

"Emissions Reduction Plan" discussion document reveals possible implications for key sectors

New Zealand's first "Emissions Reduction Plan" is due to be released in May 2022. A discussion document released by the Ministry for the Environment in October provides insight as to how the plan may affect several key sectors.

On 31 May 2021 the Climate Change Commission (**Commission**) released its recommendations to the government on New Zealand's first three "emissions budgets" and on its first "emissions reduction plan" (**ERP**) in the Commission's "*Ināia tonu nei: a low emissions future for Aotearoa*" report. The report outlined "ambitious but achievable" pathways that New Zealand can take to meet its target to achieve net zero emissions of long-lived greenhouse gases by 2050 and to comply with its obligations and pledges under the Paris Agreement.

The Government subsequently released a discussion document in October in which it broadly accepted the Commission's suggestions and outlined proposed policies as to how it will meet its targets of a 50% reduction in net greenhouse gas emissions by 2030 (when compared to 2005 levels) and net zero (except biogenic methane) greenhouse gas emissions by 2050.

The document outlines proposed policies for the transport, energy and industry, building and construction, agriculture, forestry, and waste sectors ahead of the release of the emissions reduction plan (**ERP**) in May 2022 for the first emissions budget.

Proposed Emissions Budgets

Under the Climate Change Response Act 2002 (**Act**), the Government must have three consecutive "emissions budgets" (being one current and two prospective) at any one time. These budgets are to

cover five-year periods, with the exception of the first budget - which runs from 2022 to 2025

The following in-principle targets have been set for the first three budgets:

	2022-25	2026-30	2031-35
All gasses, net	292	307	242
Annual average	73.0	61.4	48.4

Measured in megatonnes (million tonnes) carbon dioxide equivalent.

These proposed budgets are largely in line with those recommended by the Commission.

The first budget is estimated to require an additional reduction of 7.7 MtCO₂e (metric tons of carbon dioxide equivalent) during the 2022-25 period than would be achieved under current policy settings. Under the proposed policies set out within the discussion document, there is still expected to be a shortfall of 2.1 – 5.1 MtCO₂e. The Government is hoping to find the means to close this shortfall in the final ERP.

Where will the reductions be achieved?

All sectors of society will need to make concerted efforts to reduce emissions in New Zealand's journey to net zero by 2050.

Most of the reductions in the first budget are to be in the transport and energy sectors. In subsequent budgets, more significant reduction policies will also be seen in the agriculture, forestry, building and construction and waste sectors.

Transport

Four key transport targets have been proposed:

- Reduce vehicle kilometres travelled by cars and light vehicles by 20% by 2035 by providing better travel alternatives.
- Increase the number of zero-emissions vehicles in

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use so that they represent at least 30% of the light vehicle fleet by 2035.

- Reduce emissions from freight transport by 25% by 2035.
- Reduce the emissions intensity of transport fuel by 15% by 2035.

Generally, the Government proposes to achieve these targets through "mode-shift" policies to encourage the use of lower-emission transport options (such as through the recently introduced "Clean Car Discount" scheme). Other policies being considered include congestion charging and increased investment in public transport.

The Government also plans to:

- Develop a "Freight and Supply Chain Strategy" to reduce emissions in the freight sector, including by encouraging mode-shifting to low-carbon rail and coastal freight.
- Support the establishment of an industry-led advisory body on decarbonising the aviation sector and develop the policy and regulatory settings required to support the development of zero-emission aircraft.
- Reduce maritime emissions by requiring all new small vessels to be zero emissions by 2035 and all new large vessels to meet the highest carbon intensity reduction standards (as set by the International Maritime Organisation).

Energy & Industry

The Government plans to develop an "energy strategy" after the release of the ERP. Accordingly, the discussion document gives few concrete details on how reductions in this sector will be achieved.

The Government is considering how to best:

- Set achievable but ambitious targets for the energy sector.

- Ensure access to affordable and secure low-emissions electricity for all consumers; and
- Manage the phase out of fossil fuels

A key component of the strategy remains setting renewable energy targets. While the Government previously pledged to make 100% of New Zealand's energy supply renewable by 2030, the Commission has suggested that this is aspirational. The Government now plans to review this goal prior to the second budget in 2025.

To support industry decarbonisation, the Government intends to continue to offer financial initiatives such as the previously introduced "Government Investment in Decarbonising Industry" fund and to continue to support industry-led initiatives.

Building and Construction

The Government is looking to adopt a "whole-of-life" approach to building by reducing emissions across the construction, operation, and deconstruction of buildings. Recognising that efficient buildings will have flow on effects on other sectors, it wants to do so "as soon as possible".

This will be achieved through mechanisms such as:

- Emissions caps for buildings.
- Policies incentivising emissions reduction in existing buildings, including financial incentives.
- Setting a date to end the expansion of fossil gas pipeline infrastructure.
- Behavioural and cultural change initiatives intended to reset social and sector norms.

Noting that the Government aims to achieve equitable outcomes through its policy, it will need to strike a careful balance in this sector so as to avoid unreasonable increases in the costs of building in a quickly ballooning housing market.

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Agriculture

The agricultural sector is the largest emitter of greenhouse gases in New Zealand, but also plays a significant role in our economy. In recognition of this, the Government has instead adopted an industry-led approach. The *He Waka Eke Noa* partnership (Partnership), a joint initiative between the sector, Māori and Government, has been created with a view to developing practical solutions for the reduction of emissions in the sector.

A key task for the Partnership is the development of a sector-specific emissions pricing scheme. On 23 November 2021 the Partnership released its first discussion document outlining its proposals for an agriculture sector-specific emissions trading scheme. We deal with this in a separate article to be released soon. The Partnership is due to deliver its final advice on the scheme to the Government in April 2022.

If by 2025 the Partnership does not present a scheme that the Government feels is satisfactory, the agricultural sector will be added to the emissions trading scheme (ETS) automatically. The Government retains the ability to shift this date forwards if it feels that the sector is moving too slowly.

Forestry

Forest plantations have been identified as a low-cost yet scalable means of meeting the Government's targets.

Forests act as "carbon sinks". They absorb carbon dioxide and convert it into biomass through a process called carbon sequestration. Given that New Zealand has vast amounts of land suitable for plantation forests, forestry is a key area in which carbon reduction can quickly be achieved in the short term.

However, the benefit of large-scale forest plantation will eventually plateau, as the gains will be offset by the carbon losses caused by the eventual harvesting and natural decay of the forests. For this reason the

Government has noted that forestry cannot be overly relied upon to meet our targets at the expense of efforts in other sectors.

The Government plans to drive afforestation through the provision of grants and incentives. It also intends to review the role of forestry in the ETS due to a concern that ETS-driven afforestation may risk delaying gross emissions reductions in other sectors.

A "*Forestry and Wood Process Industry Transformation Plan*" (ITP) will be drafted setting out a framework of policies that aim to:

- Increase onshore processing of wood.
- Lift productivity across the sector.
- Scale up internationally competitive wood-processing clusters; and
- Create a roadmap for transforming the sector.

A draft plan of the ITP will be released for consultation in early 2022.

Waste

The Commission has recommended that biogenic methane emitted from organic waste be reduced to at least 40% below 2017 levels by 2035.

The largest source of biogenic methane in the waste sector is the organic waste component of solid waste disposal, accounting for 81%. It is this organic waste that the Government is primarily targeting.

It plans to achieve reductions by:

- Reducing the amount of organic waste material produced by society.
- Reducing the amount of organic waste material sent to landfill, by shifting towards a circular economy and improving recycling capabilities; and
- Reducing emissions from organic waste once at landfill.

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A key strategy to reduce emissions at landfills is through the use of gas capture systems. The Government proposes that:

- All municipal landfills that do not currently have gas capture systems must install them by 2026.
- A decision be made in 2030 as to potentially banning organic material from landfills by 2030.

The Government also plans to implement a waste data and licensing system to improve data collection across the waste sector. This will allow informed decisions to be made in the future as to policies and targets, while also serving as a useful tool to track progress in the transition towards a circular economy.

Conclusion

The Government is currently reviewing submissions on the discussion document prior to the release of the final ERP in May 2022. While many proposals are ambitious, it is aiming to deliver a plan that is both realistic and workable for New Zealanders.

Want to know more?

If you would like advice on the proposed changes, please contact [David Goodman](#) or [Tom Mohammed](#) of our [Corporate Commercial](#) team.