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POWERING A BETTER NEW ZEALAND TOGETHER

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Ministry for the Environment

via email: [redacted]

Submission on New Zealand's international 2035 climate change target – or second Nationally Determined Contribution (NDC2)

Introduction

1. Energy Resources Aotearoa is New Zealand's peak energy sector advocacy organisation. We represent participants across the energy system, providing a strategic sector perspective on energy issues and their adjacent portfolios. We enable constructive collaboration to bring coherence across the energy sector through and beyond New Zealand's journey to net zero carbon emissions by 2050.

2. This document constitutes our submission responding to your consultation on our second Nationally Determined Contribution (NDC2).

3. We address the survey questions in Appendix One, which should be read in conjunction with the entirety of our submission.

Some principles

4. We propose a number of principles that inform our approach to setting New Zealand's second NDC:

   a commitments should be consistent with Article 2 of the Paris Agreement and nested within the sustainable development goals;

   b targets must be achievable, credible and truly nationally determined for a country's own interests;

   c targets should align with, not drive, domestic policy like emissions reduction budgets;

   d the focus must be on *net* reductions, rather than gross, *and* be driven by the New Zealand Emissions Trading Scheme (NZETS);

e access to international units provides a useful option for abatement, but we do not support unrealistic targets that rely on the purchase of offshore units; and

f commitments should result in actions and investments that are least cost, efficient, and technology and fuels agnostic.

Submission

Our first NDC was never intended to be achievable via domestic action only

5. Climate change is a global challenge, and we encourage New Zealand's part in reducing emissions. We are committed to domestic actions already agreed to but a target that is too stringent risks putting New Zealand on a pathway that is *not* efficient or in the best interests of New Zealand.

6. Unnecessary costs on businesses increase the risk of emissions leakage. If New Zealand industries are forced to reduce their operations, shut down or move offshore, it results in loss of livelihoods and productivity. What we will often see, too, is an increase in carbon emissions offshore, usually from more polluting sources and less well-regulated jurisdictions.

7. We are increasingly concerned about the current narrative on NDC1 and the 2030 target. In particular, we are concerned about the emphasis that it must be met through gross reductions, and how not doing so will have reputational and/or trade implications.

8. New Zealand set an ambitious target for NDC1 far above what we knowingly could meet via domestic action alone. A former climate change ambassador, Adrian Macey, said [quoted from the Spinoff]:

> *"setting a target that couldn't be met domestically was a mistake in the first place"* and *"we made a colossal cock-up in the target we pledged".*[1]

9. In this context, it would seem unwise to strengthen the NDC2 target when we already know we cannot meet NDC1. It is important that there is a strong understanding of what is achievable domestically before setting NDC2. We agree that international mitigation via offshore credits is an important part of the tool box to help us achieve our domestic ambition, but we do not agree that a target should be set far higher than what is possible domestically and relies on international credits.

1 See https://thespinoff.co.nz/politics/02-10-2024/paris-is-burning-will-new-zealand-abandon-its-climate-change-targets

The approach to net reductions New Zealand needs

10. We believe that New Zealand should focus on long-term benefits and mitigation opportunities unique to New Zealand. We should not compromise our best interests due to international pressure, especially given our unique emissions profile.

11. Our ambition should be guided by the sum of the actions outlined in the emission reduction budgets.

12. We believe that technological advancements are the most efficient and productive pathway to achieve net zero by 2050. For example, carbon capture and storage and bioenergy to name but two. We believe these should be progressed at least cost, with a credible NZETS driving investment decisions, and with low adoption of costly, ineffective 'complementary measures'.

13. We agree there is more to be done and there is much potential in generating energy and emissions reductions *at the same time* as using carbon sequestration technologies and finding efficiencies in process and production.

14. The energy sector is already doing some heavy lifting. The evidence presented in our latest annual update of the Energy Resources Sector Net Zero Accord reveals these reductions, by volume and per unit.

15. Forestry is going to provide heavy lifting also and we are disappointed in the recent decision to limit NZETS registrations for forestry. The impact of restricting forestry from the NZETS could be a reduction in the supply of NZUs, meaning the carbon price will rise faster than otherwise. This could incentivise faster gross emissions reductions by New Zealand industries, but it *also* means a more expensive transition to net zero than is otherwise necessary. Considering the pace of technological advancement is set by overseas developments, such gross emission reductions could also come from reduced industrial output (colloquially labelled 'deindustrialisation'), a patently bad outcome for New Zealand.

We need a systemic cross-sectoral approach

16. The Paris Agreement was intended to be supportive and encouraging of each nation's ambition through mutual collaboration and co-operation.

17. Collaboration is also needed nationally. The NDC is a national net target and will require national efforts to achieve. We are concerned that barriers continue to plague efforts to reduce emissions because of inabilities to work across sectors, levels of government, iwi, electorates and elections.

18. What is needed is a practical and consistent approach that brings all these important players together, with market settings that are transparent, predictable and enabling.

Using the Sustainable Development Goals as context for our NDC

19. Given our commitment to expand upon NDC1, we think it practical to consider NDC2 in the context of the Sustainable Development Goals ('SDGs'). We see New Zealand's climate action being undertaken in conjunction with energy security and resilience, not in conflict of.

20. This is consistent with the approach taken with the United Nations SDGs where climate action (SDG 13) and energy security (SDG 7) are both implemented together. These provide important context for climate action, while recognising a country's right to prosperity and sustainable development. This would result in a more ambitious NDC2 (in the adaptation space), as envisaged by Article 2 of the Paris Agreement.

21. Such an approach allows New Zealand to refocus on a more systemic and coherent policy approach across all our actions.[2] This is consistent with other countries experiencing difficulties in meeting their original targets.

New Zealand's international reputation

22. Much has been made of New Zealand's reputational risk if we do not meet the NDC1 target or are not seen as ambitious in setting a higher bar with our NDC2. Setting domestic targets that are too high in the first place is the real risk. It places New Zealand in the position of either missing them and facing potentially limited access to markets or achieving them by de-industrialisation and paying unnecessarily for offshore credits and complementary measures.

23. We do not agree with arguments based on reputation when other countries in similar circumstances are either not subject to reputational risks or pay no price for making the tough choices we are contemplating to avoid blackouts. Rather, we think they will reach out to help us through partnerships and sharing of best practices.

24. The collaborative spirit was evident in the recent UK delegation visit to Taranaki for offshore wind partnership possibilities and the EU delegation in New Zealand's collaborative work, including on agriculture, and research, science and technology in the context of climate action.

2 We note that the UNFCCC website describes NDCs as embodying "efforts by each country to reduce national emissions and adapt to the impacts of climate change." See https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs.

25. The adoption of Article 6 had been stalled for a number of years due to an inability to resolve several key issues. With New Zealand already boasting one of the best emissions trading schemes, we welcome the adoption of Article 6 of the Paris Agreement at COP29. It is an important step in the formulation of international carbon markets and enabling of the first steps in ensuring economies will be able to compete on an equal footing when it comes to the cross-border management and achievement of emissions reductions.

26. However, we note that participation in Article 6 is voluntary. While important, New Zealand is not restricted or confined by it and is free to participate in international arrangements that are not bound by it. Consistent with the establishment of targets that are nationally determined, we should enter into whatever arrangements benefit New Zealand and its unique circumstances, so long as they can withstand reasonable scrutiny by our international peers in the context of the UNFCCC.

Building on our strengths

27. New Zealand has unique national circumstances:

    a renewables already make up a vast proportion of our total electricity generation, making the economics of reducing our marginal emissions *harder* not easier; and

    b biomethane emissions from agriculture make up around half of our net sum of emissions, a much higher proportion than other countries. There are no clearly winning technologies on the horizon that can reduce methane to any significant degree.

28. This means we do not have as much potential as other countries to make large CO_2 reductions and we have a tougher job than most to reduce biomethane. Indeed, as noted in the Ministry's 'opportunity for feedback' document, New Zealand stands alone as the only developed country where CO_2 emissions make up less than half of the proportion of greenhouse gases on a CO_2-e basis. Ireland is the next smallest at 60.5%.

29. These circumstances give New Zealand the rationale and scope to choose a meaningful but achievable NDC2, building on sound and proven technological and economic advancements in energy and its adjacent sectors.

30. New Zealand is innovative and technologically savvy. There are many opportunities to 'take action' that are mentioned in the Climate Change Commissions' advice that can create prosperity and that we fully support.

31. There are two opportunities that we think require some additional commentary to reveal their potential in setting emissions reduction budgets, plans, and our second NDC:

    a **decarbonising industrial heat and production processes** – we note this *should not be limited* to electrifying but should include cross-sectoral processes that create energy or other high-value byproducts; and

    b **diverting organic waste and capturing landfill gas** – we understand there are by-products that have economic value but also can significantly reduce our carbon dioxide emissions. For example, when producing biogas from landfill, the gas can be used directly in the reticulation system; and when producing biochar from forestry slash, the surplus energy can be used as process heat for industry, and the carbon sequestration when compared with leaving the slash to decompose is 4.8T CO_2 net reduction. [3]

3 For every 1T of residue, the production of biochar could produce 0.2T of certified biochar and 3.2 NZUs, compared with 1.6-1.8T CO2 emitted if left to rot.

Appendix One: Questions and responses

Questions		Responses
1	**Do you have any comments on the Climate Change Commission's advice?**	Our submission touches on many aspects of the Commission's advice and we repeat some of the relevant paragraphs here for reference: **The Commission's key findings:** We believe that technology advancements are the best efficient and effective pathway to achieve net zero by 2050. For example, carbon capture and storage and bioenergy. We believe these should be progressed at least cost, with a credible NZETS driving investment decisions, and with low adoption of costly 'complementary measures'. **Modelled scenarios:** We think there is a missed opportunity in not having a scenario that is High Technology and Low Systems Change. **Relevant sector actions:** There are many opportunities to 'take action' that are mentioned in the Climate Change Commissions' advice that can create prosperity and that we fully support. There are two that we think require some additional commentary to reveal their potential in setting emissions reduction budgets, plans, and our second NDC: a **decarbonising industrial heat and production processes** – we note this *should not be limited* to electrifying but should include cross-sectoral processes that create energy or other high-value byproducts; and b **diverting organic waste and capturing landfill gas** – we understand there are by-products that have economic value but also can significantly reduce our carbon dioxide emissions. For example, when producing biogas from landfill, the gas can be used directly in the reticulation system; and when producing; and when producing biochar from forestry slash, the surplus

		energy can be used as process heat for industry, and the carbon sequestration when compared with leaving the slash to decompose is 4.8T CO_2 net reduction. [4]
2	**What factors should the Government prioritise when setting NDC2?**	We provide our top three ranked factors below:
	a) Represent New Zealand's highest possible ambition in light of national circumstances	-
	b) Align with the Global Stocktake recommendations	-
	c) Align with the temperature goal of the Paris Agreement (to limit global warming to well below 2°C, and pursue efforts to limit global average temperature rise to 1.5°C)	**1 –** when balanced with d) below and NZ's interests. See our principles in question 3 below.
	d) Minimise costs from meeting the target	**1 –** meaning efficiency and highest benefit/cost ratio
	e) Minimise impacts to the economy	**2**
	f) Ensure there is a clear plan for delivering the target	**3**
	g) Consider New Zealand's relative standing to other comparable countries/economies.	-
3	**What factors in New Zealand's economic outlook should be taken into consideration when setting NDC2?**	We comment on these factors in our section on principles in our submission, and repeat them here for reference: **We propose a number of principles that clarify our thoughts on New Zealand's NDC:** a commitments should be consistent with Article 2 of the Paris Agreement and nested within the sustainable development goals; b targets must be achievable, credible and truly nationally determined for a country's own interests;

4 For every 1T of residue, the production of biochar could produce 0.2T of certified biochar and 3.2 NZUs, compared with 1.6-1.8T CO2 emitted if left to rot.

		c targets should align with, not drive, domestic policy like emissions reduction budgets; d the focus must be on *net* reductions, rather than gross, *and* be driven by the New Zealand Emissions Trading Scheme (NZETS); e access to international units provides a useful option for abatement, but we do not support unrealistic targets that rely on the purchase of offshore units; and f commitments should result in actions and investments that are least cost, efficient, and technology and fuels agnostic.
4	**What factors do you think are most important for deciding a "fair share" for New Zealand for its NDC2?**	A 'fair share' would be impossible to ascertain.
5	**Should NDC2 be set at a level that is achievable with domestic action only or should it be set at a level that is achievable with a mix of domestic action and international cooperation (offshore mitigation)**	We think domestic action and international mitigation should be available for businesses to access and find their least cost abatement, but the level should be realistic and credible. Refer to our principles in our submission, above.