

Consultation on New Zealand's second emissions reduction plan:

GUIDE TO SECTORAL POLICIES AND KEY QUESTIONS TO CONSIDER WHEN SUBMITTING



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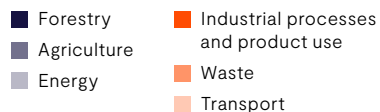
New Zealand's second Emissions Reduction Plan (ERP 2) was released for consultation last week. Submissions are due on 21 August and will be the final opportunity to have a say on the key domestic climate-related policy measures for the period 2026 - 2030. This short guide highlights the key sectoral policies from the ERP 2 discussion document. It is intended to support companies as they consider the implications of ERP 2 for their business and what they may wish to cover in their submissions.




ERP 2: A step change in policy

The coalition Government's focus is clearly on 'least cost' net emission reduction policies. This departs from the Climate Change Commission's advice to refocus on gross emissions reduction and move away from a reliance on forestry offsets. It's also clear that the Government is backing the productive economy, and relying on future technological developments to support pre-2030 emission reductions.




ERP 2 substantially departs from the previous ERP. Transport had been a key focus of the former government's climate change agenda; accounting for 15-30% of the first ERP's reductions. Under ERP 2, transport sector emission reduction policies are expected to achieve less than 2% of the total 2026-2030 reductions. Instead, as set out in the following table, the proposed ERP 2 policies in three sectors are proposed to generate the overwhelming majority of net emissions reductions.

% Contribution of ERP 2 policies intended to achieve emissions reductions or removals 2026-2030 - by sector



	<p>Forestry – 40% of ERP 2 net emissions reductions: The Government plans to limit certain Emissions Trading Scheme (ETS) forest registrations on highly productive land. ERP 2 signals a major renewed focus on the forestry sector to substantially increase afforestation to offset gross emissions. This will require extensive planting of both indigenous and exotic forests on suitable areas of Crown land, with funding sourced via partnerships with the private sector.</p>
	<p>Agriculture – 26.7% of ERP 2 net emissions reductions: As previously announced, agricultural emissions pricing will be delayed to 2030. The discussion document suggests that new technologies (including genetic technologies) will achieve ~20 Mt in CO₂e emissions reductions – more than a quarter of ERP 2's total mitigation.</p>
	<p>Energy – 20% of ERP 2 net emissions reductions: As signalled by the Government's 'Electrify NZ' policy, increased electrification is intended to be partly enabled through easier renewable energy generation, transmission and distribution consenting. The Government has also signalled support for maintaining a secure gas supply, the renewable gas sector (i.e. production and use of biomethane and hydrogen) as well as carbon capture, utilisation and storage ('CCUS', i.e. the process of capturing CO₂ from industrial activities and either utilising it or permanently storing underground). The Government is anticipating fairly material emission reductions from CCUS (1.4Mt CO₂e in 2026-2030 and 3.2Mt CO₂e 2031-2035).</p>

ERP 2: By sector

The discussion document suggests that ERP 2 will contain a mix of new policies, confirmation of previously announced initiatives and the discontinuation of a number of ERP 1 policies. Below we set out  **key proposed policies** in each sector and the proportion of the emissions reduction burden borne by each sector. We also identify the policies that are  **proposed to be discontinued** from ERP 1 and identify some  **key questions** each sector could consider when engaging on the discussion document.

TRANSPORT | 1.3% of ERP 2 net emissions reductions



- Electrifying the transport fleet – Target 10,000 electric vehicle (EV) chargers by 2030; government grants and review of regulatory barriers to support zero-emissions heavy vehicle uptake.
- Managing aviation and shipping emissions – Working with Sustainable Aviation Aotearoa and other countries on sustainable aviation fuels and low- and zero-carbon shipping on key trade routes by 2035.
- Better public transport – rapid transit network for Auckland, improvements to lower North Island rail.



- Requirement for new transport projects to meet emissions requirements, with particular high thresholds for roading projects.
- Waka Kotahi’s national mode shift plan, plus Vehicle Kilometres Travelled reduction targets and plans for New Zealand’s major urban areas.
- Clean Vehicle Discount scheme.
- Sustainable Biofuels Obligation.
- Alignment of the Government Policy Statement on Land Transport with ERP 1.



- The Government has committed to keep the Clean Car Importer standard and reviewed it in 2024 to ensure it is effective and achievable. Are the settings right to support the balance of emissions reductions and achievability?
- ERP 2 confirms the Energy Efficiency and Conservation Authority will administer the \$30 million grant scheme for hybrid or zero-emissions heavy vehicles announced in Budget 2024. How can this be designed and implemented to most effectively support heavy vehicle decarbonisation?
- ERP 2 foreshadows the establishment of low- or zero-carbon shipping on trade routes by 2035, starting with an Australia–New Zealand route. What are the possibilities of this for supporting New Zealand exporters to remain competitive in key markets? What is needed from Government to make such corridors succeed?

WASTE | 5.3% of ERP 2 net emissions reductions



- Utilising the Waste Minimisation Fund (WMF) to support investment in resource recovery infrastructure systems to minimise waste to landfill.
- Investigating improvements to organic waste disposal and landfill gas capture.



- Bans or limits on organic waste disposal in landfill, including a full ban from 2030.
- Regulations requiring landfill gas capture at specific municipal landfills.



- The Government appears to be unconvinced as to the potential scale cost/benefit of additional investment in landfill gas capture policies. Can additional data to support the business case for such policies influence the relative contribution of the waste sector to ERP 2?
- With the scrapping of the Government Investment in Decarbonising Industry (GIDI) fund, the WMF is now the only standing ring fenced fund available to direct Government investment in waste-related climate projects. To what extent should the WMF have a climate focus and how should it interact with local government roles related to waste and local rates?

 ENERGY | 20% of ERP 2 net emissions reductions



- Electrify NZ – reduce consenting burden; double renewable energy by 2050; enabling investment in gas production to support electricity security; amending the Energy Efficiency and Conservation Act 2000 to enable standards to be set for devices with capability for demand flexibility, including EV smart chargers; consideration of tariff design/innovation to alter supply and demand dynamics.
- Natural gas – Investigate CCUS and enable the use of renewable gases (i.e. biomethane and hydrogen).
- Alternative energy sources – Investigate opportunities to invest in geothermal energy bioenergy, sustainable aviation fuels, hydrogen and offshore wind.



- Energy-efficient equipment rebates; grant funding for commercial space and water heating and high-efficiency electrical equipment.
- Ban new fossil-fuel baseload generation.
- New Zealand Battery Project.
- Phase-out of fossil gas and gas transition plan.
- A mandatory energy and emissions reporting scheme.
- Monitor progress towards the aspirational renewable electricity target.



- The Government has committed to doubling renewable generation by 2050. What sort of additional demand-side and transmission/distribution policies are needed to support deployment of this additional capacity?
- ERP 2 appears to step away from the previous government’s ‘aspirational’ 100% renewable electricity target together with the NZ Battery Project. What are the implications of this?
- ERP 2 supports use of natural gas alongside emerging technologies such as CCUS. What risk exists to businesses seeking to rely on such technology for their own emissions reduction plans? What are the timeframes for natural gas use? Given the significant current supply constraints, is a focus on CCUS sufficient to support investment security and ensure security of supply?
- ERP 2 mentions bioenergy as a key source of energy from 2026 – 20. What forestry and other complementary policies are necessary to support a steady supply of biomass to support this?
- ERP lists hydrogen, sustainable aviation fuel and offshore wind as energy sources for future emissions budget period. Are these sources feasible and/or necessary, sooner than 2030? What steps need to be taken before 2030 to realise energy from these sources? Is regulatory barrier removal sufficient or will additional policies and Government support be needed?
- ERP 2 contains high-level mention of intention to pursue green building practices. With many in the sector voluntarily pursuing certification such as Greenstar, what role can government policy play in supporting emissions reductions in the built environment?

 FORESTRY | 40% of ERP 2 net emissions reductions



- Encouraging afforestation of land through ETS stability and confidence.
- Possible support for afforestation on Crown land.
- Protect highly productive farm land by preventing whole farm conversions of productive land registering as new ETS forests.
- Boosting wood processing, supporting the Wood Processing Growth Fund.
- Recognising non-forestry removals, such as small scale/dimension on-farm vegetation, coastal vegetation management and ocean fertilisation





- Right forest, right place initiative.
- Forestry and wood-processing industry transformation plan.




- The Climate Change Commission’s advice on ERP 2 acknowledged the importance of forests in achieving net zero, but that over-reliance on afforestation in earlier emissions reduction periods can create risks further down the track, and leaves on the table the potential benefits of gross emissions reductions in the nearer term. Has ERP 2 got the balance right between gross and net emissions reductions?
- ERP 2’s proposed planting scheme on Crown land favours exotics (10,000 ha) over indigenous (5,000 ha rising to 7,500). What are the benefits and disbenefits of planting on Crown land, and of exotics vs indigenous in that context?

 **INDUSTRIAL PROCESSES/PRODUCTS** | 6.7% of ERP 2 net emissions reductions


 The discussion document does not include a key policy section on industrial processes and product use. It does however confirm the continued review of baselines for the allocation of units to industrial firms under the ETS. Regulations are anticipated to be published later this year.


-  GIDI; plus setting of an action plan for decarbonising the industrial sector.
- Implementation of the Advanced Manufacturing Industry Transformation Plan.
- Support businesses moving to circular economy models.
- Commence a Circular Economy and Bioeconomy Strategy.

-  GIDI has been disestablished with no clear successor. With major industrial decarbonisation projects projected to contribute significantly to the second emissions reduction period, how can industrial decarbonisation be accelerated to meet our national goals?
- The Government is keen to limit complementary policies that may adversely interact with the ETS. Are there policies that could be imposed on hard to abate sectors that would better manage support for domestic industrial productivity than inclusion in the ETS?
- ERP 2 is silent on the extent to which CBAM is still being considered by Treasury. Could alternative policies (like carbon border adjustment mechanisms (CBAM)) ensure a more consistent price signal that avoids emissions leakage?

 **AGRICULTURE** | 26.7% of ERP 2 net missions reductions

-  Agricultural mitigation technologies and emissions pricing (by 2030).
- Removing regulatory barriers to development, use and recognition of new emissions reducing technologies.
- Potential further abatement from new technologies:
 - Uptake of EcoPond™ for dairy farms, assuming availability from 2025.
 - Introduction of low-methane genetics, assuming availability from 2025.
 - Development and uptake of methane inhibitors, assuming availability for dairy in 2027, and sheep and beef in 2030.

-  Price agricultural emissions by 1 January 2025.
- Agricultural producers to prepare emissions reports by the end of 2022, with on farm emissions managed via farm plans required to be in place by 2025.
- Develop further climate-focused extension and advisory services.

-  The Government has committed to delaying agricultural emissions pricing until 2030. Is the balance of policies in ERP 2 sufficient to support our producers to meet growing demand for sustainable production from offshore customers?
- Are the timelines in ERP 2 for technology to reduce on-farm emissions realistic? What more can Government do to help bring key innovations online sooner?
- Increasingly, our farmers are required to demonstrate performance not just on emissions but in relation to loss of nature degradation. How can policies under ERP 2 support producers to succeed in the face of these expectations? What role might markets, such as biodiversity credit schemes, play in this?

This publication has been prepared as a high level overview of the Government’s discussion document and a general guide to some key questions for those affected to consider when responding. For specific advice on the above questions, or how ERP 2 may affect you or your business more generally, please get in touch with one of our climate change experts.



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