

Discussion document released on New Zealand's second Emissions Reduction Plan

New Zealand's second "Emissions Reduction Plan" for the period of 2026 – 30 is due to be released by the end of 2024. A discussion document released by the Ministry for the Environment in July provides insight as to how this plan may impact New Zealand's agricultural and forestry sectors.

The purpose of this article is to explain where the second Emissions Reduction Plan (ERP2) fits into New Zealand's legislative framework and summarise the Government's signaled policies as they pertain to the agricultural and forestry sectors.

Where does ERP2 fit into our legislative framework?

Climate response framework and emissions reduction targets

The Climate Change Response Act 2002 (CCRA) provides a legislative framework to reduce greenhouse emissions that cause climate change. Under this framework (Zero Carbon Framework), climate change policies are developed to meet our Paris Agreement commitments.

The Zero Carbon Framework establishes the following domestic targets:

- reduce net emissions of greenhouse gases (except biogenic methane) to zero by 2050;
- reduce emissions of biogenic methane to 10% below 2017 levels by 2030; and
- reduce emissions of biogenic methane to 24-47% below 2017 levels by 2050.

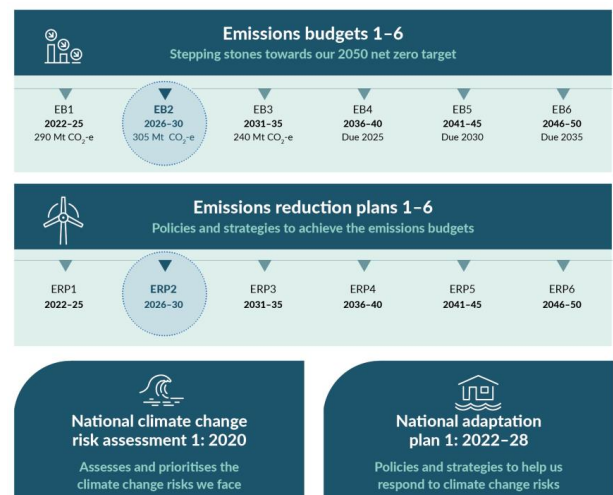
The Government is required to sustain net zero emissions from 2050 onwards.

Emissions budgets and emissions reduction plans

A key mechanism in our climate response is the use of "emissions budgets". Each budget represents the total quantity of emissions that the country is allowed to release during a particular period. They are intended to act as "stepping stones" towards reaching our 2050 targets.

Prior to each budget period beginning, the Government is required to release a new emissions reduction plan. Each plan must detail the policies and strategies to be used to meet the targets of the next emission budget, and may also detail the those intended to be used in the two subsequent budget periods. New Zealand's first Emissions Reduction Plan was released in May 2022 and related to the emissions budget period of 2022 – 2025 (ERP1).

Set out in the diagram below is a timeline of the emissions budget periods leading up to 2050 and the associated emissions reduction plans to be released in relation to those budget periods.



Source: ERP2 page 21

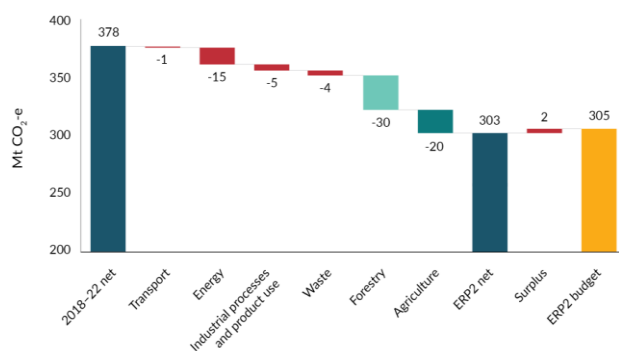
Proposed emissions reductions by sector

New Zealand Second Emissions Reduction Plan (ERP2) (Continued)

While ERP1 heavily emphasised emissions reductions in the transport and energy sectors, ERP2 sees reductions in the agriculture sector and the continued sequestering of carbon by the forestry sector as key to meeting the second emissions budget. ERP2 anticipates a 20_{MtCO₂e} reduction in CO₂ emissions by the agricultural sector and the removal of an additional 30_{MtCO₂e} of carbon dioxide from the atmosphere by the forestry sector during the second emissions budget period.

The Government has stated that the policies and targets have been set based on the guiding principles of achieving a "least cost" transition to net zero, while also applying a "net-based approach" – meaning that emissions reductions are being targeted which the Government hopes will maximise the emissions reduction achieved for each dollar spent.

The below table sets out the proposed reductions on a sector by sector basis for the second emissions budget period based on the proposed policies for ERP2.



Source: ERP2 page 32.

While the reductions as projected are narrowly sufficient to lead New Zealand to achieve the second emissions budget, projections based on ERP2's policies suggest that New Zealand is on course to exceed the 2031 – 2035 emissions budget.

Key proposals in ERP2

The "five pillars" that guide the proposed policies of ERP2

In setting the proposed policies of ERP2, the Government's strategy is based on the following "five pillars":

- Resilient infrastructure and communities:** Ensuring that New Zealand's infrastructure is resilient to the impacts of climate change and that communities are prepared for adverse climate-related events.
- Credible and effective carbon markets:** New Zealand maintains credible and effective carbon markets (including the current Emissions Trading Scheme (ETS)) to ensure that emitters are increasingly incentivised to reduce their emissions, while carbon-removal activities are encouraged and rewarded.
- Green energy:** Ensuring that New Zealand's electricity infrastructure is ready for, and will help to enable, New Zealand's transition towards increased electrification.
- Innovation:** Recognising that climate change also presents an opportunity to New Zealand's economy and ensuring that New Zealand continues to invest in the development and commercialisation of emissions-reduction technologies.
- Nature-based solutions:** Recognising that New Zealand is in a strong position to continue to sequester emissions from the atmosphere alongside gross emission reductions, including via forestry, blue carbon and carbon capture.

New Zealand Second Emissions Reduction Plan (ERP2) (Continued)

Agriculture's proposed role in ERP2

At the time that ERP1 was released, the previous Government had intended that the agriculture sector would be subject to an emissions pricing scheme by 1 January 2025. This pricing scheme would either be an industry-specific scheme designed by the He Waka Eke Noa Partnership (**Partnership**), a project-specific partnership between the sector and the Government, or if the Partnership failed to decide on an acceptable scheme by the end of 2024, the sector would instead simply be added to the ETS on 1 January 2025.

The new Government has instead stated that agriculture will not be subject to a carbon pricing mechanism from 2025, and is instead intending to put in place a carbon pricing scheme for on-farm emissions by "no later than 2030". Rather than pricing agricultural emissions during the second emissions budget period, the new Government instead states that supporting "world-leading innovation" domestically will allow farmers to reduce emissions while maintaining productivity and profitability.

Proposed policies under ERP2 to allow the agricultural sector to meet its target reductions of 20_{MtCO₂e} for the second emissions budget period include:

- investing in the accelerated development and commercialisation of on-farm emissions reduction technologies, including methane inhibitors and vaccines;
- streamlining the process for regulatory approval of emerging technologies;
- agricultural emission reductions through the use of eco ponds (reducing methane emissions from effluent ponds); and
- developing methodologies for recognising the use of on-farm emissions reduction tools within the Greenhouse Gas Inventory, so that on-farm sequestration can be recognised as contributing to New Zealand's emissions reductions targets.

Forestry's proposed role in ERP2

As with ERP1, ERP2 also recognises that the forestry sector has a key role to play in our climate response. This is in part due to the fact that forests act as "carbon sinks", sequestering carbon from the atmosphere. These removals can be incentivised and rewarded within the ETS.

Following the previous Government's decision to stray from the Climate Change Commission's advice on ETS unit limits and price control settings in 2023, confidence in the ETS reduced and a steep reduction in the price of New Zealand Units (**NZUs**) followed. The Government sees the strengthening of market confidence in the ETS as being critical to achieving the second emissions budget under ERP2.

In proposing policies relevant to the forestry sector, the Government seeks to strike a balance between encourage afforestation to maximise the sequestration of carbon, while also ensuring that excessive afforestation does not result in productive land being unnecessarily converted into forestry.

Proposed policies under ERP2 to maximise sequestration while attempting to mitigate unintended adverse effects include:

- restoring price stability and confidence in the ETS to provide greater certainty to the forestry sector;
- ensuring that afforestation does not come at the expense of already productive land by limiting the number of ETS registrations for whole-farm conversions to exotic forestry; and
- partnering with the private sector to carry out afforestation, including on Crown land (other than national parks).

New Zealand Second Emissions Reduction Plan (ERP2) (Continued)

Key proposed policies in other sectors

At a high level, key policies proposed by the Government in other sectors to assist in meeting the second emissions budget include:

- providing a pathway for cheaper and faster consents for renewable energy projects and infrastructure;
- targeting the installation of 10,000 new electric EV chargers by 2030 by facilitating private investment in an EV Charging Scheme;
- reducing barriers to the research, development and implementation of carbon capture technologies;
- better public transport (particularly in the Auckland area); and
- investment in the research, development and implementation of resource recovery systems and infrastructure to process organic waste.

Consultation open until 25 August 2024

Consultation on the discussion document for ERP2 closes on 25 August 2024. The Ministry for the Environment is holding several consultation events prior to this deadline, and more information about these events can be found [here](#).

Following consultation, ERP2 will be finalised and released to the public prior to the end of 2024.

Want to know more?

If you have any questions about ERP2, please contact David Goodman, Josh Williams or Tom Mohammed of our specialist [Carbon and Climate Change Team](#).