by the Treasury shows that the cost of insufficient action will be considerable, wherever it lands,[41] and will benefit transition investments made offshore rather than our own.

63 A 'least fiscal cost' approach also obscures the considerable social and environmental costs associated with the Government's proposed approach, some of which are admittedly identified (for example, in relation to exotic afforestation) but to which no solutions are proposed other than in respect of restricting farm-to-forest conversions.

64 The Discussion Document acknowledges that:[42]

> "Determining the least-cost approach requires taking account of the risks and co-benefits of different pathways, which could influence total economic costs in the long term. Some factors are uncertain and extend far into the future. For example, reducing gross emissions could offer broader savings from co-benefits (eg, reducing transport emissions could yield savings from lower air pollution and congestion, which in turn improves health outcomes). While a forestry-led response could be least-cost in the short term and provide some co-benefits

[40] DD, at 24, 122.
[41] Estimates vary, but costs could fall in the range of $3.3 - $23.7 billion: https://www.treasury.govt.nz/sites/default/files/2023-04/cefa23.pdf, at p 80. The availability and integrity of ITMO also remain unclear.
[42] DD, at 24.

> (such as erosion control), it also risks losing stored carbon in the trees through wildfire, pests or weather events. ***The Government has had to judge the likelihood and scale of these benefits and risks in forming its least-cost strategy.***

65 It seems the Government has poorly judged the likelihood and scale of these benefits and risks in forming its least-cost strategy.

66 The Minister of Climate Change has rightly acknowledged the need for long-term policy signals to create certainty for individuals and businesses. However, the temporal horizon for the Government's least fiscal cost approach is evidently short-term and therefore shortsighted, for it forgoes the considerable cost savings and benefits in the future (including enhanced climate resilience) that will result from the pursuit of more ambitious gross reductions now. It also fails to quantify the trade-related fiscal (and reputational) risks that could result from loss of market access (and key export customers, like Nestlé).

67 Both the IPCC and the Climate Change Commission warn against such a shortsighted approach to the significant investments required to decarbonise, noting that investments taken now "will more than pay for themselves in the long term."[43] The Commission has modelled future cost savings for New Zealand of around $2 billion each year by the 2040s from investments made now to lower emissions in line with the Commission's proposed emissions budgets.[44]

68 Similarly, the IPCC states that "acting to limit temperature rise to below two degrees will cost far less than the impacts associated with a more than two degree rise."[45]

69 How we frame the transition matters. Continuing to frame the transition by reference to "costs" is both misleading and discouraging. The language of "investment" and "opportunities" is more apt and likely to generate the market confidence this Government is hoping to rely heavily on.

70 There was one glimmer of hope in this regard, where the Discussion Document appears to recognise that:[46]

> "***Economic opportunities will arise*** as the world shifts towards net zero. Expectations, regulations and standards are rapidly changing. Companies that can pivot through innovation and better practice have ***opportunities*** to access markets and meet increasing demand for low-emissions products. ***Investing in our response now*** can bring jobs, economic growth and a higher standard of living for all New Zealanders."

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[43] CCC, at 80.
[44] CCC, at 80. The Treasury's 2021 Statement on the Long-term Fiscal Position, which looks out at least 40 years to examine the potential effects on the economy of long-term, economy-wide trends, recognised that "pursuing more ambitious reductions earlier on may have larger economic and fiscal cost in the short term, particularly if it means investing before cheaper policy levers or technologies become available. However, starting earlier is likely to reduce total transition costs by requiring less dramatic reductions later, smoothing economic adjustment." CCC ERP2 advice, at 200 refers.
[45] CCC, at 75.
[46] DD, at 27.

But how the rest of the Discussion Document is framed is largely inconsistent with this acknowledgement.

An inconvenient truth: Market-led approach ineffective in the absence of ETS redesign

71 The Government's "strong" net-based, least-cost approach relies almost entirely on the misguided belief that the NZ ETS "is the best tool the Government has to reduce net emissions at least cost."[47]

72 Indeed, the Government's "priority is to *make the transition* and meet our targets in the most cost-effective and least-cost way: ***by placing the NZ ETS at the centre and enabling the market to pursue a least-cost pathway***."[48] And that, "[w]hen working properly, [the NZ ETS] will encourage greater investment to reduce emissions."[49]

73 The justification for such reliance is that:[50]

> "[a] least-cost approach is economically efficient because it relies on markets, which leads to innovation and investment, rather than involving the Government in directing where and how to make reductions. It gives more flexibility and more options. It also focuses on net emissions, ***recognising the relatively low-cost abatement opportunity offered by forestry.***"

74 This "utopian"[51] faith in 'the market' ignores the inefficacy of the NZ ETS - as currently designed - to drive gross emissions reductions. Nor, as the Discussion Document concedes, will it be able to incentivise sustained forestry removals from the mid-2030s to achieve and sustain net zero for subsequent years,[52] and certainly not the durable and co-beneficial removals that indigenous forests can generate that will be needed to sustain net-zero emissions beyond 2050.

75 The Discussion Document suggests that the NZ ETS will be "strengthen[ed … by restoring market confidence",[53] and that "[a] credible NZ ETS with a cap that progressively tightens

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[47] DD, at 36.
[48] DD, at 42.
[49] DD, at 36.
[50] DD, at 24.
[51] https://www.rnz.co.nz/news/national/523801/climate-chief-rubbishes-claims-farmers-must-wait-for-new-technology-to-reduce-emissions
[52] DD, at 41. As the Climate Change Commission explains, achieving and sustaining net zero in a removals-by-forest approach would require ongoing land conversion since trees reach a natural limit to the amount of carbon they store. If no further forests are planted or policy changes after 2050, long-lived greenhouse gas emissions would bounce back above net zero before 2065 as the forests reach their long-term average carbon storage. And because the amount of storage that can be stored on land is ultimately limited, this method is not indefinitely sustainable. A durable net zero approach is critical. CCC ERP2 advice, at 163. Geoff Bertram similarly observes that the Discussion Document is "mysteriously silent" on how net zero emissions will be sustained beyond 2050 "once the forested area has been increased 40%, especially if further expansion of carbon forests into productive agricultural land is blocked. … ***The years after 2050, as today's pine plantations reach full growth and begin to age, may lie comfortably beyond the planning horizon for the coalition but will be well within the expected lifetime of today's young adult voters.***" https://www.carbonnews.co.nz/story.asp?storyID=32192
[53] DD, at 14.

over time will help drive investment across the economy in emissions reductions and carbon removals at least cost to households and businesses."[54]

76 We do not accept that the NZ ETS will be "strengthened" by restoring market confidence, nor that its settings are compatible with a "credible" carbon market.

77 That is because:

(a) *The NZ ETS is not a true cap-and-trade system:*

i Unlike other emissions trading schemes, there are no quantitative (nor indeed qualitative) constraints on forestry removals, nor a level of gross emissions specified in the emissions budgets.

Unlike almost all other emissions trading schemes internationally, the full inclusion of forestry in New Zealand's ETS enables participants to offset 100% of their emissions through forestry-generated NZUs.

The price of carbon emissions is set by the least-cost marginal source of carbon credits, which in practice has resulted in extensive monocultural pine afforestation, enabled by the externalisation of downstream social and environmental costs associated with this land-use activity, with limited effect on gross emissions reductions.

By comparison, most other countries with ETS systems have set policies to restrict this:

- About half allow some amount of offsetting, either from forestry or carbon capture and storage, but most only allow 10% or less of emissions to be offset;[55] and
- Many of those schemes also have additional qualitative requirements and restrictions with the goal of ensuring that offsets do not cause harm to other socio-economic and environmental outcomes, or go further and offer co-benefits.

ii The phase-out of free industrial allocations is too slow, with some industrial allocation recipients continuing to receive free NZUs beyond 2050; and

Iii Price 'discovery' is subject to political decision-making on unit supply and price control settings, which are ultimately approved by the Minister of Climate Change. MfE's modelling for ERP2:[56]

[54] DD, at 14.
[55] One reform option is to limit the % of offsets participants can use as part of their surrender obligations - for example, in California only 4% can be offset units (this has decreased from 8% (prior to 2021)). The Climate Change Commission discusses the option of applying an offset limit only to exotics, so that units generated from native or slower growing forests would trade at a premium. CCC ERP2 advice, at 185 refers.
[56] DD, at 33.

> "assumes a price path in which prices continue to rise to $75 per tonne in 2028 but then fall to a long-run price of $50 per tonne (in 2023 dollar values) from 2035. This reflects one view of the broad market dynamics expected in the NZ ETS as the steady tightening of the NZ ETS cap leads to modest price increases in the near term, while over the medium to long term the marginal cost of exotic afforestation is expected to anchor the NZ ETS price."

As Geoff Bertram observes, this projects "a radically different, rock-bottom price path for New Zealand"[57] compared to that projected by MfE in December 2023, where the NZU price would progressively increase to $230 per NZU by 2050, and queries "claims that this is consistent with achieving the 2050 targets",[58] and indeed how this would work in practice.

It is also irreconcilable with the National Party's commitment to "stronger emissions pricing" and "sustained increases in the ETS price" proposed in its"Blueprint for a Better Environment"[59] campaign document; and

(b) *Nearly half of New Zealand's emissions are not covered by the NZ ETS.*

The Government recently announced legislation that seeks to remove the 2025 legislative backstop that would require this at the farm-level. In the absence of demand for NZUs for this sector, modelling suggests that from the mid-2030s, there will be insufficient demand from covered sectors to match the supply of NZUs generated by forestry removals. The Discussion Document mentions the creation of incentives for forestry outside the ETS, whilst simultaneously considering extending the NZ ETS to include non-forestry removals. It is not clear how these proposals would support the credibility or efficacy of the NZ ETS.

78 Quite simply, the NZ ETS will not incentivise the optimal balance of emissions reductions or forestry removals needed to meet and sustain our climate targets without fundamental redesign to address these shortcomings. This is consistent with the Climate Change Commission's advice, which recognised that despite the drawbacks of changing the NZ ETS, "***we conclude that there is little alternative to this course of action***."[60]

79 The previous Government understood these realities, and notwithstanding opposition from exotic forestry lobbyists, had the courage to consult on how reforming the NZ ETS effectively and equitably could be achieved.

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[57] Geoff Bertram, How is the draft Emissions Reduction Plan supposed to work? Carbon News, 5 August 2024, https://www.carbonnews.co.nz/story.asp?storyID=32192

[58] Ibid.

[59] https://assets.nationbuilder.com/nationalparty/pages/18458/attachments/original/1697152275/Blueprint_for_a_Better_Environment.pdf?1697152275, at 8.

[60] CCC ERP2 advice, at 180.

80 One proposal of that consultation was to separate the incentives for reductions and removals in support of separate quantitative (and, in the case of removals, potentially qualitative) levels for each.

81 Not only would this have enabled a re-prioritisation of incentives to drive, rather than displace, material gross emissions reductions, it would also have enabled the incentives for removals to be more targeted to realise broader long-term outcomes and co-benefits, like landscape restoration and ecological and climate resilience, in addition to high-integrity (real, additional and durable) carbon sequestration.

82 The current Government has shied away from this inconvenient truth, shortsightedly axing the NZ ETS review, arguing instead that "[t]he effectiveness of the NZ ETS depends on the credibility of its market",[61] and that a 'credible' carbon market simply requires certainty, which will, by itself, (magically) "strengthen" it. This seems fanciful.

83 While the NZ ETS review inevitably resulted in temporary market uncertainty, the effectiveness of the scheme to do its job is critical to achieving the emissions budgets.[62]

84 And contrary to its stated commitment to certainty, the Government is considering both extending the scope of removal activities that can be recognised under the NZ ETS, as well as creating incentives for forestry removals *outside* the NZ ETS.[63] In addition to introducing potential uncertainty into the scheme, the Climate Change Commission has warned that introducing additional removal sources may serve to dilute efforts to decarbonise unless New Zealand's climate targets are strengthened on account of their inclusion.[64]

High-risk approach to forestry removals at odds with Climate Strategy's Nature-based Solutions Pillar

> *"Because the amount of carbon that can be stored on land is limited, an approach solely reliant on forest carbon removals is not available indefinitely. Carbon stored on land is also increasingly vulnerable to events like fires and floods. If the Government's approach does not result in strong reductions in greenhouse gas emissions, achieving the 2050 target in a durable and equitable manner will be at risk."*[65]

85 Under the Discussion Document, forestry is to play "a vital role in meeting New Zealand's climate change targets."[66]

86 In support of its 'least cost' approach to reducing net emissions, the Government "[s]pecifically"[67] identifies "exotic forestry [as] an affordable and scalable way to lower net

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[61] DD, at 36.
[62] We agree with the Climate Change Commission that market confidence issues due to the NZ ETS reviews do not invalidate the issues identified related to the economics of afforestation compared with reducing gross emissions: "[t]hese issues mean the current structure of the ETS is not fit for driving either gross reductions or the removals by forests needed to meet emissions budgets and the 2050 target in an equitable and sustainable way." CCC ERP2 advice, at 110, and at 183.
[63] DD, at 41.
[64] CCC ERP2 advice, at 42, 190.
[65] CCC ERP2 advice, at 40.
[66] DD, at 76.
[67] DD, at 40.

emissions, and an essential part of reaching New Zealand's climate targets,"[68] subject only to a concern to "protect high-quality productive rural land from excessive afforestation."[69]

87 The Discussion Document:[70]

> "acknowledges that significant exotic afforestation can present other environmental risks that need to be managed. We can use forests to strengthen landscapes to adapt to climate change but, if managed the wrong way, they can also pose a risk to communities, biodiversity and infrastructure through severe weather impacts."

88 However, the only "risk" it proposes to "manage" is that of "large-scale afforestation on productive farmland and whole-farm conversions", since "[i]ncreases in farm conversions to forestry on high-quality land can impact on [rural] communities and food production if left unchecked."[71] Accordingly, "the Government intends to introduce restrictions on the entry of new forests in the NZ ETS on productive farmland."[72]

89 These restrictions would include a 3 year moratorium on whole-farm conversions on LUC 1-5, and a 15,000 ha limit for LUC 6.[73]

90 ***No*** restriction on exotic afforestation is proposed for LUC 7, seemingly irrespective of erosion susceptibility risk. This flies in the face of the findings and recommendations set out in the Ministerial Inquiry into Land Uses in Tairawhiti and Wairoa from May 2023 following Cyclones Hale and Gabrielle and will condemn vulnerable communities to repeated devastation from inappropriately located and managed pine forests.

91 There is still no clear and comprehensive transition plan for those exotic forests that cannot, should not, or will not be harvested. Without intervention (and the investment necessary to enable this), these forests are increasingly at risk of collapse, wildfire, and the spread of wilding pines.

92 Even then, the long-term success of transitioning exotic forests to natives at scale is unproven.[74] Significant investment in ongoing management will be necessary, and will be subject to place-based and ecologically-dependent variables.

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[68] DD, at 40.
[69] DD, at 40. Compare this with the Climate Change Commission's chief concern in relation to unconstrained exotic afforestation, which was the risk of a large volume of forestry units entering the NZ ETS in the 2030s if high planting rates continued, which in turn would not generate a steadily increasing emissions price needed to drive gross reductions, particularly at a time when there would be insufficient demand from sectors covered by the scheme. The Commission observed that "***land restrictions would have to be widespread and stringent to counterbalance the NZ ETS incentive effectively***."
[70] DD, at 40.
[71] DD, at 79.
[72] DD, at 40.
[73] Technical Annex, at 32.
[74] Dr Adam Forbers & Professor David Norton, "Transitioning Exotic Plantations to Native Forest: A Report on the State of Knowledge," MPI Technical Paper No: 2021/22 refers.

93 The distributional impacts of such a flagrantly irresponsible approach to sustainable and diverse land-use and community resilience are completely ignored, together with the aspirations of the community for an inclusive and equitable transition away from the mass monocultural exotic planting that has characterised regional land-use since Cyclone Bola.

94 It is also contrary to the Government's 'least cost' approach. The Government's Climate Strategy itself acknowledges the significant estimated costs of physical damage to assets from the 2023 cyclone and flooding in the North Island ($9 to $14.5 billion) and that "[c]limate change is already costing New Zealand, and the costs are likely to continue to grow".[75] Yet the costs (including social and environmental) of allowing unconstrained, or (in the case of LUC 6) limited restrictions on, exotic afforestation on steep, erodible land could - and should - be avoided.

95 A climate strategy that prioritises *long-term* landscape resilience over cheap, low-quality, short-term pine offsets is more likely to accord with 'least cost'. That the Government's approach does not do so is symptomatic of its myopic approach to 'cost', which externalises social and environmental costs (of exotic afforestation undermining gross reductions and on landscape, ecological, climate and community resilience) and ignores the opportunity cost of not prioritising and investing in gross reductions and native restoration and afforestation early.

96 There is no alignment between this approach and one of four stated roles for the forestry sector, which is to "support… land-use resilience and adaptation in a changing climate to ensure forestry remains productive nationally and regionally, while delivering recreational, amenity and biodiversity benefits."[76]

97 Similarly, there is no alignment with the Nature-based Solutions pillar of the Government's Climate Strategy, which (allegedly) seeks to restore biodiversity, better protect homes and communities against climate change through restored habitats and ecosystems, and "could" give rise to "[m]ore native forests … in our environment."[77]

98 Nature-based Solutions are variously defined, including as "***actions to protect, sustainably manage and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits***."[78] *Te Mana o te Taiao – Aotearoa New Zealand Biodiversity Strategy 2020* defines nature-based solutions as "***solutions that are inspired and supported by nature, cost-effective*** and ***simultaneously provide environmental, social and economic benefits and help build resilience***."[79]

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[75] https://environment.govt.nz/assets/J001281-MfE-Climate-strategy-brochure-FF_webV2.pdf
[76] DD, at 76.
[77] Ibid.
[78] Cohen-Shacham, E., Walters, G., Janzen, C., Maginnis, S. (eds) Nature-based Solutions to Address Global Societal Challenges. 978-2-8317-1812-5. https://doi.org/10.2305/IUCN.CH.2016.13.en (IUCN, Gland, Switzerland, 2016).
[79] As cited in ERP1, at 82.

99 The Government should not purport that exotic afforestation meets the criteria of either of these definitions.

100 Nor do we think it is correct to assert that "[b]oth native and exotic trees can help New Zealand adapt to climate change and provide greater resilience to severe weather, fire and biosecurity incursions"[80] if the exotic trees planted continue to be predominantly pines.

101 An entire chapter of New Zealand's first emissions reduction plan (**ERP1**) clearly outlines the need for a nature-based approach to how we address climate change as a country and its commitment to doing so. It correctly acknowledges that:[81]

> "***The climate and biodiversity crises are inextricably linked***. ***Aligning work on climate change and biodiversity is an opportunity to take strong action in both areas. This approach will ensure our response to the climate crisis also improves the resilience of our native ecosystems and does not further their destruction***."

102 It then comprehensively outlines four key actions in support of a nature-based approach to climate change, whereby the Government undertook to:

(a) Prioritise nature-based solutions in our planning and regulatory system;
(b) Establish an integrated work programme that delivers climate, biodiversity and wider environmental outcomes;
(c) Report on biodiversity as part of emissions reduction plan reporting; and
(d) Encourage global efforts to use nature-based solutions.

103 Those actions included unequivocal support for the restoration and protection of New Zealand's old growth native forests, and the development of new native forests.

104 Noting that our "native forests cover around 7.8 million hectares and store approximately 1.8 Gt CO2, ERP1 recognises that "***[l]ooking after these forests is one of the most important contributions Aotearoa can make to combating global climate change***."[82] Ensuring that these do not become an emissions source through inadequate interventions to manage increasing pest and ungulate pressures presents a growing risk.

105 It further identifies the "significant opportunity to develop native forests that both act as long-term carbon sinks and support biodiversity, which aligns with the goals of [New Zealand's] Biodiversity Strategy."[83] This accords with the Climate Change Commission's recommendation in *Ināia tonu nei* for ***a comprehensive national programme to establish more native forests***.

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[80] DD, at 80.
[81] https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf, at 81.
[82] Ibid, at 85.
[83] Ibid, at 85.

106 ERP1's forestry chapter[84] sets out a suite of actions - many informed by and aligned with the Climate Change Commission's advice - to better incentivise and secure the long-term carbon storage and co-benefits that derive from native forests. These include:

(a) Efforts to recognise increasing carbon stocks from better management of pre-1990 forests (i.e. from pest and ungulate control);

(b) Encouraging greater levels of native afforestation over the long-term, including by reducing costs and addressing supply constraints;

(c) Updating the NZ ETS yield tables to more accurately recognise and reward the long-term sequestration and storage services that indigenous species and forests realise; and

(d) Reviewing the NZ ETS to better support the right type and scale of forests in the right place, including by restricting exotics in the permanent post-89 forest category.

107 Implementing these actions would help realise the low carbon, nature-positive, climate resilient economy and forestry future we want and need.

Recloaking Papatūānuku: A low-cost, multi-win opportunity for New Zealand to lead on a national scale NbS for landscape & climate resilience and a nature positive future

108 In Recloaking Papatūānuku, Pure Advantage, with the support of Tanē's Tree Trust and a growing list of signatories, has comprehensively outlined the opportunity for New Zealand to implement a world-leading national scale landscape restoration initiative for ecological and climate resilience, in addition to long-term durable carbon sequestration and storage, focused on reforesting and restoring native forests across the whenua - including, *but not limited to*, Crown land.

109 This is supported by an indicative but commercially viable business case setting out how it could be achieved in support of our climate (and indeed biodiversity) targets. By investing in the restoration and protection of our existing old growth native forests, and establishing new ones, the modelling to recloak Papatūānuku shows that we can close the emissions gap on our Nationally Determined Contributions through this critical domestic action and in a high-integrity, less risky, lower cost way.

110 A key to unlocking the capital investment necessary to realise the opportunities outlined in Recloaking Papatūānuku, including from the private sector, is for the Government to:

(a) Publicly signal cross-agency support for the initiative, recognising that work on this needs to start *now*;

(b) Support the recloaking of Tairāwhiti as a pilot project, as outlined in Mana Taiao Tairāwhiti's ERP2 submission, including through establishment funding and technical support;

(c) Formally recognising the fiscal risk of meeting NDC1 through internationally transferred mitigation outcomes as a combination of contingent and constructive liabilities on the Crown accounts; and

[84] Ibid, from 271.

(d) Collaborate with the private sector, landowners, catchment groups, iwi Māori, and eNGOs to address constraints and enablers to implementation, including Government investment.

111 Importantly, and whilst welcoming the Discussion Document's invitation to partner with the private sector to explore native afforestation opportunities,[85] we note that these efforts should not be limited to Crown land as proposed, and should be supported by commensurate Government co-funding.

112 We also recommend that "[d]ecisions on which species will be planted, and where" should consider broader co-benefits than just "the suitability of the land and the opportunities for planting partnerships."[86]

Non-forestry removals

113 We support the recognition of, and development of incentives that would support, other viable forms of nature-based removals, including additional carbon storage gains in pre-1990 forests, subject to the proposed qualifiers. These are likely to be low-cost, available now, and co-beneficial, particularly in restoring biodiversity and building ecological and climate resilience.

114 A commercially-realistic and precautionary approach should be applied to carbon capture and storage technologies, particularly with regard to unintended consequences and risk. Their application at scale remains questionable, as does their commercial feasibility (contrary to a 'low cost' approach).

115 However, whether including other carbon-storing activities in the NZ ETS is the best means by which to recognise and incentivise them is questionable because:

(a) Their inclusion "could further erode the scheme's ability to drive gross emissions reductions, or weaken our efforts to address climate change";[87] and

(b) As we have seen for forestry, "[l]and uses have multiple functions, and including them in the ETS - which by its nature focuses only on carbon - could lead to unintended consequences caused by narrowly pursuing emissions reduction outcomes at the expense of other benefits, such as biodiversity or wider ecosystem services."[88]

116 The Discussion Document refers to developing a decision-making framework that would help to assess how such non-carbon removal activities should be recognised and rewarded.[89] It proposes that "key elements of this framework would include the ability to validate removals

[85] DD, at 80.
[86] DD, at 80.
[87] CCC ERP2 advice, at 42. The Climate Change Commission's advice notes that the inclusion of non-forestry removals in target accounting would require a review of our climate targets to ensure their integrity, and reiterates the importance of following a proper consultation process before widening the scope of the ETS to recognise other removals. CCC ERP2 advice, at 190, refers.
[88] CCC ERP2 advice, at 42.
[89] DD, at 85.

in a robust and certifiable way that can count towards our international targets."[90] We assume the "key elements" will be far more extensive than this one element, and will reflect, among other things, consideration of:

(a) International scientific validation and acceptance;
(b) Integrity (real, additional and durable), climate resilience, and relative contribution to removals;
(c) Affordability and scalability;
(d) Co-benefits and social acceptance.

Agriculture

117 The Climate Change Commission's recently released review of progress against New Zealand's first emissions budget identified agriculture and transport as the two areas with the highest risk of missing climate targets unless further action is taken.

118 The Commission has invariably called for farm-level emissions pricing to be introduced without delay.[91] In its final advice to the Climate Change Minister on ERP2, the Commission warned that ***implementing agricultural emissions pricing from 2025 is key to closing the gap to meeting the sector sub-target for agriculture***.[92]

119 Contrary to this recommendation, the Government is seeking to remove the legislative backstop for agricultural emissions to enter the NZ ETS by 2025 in favour of "introducing fair and sustainable pricing of on-farm emissions no later than 2030."[93]

120 The justifications cited for this continual delay are:

(a) To prevent emissions leakage,[94] underpinned by the assertion that New Zealand has "one of the most emissions-efficient agricultural sectors in the world because of efficiency gains driven by farmer-led improvements in productivity over time";[95] and
(b) That farmers need to wait for new technology before they can lower their on-farm emissions. To this end, the Discussion Document asserts that the Government "will not accept shutting down productive sectors of the economy to meet emissions targets".[96]

121 Chair of New Zealand's independent, expert climate advisory body, Dr Rod Carr, claims that neither of these are true:[97]

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[90] Ibid.
[91] CCC ERP2 advice, at 49.
[92] CCC ERP2 advice, at 139.
[93] DD, at 27.
[94] Ironically defined as occurring "when manufacturing is relocated to other countries that have less stringent climate change policies, leading to an increase in global emissions": DD, at 27. One might argue that New Zealand is or has become one of those "other countries" with "less stringent climate change policies": https://www.energymonitor.ai/features/governments-are-backpedalling-on-climate-commitments-who-are-the-culprits/
[95] DD, at 22.
[96] DD, at 8.
[97] https://www.rnz.co.nz/news/national/523801/climate-chief-rubbishes-claims-farmers-must-wait-for-new-technology-to-reduce-emissions

> "There are already known practices in agriculture that can reduce greenhouse gas emissions… ***The idea that farmers have no tools and must wait for new things before they can reduce emissions is simply not true.***
>
> We know different feeding practices are associated with different emissions, we know different breeds - and breeds within breeds - are associated with different emissions.
>
> Different land types and types of protein also changed the emissions profile. There's a lot of variability. In some parts of New Zealand, there can be 18 kilograms of greenhouse gases per kilogram of milk solids and in others there can be 8 kilos.
>
> The differences [between herds] in New Zealand are much greater than the differences in average [emissions] between countries, ***which makes a lie of the claim that if we don't produce it, someone elsewhere will produce it with higher emissions. It's simply not true.*** Because if you displace New Zealand's higher-emitting herds with herds that have average emissions in another country, globally there are less emissions per kilo of milk protein."

122 The Discussion Document refuses to even mention the potential for regenerative agriculture to significantly reduce the emissions intensity of New Zealand farming operations cost-effectively alongside other biodiversity, water quality, resilience and productivity co-benefits.[98]

123 Continuing to drag our heels on lowering agricultural emissions is inconsistent with the international community's expectation that New Zealand will make a fair contribution to global 1.5C efforts, and with the efforts other advanced economies (including those with similar emissions profiles) are making.

124 We have consistently maintained that New Zealand should not underestimate the reputational and trade-related risks associated with not playing our part. The Climate Change Commission has warned that there is increasing scrutiny of plans to deliver on commitments, including intended levels of gross emissions reductions (which New Zealand has not specified).[99] A Government keen to "ensure New Zealand's pastoral farmers remain competitive in markets demanding sustainable produced food"[100] risks losing access to high-value export markets and customer demand.

125 There is considerable reliance on speculative technologies, which "will sit at the heart of our transition, particularly for agriculture."[101] Despite the significant investment in (and therefore unambiguous prioritisation of) gross reductions needed to drive New Zealand's "world-leading climate innovation" (as envisaged by Pillar 4 of the Government's Climate Strategy) and the procurement of transition technologies, it is claimed that "[a] technology-led approach will reduce net emissions at least cost, while still increasing production."[102] However, contrary to a precautionary approach, none of these are currently

[98] https://ourlandandwater.nz/news/new-reports-outline-science-gaps-for-regen-ag-soil-health-and-climate-change/
[99] CCC ERP2 advice, at 165.
[100] DD, at 69.
[101] DD, at 22.
[102] DD, at 27.

available, potentially suitable to New Zealand farming methods, nor perhaps even affordable (let alone at 'least cost').

Policy direction fails to mainstream climate resilience and adaptation

126 Acknowledging that climate risks "include extreme weather, sea level rise, longer term trends in weather patterns, flooding, erosion, landslides, wildfire, drought, pests and disease",[103] the Discussion Document notes that the long-term goals of New Zealand's first National Adaptation Plan (**NAP1**) are to:

(a) Reduce vulnerability to climate impacts;
(b) Enhance adaptive capacity and consider climate change in decisions at all levels; and
(c) Strengthen resilience to climate change.

127 The Climate Change Commission has cautioned that "failing to consider emissions reduction and adaptation together can lead to decisions to prioritise one over the other rather than making decisions that meet both goals."[104] In this case, the Government's failure to prioritise gross emissions reductions in favour of 'least cost' exotic forestry removals is simply incompatible with realising the long-term adaptation goals of NAP1.

128 Nor will it address the concerns laid out in the Climate Change Commission's first adaptation progress assessment,[105] which concluded that adaptation is not happening on the scale or at the pace that is needed to address climate impacts on lives and livelihoods.

129 To help sectors adapt to the impacts of climate change, the Discussion Document proposes that sector policies for ERP2 consider:

(a) Addressing climate risks during planning and policy development to understand potential impacts;
(b) Integrating adaptation to avoid maladaptation or to deliver adaptation co-benefits; and
(c) Supporting resilience initiatives at the sector level that flow down to businesses, communities and households.[106]

130 "Key climate impacts and proposed adaptation considerations for ERP2 sector policies" are set out in Table 11.2 of the Discussion Document, which is best characterised as being exceptionally 'light on detail'.

131 For forestry, the climate impacts identified are "[i[mpact[s] on tree growth and forest maturation",[107] and the "adaptation considerations for policies" comprise: "Forest management and land-use practices; Diversifying tree species; [and] Erosion control benefits from forest."[108]

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[103] DD, at 94.
[104] CCC ERP2 advice, at 47.
[105] https://www.climatecommission.govt.nz/public/Monitoring-and-reporting/NAPPA-2024/CCC-NAPPA_bookmarked2.pdf
[106] DD, at 95.
[107] DD, at 96.
[108] Ibid.

132 A critical climate-related impact that appears to have been overlooked is their very *survival*.[109] Nor is there any assessment of these impacts against the Discussion Document's removals strategy: unconstrained reliance on exotic afforestation with the exception of land restrictions on highly productive land - but *none* on LUC-7 land.

133 Our old growth native forests, which have been self-sustaining for thousands of years, provide valuable lessons in (and evidence of) ecological and climate resilience and adaptive capacity. Their resilience has been well-demonstrated, including in response to recent extreme weather events, where native forests significantly out-performed pines.[110]

134 In support of this view, Dr David Hall has argued that well-managed, well-sited, biodiverse native forests need to be seen as public infrastructure and invested in accordingly.[111] Without wishing to endorse the Government's fixation with a 'least cost' approach, we note that assessing forestry through a public infrastructure lens is entirely consistent with that approach, whilst promising a raft of co-benefits that neither pines nor 'grey' infrastructure can.

135 In terms of the intergenerational balance sheet, Hall explains that we need to be comparing the costs of native forest establishment with the total avoided losses and damages to public, private and Māori-owned assets:[112]

> "It's the avoided costs of fixing farms and fences after floods and forestry debris sweeps through. … the avoided losses to fisheries from silt and sediment impacts, and submerged logs wrecking boats and fishing gear. … the reduced risk to infrastructure and utilities, and the avoided disruptions to economic productivity for communities whose livelihoods rely on them. It's managing the forward liabilities of government which is expected to foot the bill for post-disaster assistance and reconstruction. And above all it's the avoided deaths and injuries to people who face the downstream impacts of historical land clearances, which not only undermined catchment resilience but also contributed hundreds of millions of tonnes of carbon dioxide into the atmosphere."

136 On the basis of what is proposed in the Discussion Document, it seems the Government is not committed to avoiding any of these costs, nor any of the long-term goals of our National Adaptation Plan and thus securing a climate-resilient future for the nation.

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[109] CCC ERP2 advice, at 306.

[110] https://thespinoff.co.nz/society/28-03-2023/an-environmental-disaster-was-waiting-to-happen-in-tolaga-bay-no-one-listened: "They [forestry companies] quibbled endlessly over what proportion of the wood on the beaches was from forests, and what was natives or other species like willows. The council later found 85% came from pine forests."

[111] https://www.stuff.co.nz/environment/climate-news/300859350/what-if-we-think-about-native-forests-as-public-infrastructure

[112] Ibid.

Policy direction for ERP2 a complete departure from Climate Change Commission's advice

137 The purposes of the Commission are enshrined in the CCRA. They are to:

(a) Provide ***independent, expert advice*** to the Government on mitigating climate change (including through reducing emissions of greenhouse gases) and adapting to the effects of climate change; and

(b) Monitor and review the Government's progress towards its emissions reduction and adaptation goals.

138 The Commission's independence[113] means it can provide impartial advice the public can trust, and it can challenge and hold the Government to account for action - or *in*action - on climate change. Its expertise ensures that the Commission's advice is robust and evidence-based, and it consults extensively, ensuring that its advice is not prepared in a contextual vacuum but grounded in real world experiences, practicalities and concerns.

139 The purpose of the Commission's independent, expert advisory function was designed to enable the Minister of Climate Change and policy officials to make well-informed, credible, high-integrity and internationally defensible decisions for New Zealand's climate action.

140 Accordingly, one of the Commission's primary functions is to provide advice to the Climate Change Minister on the direction of policies required in the emissions reduction plan for the relevant emissions budget period (in this case, the second emissions budget (**EB2**)) "to enable" its preparation.[114]

141 Section 5ZI(1)(a) requires that "[i]n preparing a[n emissions reduction] plan and supporting policies and strategies for an emissions budget period, the Minister must … consider the advice received from the Commission under section 5ZH for meeting emissions budgets."

142 Evidence of any such consideration by the Minister is very thin in the Discussion Document. The key policy approaches outlined are, for the most part, at odds with the final advice provided by the Climate Change Commission on ERP2, and indeed with the bulk of feedback the Commission received from the public in its consultation on this.

143 Although the legislation does not require the Minister to give reasons for his departure from the Commission's independent and expert advice (as is the case for emissions budgets), the credibility, legitimacy and integrity of the Minister's (and consequently New Zealand's) approach is compromised by a failure to do so, not just domestically but internationally too. This is particularly the case when the Minister's policy proposals differ so markedly and extensively from those proposed by an independent, expert body tasked with providing advice to the Minister on the direction of those policies.

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[113] Enshrined in CCRA, s 5O(1).

[114] Climate Change Response Act 2002, s 5J(e), 5ZH(1).

C Recommendations

144 To address some of the risks and concerns raised above, we strongly recommend that the final ERP2 is substantially revised to reflect the need to:

Reframe the approach

(a) Apply a long-term, critical-investment lens that reframes short-term costs as competitive opportunities that, if seized, will position New Zealand best for a resilient and prosperous future.

Gross emissions reductions

(b) Prioritise urgent and deep gross emissions reductions by 2030 to avoid locking in emissions-intensive choices with subsequent economic regrets.

(c) Specify levels of gross emissions and removals for emissions budgets 2 and 3, signal indicative levels out to 2050.

NZ ETS reform

(d) Not rely primarily on the short term price signals and volatility of 'the market'. A strategic package of strong, targeted and effective complementary policies and investment are critical, together with reforming the NZ ETS.

(e) Redesign the NZ ETS "to have well-defined and well-communicated goals and to provide a clear signal for gross emissions reductions distinct from, and in addition to, a signal for carbon removals."[115] Unit supply and price settings should be aligned with the desired levels of gross emissions for the second and third emissions budgets, and with the net zero 2050 target, and incentives for gross reductions decoupled from those applying to forestry removals.[116]

(f) Review the NZ ETS to better support the right type and scale of forests in the right place, including by restricting exotics in the permanent post-89 forest category and limiting the registration of transition forests (subject to performance bonds) to those where harvesting cannot, should not, or will not occur; and

(g) Prohibit exotic afforestation on steep erodible land (particularly LUC 7, in respect of which the Discussion Document proposes no limit) and develop a meaningful transition strategy for existing exotic forests that cannot, should not, or will not be harvested, prioritising the most vulnerable regions (as per Recommendation (f) above).

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[115] CCC ERP2 advice, at 199.

[116] As recommended by the Climate Change Commission: CCC ERP2 advice, at 41 refers.

(h) Continue efforts to recognise increasing carbon stocks from better management of pre-1990 forests (i.e. from pest and ungulate control).

(i) Update the NZ ETS yield tables to more accurately recognise and reward the long-term sequestration and storage services that indigenous species and forests realise.

Forestry removals strategy

(j) Clearly define the role different forests play in carbon removal, landscape resilience, as part of wider ecological systems, and socially, economically and culturally, and reconsider whether there is a more holistic way to incentivise and/or fund forestry outcomes so that they contribute to climate, economic and wider environmental objectives. Stable incentives should then be designed to realise high quality, risk-adjusted forestry removals to and beyond 2050 that:

- i Align with robust environmental integrity standards consistent with the best available science and international practice;
- ii Will restore the sector's social licence and minimise land-use inflexibility by supporting a mosaic, multifunctional land-use approach; and
- iii Will optimise desired forestry and landscape outcomes and co-benefits across multiple generations, including:
  - Ecological and climate resilience and adaptive capacity;
  - Self-sustaining capacity (i.e. relative permanence) for long-term carbon sequestration and storage in perpetuity with a view to realising a net-negative emissions and nature positive future from 2050 and beyond, and ensuring that our Nationally Determined Commitments are realised through the prioritisation of domestic action;
  - Biodiversity restoration; and
  - High value, high quality timber production and sustainable nature-based jobs.

Native forests

(k) Encourage significant and consistent levels of native afforestation over the long-term pursuant to a comprehensive national programme to establish more native forests (inside and outside the NZ ETS).

(l) Support the implementation of Recloaking Papātūanuku as a world-leading national-scale landscape restoration initiative as a means by which to meet our international and domestic climate and biodiversity commitments synergistically, and demonstrate global leadership on NbS, by:

- i Publicly signalling cross-agency support for the initiative, recognising that work on this needs to start now;
- ii Supporting the recloaking of Tairāwhiti as a pilot project, as outlined in Mana Taiao Tairāwhiti's ERP2 submission, including through establishment funding and technical support;

Iii Formally recognising the fiscal risk of meeting NDC1 through internationally transferred mitigation outcomes as a combination of contingent and constructive liabilities on the Crown accounts; and

Iv Collaborating with the private sector, landowners, catchment groups, iwi Māori, and eNGOs to address constraints and enablers to implementation, including Government investment.

Voluntary carbon and biodiversity market development

(m) Work with the private sector to accelerate the development of a well-governed, high-integrity, internationally-aligned voluntary carbon and biodiversity market with the aim of attracting investment to support the realisation of a nature-positive New Zealand.[117]

Climate finance and investment

(n) Appropriately recognise NDC1 in the Crown accounts as a means to unlock critical forward investment to meet it through more domestic action (Recommendation (l)(iii) refers). Relatedly, ensure that New Zealand's NDC2 reflects our highest possible ambition.

(o) Reinstate the Government Investment in Decarbonising Industry Fund and ring-fencing of NZ ETS auction revenues to fund climate-related projects (under the Climate Emergency Response Fund).

(p) Commit material Government co-investment into:

i Direct support for transition technologies and associated research and development; and

ii Nature-based solutions[118] for ecological and climate resilience and adaptation.

(q) Mandate climate-related financial disclosures and pilot nature-related financial disclosures across all Government agencies.

Agriculture

(r) Price farm-level agricultural emissions by 2025 and support the uptake of regenerative farming practices.

Transport

(s) Reinstate the Clean Car Discount, strengthen the Clean Car Standard, and remove RUC for EVs.

[117] We note this is canvassed in the Discussion Document, at 45.
[118] As defined by the IUCN.

(t) Incentivise mode shift to public and active transport through enabling policies, funding and investment.

Resilience and Adaptation

(u) Ensure climate and ecological resilience and adaptation is mainstreamed across policies, funding and investment as a mandatory consideration.

D Concluding remarks

145 This submission focuses on selected concerns, namely the Discussion Document's low ambition, least cost, market-based and unbridled offsetting approach to meeting our second emissions budget.

146 We urge the Minister of Climate Change and agency officials to comprehensively revise this approach in a way that better reflects the existential nature of the climate and biodiversity crises that will define the future of generations to come if we do not take urgent and ambitious action now to address them. The window of opportunity to secure a low carbon, nature-positive, prosperous and resilient future for our nation is rapidly closing. What we achieve under ERP2 will determine whether we do.