

How ministers and officials developed the first emissions reduction plan – and how to do it better next time

September 2023



This report has been produced pursuant to subsections 16(1)(a) to (c) of the Environment Act 1986. The Parliamentary Commissioner for the Environment is an independent Officer of Parliament, with functions and powers set out in the Environment Act 1986. His role allows an opportunity to provide Members of Parliament with independent advice in their consideration of matters that may have impacts on the environment.

This document may be copied provided that the source is acknowledged. This report and other publications by the Parliamentary Commissioner for the Environment are available at pce.parliament.nz.

Parliamentary Commissioner for the Environment

Te Kaitiaki Taiao a Te Whare Pāremata

PO Box 10 241
Wellington 6140
Aotearoa New Zealand

Phone +64 4 495 8350
Email pce@pce.parliament.nz
Web pce.parliament.nz

September 2023

ISBN

978-0-947517-38-0 (print)
978-0-947517-39-7 (electronic)

Photography

Cover images: Glenbrook Steel Mill, russellstreet, Flickr; Cyclone Gabrielle damage in Hawke's Bay, Leonie Clough, Unsplash; Meridian wind turbines in Makara, Nate Watson, Unsplash.

Chapter header images: *Pakau pennigera*, springtail_enthusiast, iNaturalist NZ; *Trichomanes venosum*, David Hutchinson, iNaturalist; *Adiantum diaphanum*, rubecula, iNaturalist NZ; *Hiya distans*, rubecula, iNaturalist; *Pellaea falcata*, Peter de Lange, iNaturalist; *Christella dentata*, Peter de Lange, iNaturalist NZ; *Blechnum molle*, Pieter Pelser, iNaturalist.

How ministers and officials developed the first emissions reduction plan – and how to do it better next time

September 2023



Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata

Acknowledgements

The Parliamentary Commissioner for the Environment, Simon Upton, is indebted to a number of people who assisted him in conducting this review. Special thanks are due to Edwin Sayes who led the project, supported by Nicole Bares, Megan Martin, Matt Paterson, Geoff Simmons and Rebecca Thornley.

The Commissioner would like to acknowledge the following organisations for their time and assistance during the preparation of this report:

- Climate Change Chief Executives Board
- Department of the Prime Minister and Cabinet – Te Tari o te Pirimia me te Komiti Matua
- He Pou a Rangi Climate Change Commission
- Department of Conservation – Te Papa Atawhai
- Ministry for Primary Industries – Manatū Ahu Matua
- Ministry for the Environment – Manatū mō te Taiao
- Ministry of Business, Innovation and Employment – Hikina Whakatutuki
- Ministry of Transport – Te Manatū Waka
- Te Arawhiti
- Te Puni Kōkiri
- The Treasury – Te Tai Ōhanga.

The Commissioner also wishes to thank the following ministers for providing their reflections on the development of the first emissions reduction plan:

- Rt Hon Jacinda Ardern, former Prime Minister
- Hon Damien O'Connor, Minister of Agriculture
- Hon David Parker, Minister for the Environment
- Hon Grant Robertson, Minister of Finance
- Hon James Shaw, Minister of Climate Change.

Contents

Foreword	3
1 Background and context	7
2 Process for producing the first emissions reduction plan	11
3 Key findings	31
4 Recommendations	49
Appendix 1: Ministers, chief executives and agencies engaged with	55
References	57



Foreword

Why review the Government's approach to the first emissions reduction plan?

The complexity and scale of climate change present profound policy challenges for every government that decides to take them seriously. Key among them is the need for joined-up policies that cut across different sectors, the division of responsibilities between central and local government and Treaty of Waitangi obligations. The policies need to be joined up not just in the immediate term but over time. It is a challenge that raises so many questions.

How can emissions mitigation policies complement, rather than undermine, one another? How should the balance be struck between maximising emissions reductions in the short term and setting ourselves up for a sustainable emissions reduction trajectory over the longer term?

Before specific policy choices in specific sectors can be confronted, there are fundamental questions to ask about the way the jigsaw of any climate response plan can fit together. Can the pieces be coherently laid out? Are ministers and officials organised in a way that enables that? The pulling together of the first whole-of-government emissions reduction plan (ERP) under the Climate Change Response Act 2002 was a complex business that will be repeated many times. For that reason, we should learn what we can from this first attempt.

Much has already been said about the content of the ERP. In 2022, the Environment Committee completed a review of the plan's content.¹ In 2024, He Pou a Rangi Climate Change Commission (the Commission) will begin reporting on implementation of the ERP and progress towards meeting the first emissions budgets.

Rather than cover the same ground, I have set out to understand what can be learnt from the way the first ERP was assembled. What worked well and should be repeated? What could be improved when assembling future plans? What kinds of direction do ministers need to provide to officials? How can the advice provided to decision makers be improved? What are the hard questions that ministers should be asking of officials?

I was interested to consider how the development of the first ERP was framed and then executed. This led me to examine the following matters:

- the framing of the process
- the approach taken by agencies, singularly and jointly
- the coherence of the advice ultimately provided by agencies
- leadership by ministers and senior officials
- collaboration and coordination among agencies contributing to the ERP
- support and resourcing
- the adequacy of the modelling undertaken by agencies
- consultation and engagement with iwi and Māori.

The role played by the Commission in providing advice to the Government, including advice directly relevant to the ERP, must be acknowledged. But given that the scope of the Commission's role is set in legislation, I have not reviewed how the Commission performed its role. That role has been determined for it. I have, however, looked at how the Commission's advice influenced the way the Government went about devising its ERP.

In embarking on this review, I started from the premise that a task of this magnitude, performed for the first time, would involve a significant element of learning by doing. Even the best-laid processes would be found wanting in places – all the more so when the task was being conducted in the middle of a pandemic.

Officials worked on the development of ERP under particularly trying circumstances. They did what they were asked to do diligently under considerable pressure. As I note in the following pages, when ministers communicated their ambitions clearly, most agencies delivered advice of some quality. Ultimately, officials were able to provide ministers – and New Zealand – with reasonable confidence that the actions contained in the first ERP could plausibly meet our first emissions budget.

There is, however, significant room for improvement in the way that both ministers and senior officials approached the task. My primary concern is that the process for pulling together the emissions reduction plan lacked coherence. This must not be repeated.

¹ Environment Committee, 2022.

Rather than criticism for the sake of it, I have been motivated by a desire to improve:

- the process for producing future ERPs
- parliamentarians' understanding of the ERP and the process that generated it
- the basis on which ministers make decisions that are then reflected in the ERP
- the coherence of future ERPs.

My overall objective is to help ensure that for future ERPs there is a consistent and robust process regardless of who is in government. It is essential that the process for producing ERPs caters for the inevitably divergent political perspectives and personalities of future governments. I believe ERPs will be better able to do that if some key questions are posed right at the outset. They are questions that any government should be able to address regardless of its ideological inclinations. They are questions that the public service should proactively provide advice on. These are spelt out in my first, and most important, recommendation.

Finally, I want to acknowledge that the policy context has moved on since the first ERP was pulled together. Ministers and officials continue to reflect on what worked well and what could be improved. One promising improvement is the intention of the Climate Change Chief Executives Board to produce a strategic framework for climate mitigation. I hope that my first recommendation can contribute to a framework that *any* minister involved in future ERPs could use to structure their thinking and ultimately their decisions. It should also serve as a guide to officials about the advice they will need to provide *proactively* to ministers to support the ERP process.



Simon Upton

Parliamentary Commissioner for the Environment

He Kaitiaki Taiao a Te Whare Pāremata

1



Trichomanes venosum

Background and context

How this review was undertaken

This review draws on three types of evidence.

Firstly, it draws on the extensive documentary record that was produced in putting together the first emissions reduction plan (ERP). This includes briefings to ministers and cabinet papers – some of which are in the public domain in redacted form together with many which are not. It also includes a wider variety of documents: for example, meeting agendas, slide packs, internal memos and guidance provided to agencies. Drafts of the ERP itself were another part of this record.

Secondly, it draws on a much smaller documentary record that attempts to retrospectively make sense of the ERP process. This includes an internal ‘lessons learnt’ process undertaken by officials involved. It also includes an external review by a former senior public servant that takes account of the insights of officials, ministers and political advisors.

Thirdly, it draws on dozens of interviews with those involved in the process first hand. A wide range of officials was consulted, from advisors involved in policy work to chief executives directly advising their minister, as well as the then Prime Minister and a handful of key ministers and political advisors. The ministers, chief executives and agencies engaged with are listed in the appendix.

From a documentary standpoint, this third tranche of evidence has been essential. It is widely recognised that there has been a general thinning in the amount of formal written advice provided across the public sector.¹ The process for putting together the ERP appears to have been no different. It was remarked that, in addition to written advice, ministers received significant back-pocket, oral advice that did not make it into written documents.²

Based on these documents and conversations, an attempt was made to generate a reasonable view of what worked well and what worked less well. The reasonableness of those views was tested with some of those involved in the process. The Commissioner's judgements remain his own.

What is an emissions reduction plan?

In simple terms, an emissions reduction plan (ERP) is what it sounds like: a plan for reducing (or mitigating) New Zealand's greenhouse gas emissions.

ERPs are one component of New Zealand's broader climate policy system. They respond to the widely recognised need to transition to a low-emissions economy. Meanwhile, a national adaptation plan deals with the need to adapt to the effects of climate change (such as sea-level rise). Both plans recognise that mitigation and adaptation policies should be aligned, support one another and form, with other policy and regulatory settings, a coherent whole.

The Government is required to produce ERPs by the Climate Change Response Act 2002 (as amended by the Climate Change Response (Zero Carbon) Amendment Act 2019). The Climate Change Response Act mandates both a minimum level of content and certain steps that are to be followed when each ERP is prepared. It also sets out a process for setting emissions budgets. Emissions budgets set a limit on the amount of greenhouse gas emissions allowed over a given period (typically five years).

More detail on the Climate Change Response Act and its requirements for ERPs and emissions budgets is provided in chapter two.

The first emissions reduction plan

The first ERP lays out a whole-of-government approach for mitigating New Zealand's greenhouse gas emissions. Technically, the ERP consists of two documents: *Te hau mārohi ki anamata – Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand's first emissions reduction plan* and *Aotearoa New Zealand's first emissions reduction plan: Table of actions*.^{3,4}

These documents include detail on planned actions, but also stray into the world of strategies, which might be thought to be something that should precede any action plan. The ERP contains actions the Government is already undertaking and actions that it will undertake, including the development of additional actions and strategies.

¹ This is consistent with general commentary on the state of free and frank advice in the public sector. For example, the Public Service Commissioner recently stated that free and frank advice is "much more real-time, much more oral these days". See <https://businessdesk.co.nz/article/public-sector/free-frank-and-political-advice-the-state-of-the-public-service>.

² Interestingly, other officials – perhaps more defensively – were of the view that that all major advice was well documented.

³ New Zealand Government, 2022b.

⁴ MfE, 2022b.

The main ERP document contains three parts:

1. a discussion of the principles that underpin the plan (playing our part; empowering Māori; equitable transition; working with nature; a productive, sustainable and inclusive economy)
2. plans for “system settings” (emissions pricing; funding and finance; planning and infrastructure; research, science, innovation and technology; circular economy and bioeconomy)
3. plans for seven “sectors” (transport; energy and industry; building and construction; agriculture; forestry; waste; fluorinated gases).

To better understand how Māori may be impacted, specific considerations are integrated within each of the plans above. A separate chapter was also developed to house Māori-specific components of the ERP and provide a summary of the rest.

The accompanying table of actions contains detail on:

- actions for delivery
- proposed outputs
- a timeline for delivering each action
- a lead agency for delivering each action (as well as any other agencies that may be involved)
- key stakeholders and partners.

The two documents that together constitute the first ERP are supported by two additional documents. The first of these provides a recommendation-by-recommendation response to the Commission’s advice.⁵ The second provides technical detail, including on modelling.⁶

Implementation and monitoring of the first emissions reduction plan

The first ERP was released in May 2022.

In April 2023, the ERP was supplemented by a whole-of-government implementation plan.⁷ Some individual agencies have also produced (or are working on) agency-specific implementation plans.

The Government retains the ability to review and amend its ERPs if it chooses.⁸ The capacity to modify existing policies or add new policies allows for the management of uncertainties and risks, including those surrounding the effectiveness of policy actions.

A Climate Change Chief Executives Board (an interdepartmental executive board) has been formally established under the Public Service Act 2020 to play a key role in monitoring implementation of the plan and remaining alert to the need to adapt when circumstances demand.

⁵ See MfE, 2022c.

⁶ See MfE, 2022d.

⁷ See MfE, 2023.

⁸ Climate Change Response Act s 5ZI(3).

Additionally, He Pou a Rangi Climate Change Commission (the Commission) has two legislated monitoring and reporting functions. Firstly, it is required to undertake annual reviews of the progress of each ERP.⁹ The first of these annual reviews is scheduled to be released in mid-2024, following the release of the *New Zealand Greenhouse Gas Inventory* report.¹⁰ Secondly, at the end of each emissions budget period the Commission is required to evaluate the progress made towards meeting the emissions budget.¹¹ The first end-of-budget progress report is due in 2027, again timed to coincide with the release of the greenhouse gas inventory report.¹²

The second emissions reduction plan

According to the Climate Change Response Act, the second ERP must be released by December 2024. Subsequent ERPs must be published every five years, roughly aligned with the process for setting emissions budgets.

The Commission released its draft advice for the second ERP in April 2023.¹³ It consulted on its draft advice from 26 April to 20 June 2023. The statutory deadline for delivery of its final advice to the Minister of Climate Change is 31 December 2023. This advice must be considered by the Minister of Climate Change in preparing the second ERP.¹⁴

⁹ Climate Change Response Act s 5ZK(1) and (2).

¹⁰ See <https://www.climatecommission.govt.nz/our-work/our-upcoming-work>.

¹¹ Climate Change Response Act s 5ZL(1).

¹² See <https://www.climatecommission.govt.nz/our-work/our-upcoming-work>.

¹³ Commission, 2023.

¹⁴ Climate Change Response Act s 5ZI(1)(a).

2



Adiantum diaphanum

Process for producing the first emissions reduction plan

The statutory basis and process for producing an emissions reduction plan

The Climate Change Response Act 2002 provides New Zealand with a procedural and institutional framework for transitioning to a low-emissions economy. Among other things, it sets a long-term target, requires the setting of shorter-term emissions budgets, sets out roles and responsibilities for various ministers and agencies, provides for tools to mitigate emissions (including the New Zealand Emissions Trading Scheme (NZ ETS)) and requires the preparation of emissions reduction plans (ERPs).

The broader objective of the emissions reduction framework is to contribute to meeting New Zealand's international obligations to assist global efforts to limit the global average temperature increase to 1.5 °C above pre-industrial levels. The target comprises two components:

- all greenhouse gases (other than biogenic methane) to reach net zero by 2050
- emissions of biogenic methane to be reduced by at least 10% below 2017 levels by 2030 and a reduction of at least 24–47% below 2017 levels by 2050.

The legislative framework for emissions reductions sets out the pathway for achieving the target by way of emissions budgets and ERPs. Emissions budgets set a limit on the amount of greenhouse gas emissions within a given period. With the exception of the first budget, each emissions budget covers a period of five years. These budgets have been described as “stepping stones” towards a legislated, long-term target.¹ At all times there must be three emissions budgets in place – one for the current five-year period and one prospective budget for each of the following two five-year periods.

He Pou a Rangī Climate Change Commission (the Commission) must provide advice on the size of emissions budgets and on how each budget may realistically be met.² In preparing its advice, the Commission must have regard to, among other things:

- the key opportunities for emissions reductions and removals
- what is technically and economically achievable
- existing technology
- anticipated technological developments
- the results of public consultation.³

The Commission is also required to undertake public consultation.⁴

The Minister of Climate Change must set and notify the emissions budgets and in doing so must respond publicly to the advice provided by the Commission. If the minister proposes an emissions budget that deviates from the quantum advised by the Commission, the response must explain the reasons for this.

How an emissions budget is to be met is set out in an ERP. The Minister of Climate Change is required to “prepare and make publicly available a plan setting out the policies and strategies for meeting the relevant emissions budget” (i.e. an ERP).⁵ The plan must include:

- sector-specific policies
- a multi-sector strategy to meet emissions budgets
- a strategy to mitigate the impacts that reducing emissions and increasing removals will have on employees and employers, regions, iwi and Māori, and wider communities.⁶

The Minister of Climate Change may include in the plan any “other policies or strategies” considered necessary. The minister may also “include in the plan policies and strategies for meeting any emissions budgets ... for the 2 emissions budget periods after that”.⁷

Prior to the start of a new emissions budget period, the minister must publish a new plan that replaces the previous plan.

¹ See PCE, 2017, 2018.

² Climate Change Response Act s 5ZA(1).

³ Climate Change Response Act s 5ZC(2).

⁴ Climate Change Response Act s 5N.

⁵ Climate Change Response Act s 5ZG.

⁶ Climate Change Response Act s 5ZG.

⁷ Climate Change Response Act s 5ZG.

The broad process for preparing an ERP is also set out in the Climate Change Response Act. It requires two key steps.

1. The Commission “must provide to the Minister advice on the direction of the policy required in the emissions reduction plan”. It must do so no later than 24 months before the start of the relevant emissions budget period. In providing that advice, the Commission must consider the same matters as it did when it was advising on emissions budgets.⁸ Before it finalises its advice, the Commission is required to undertake public consultation.⁹
2. The Minister of Climate Change must prepare “a plan and supporting policies and strategies for an emissions budget period” (i.e. an ERP) at least 12 months before the commencement of the budget period. In setting the plan, the minister is only required to “consider” the Commission’s advice and ensure that consultation has been adequate.¹⁰

Unlike emissions budgets, there is no requirement for the minister to explain any deviation from the Commission’s advice on ERPs.

Figure 2.1 provides a summary of the Climate Change Response Act’s architecture with respect to targets, emissions budgets and ERPs.



Source: MfE, 2021j, p.9

Figure 2.1: The Zero Carbon Framework, as established by the Climate Change Response Act.

⁸ Climate Change Response Act s 5ZH. These requirements are set out in s 5ZC(2).

⁹ Climate Change Response Act s 5N.

¹⁰ Climate Change Response Act s 5ZI(1).

Some reflections on the Climate Change Response Act 2002

The Government is required to produce both emissions reduction plans and national adaptation plans. The two plans obviously need to be coherent with one another but that is not something required by the legislation.

The statutory process is clear in terms of a broad timeline for delivery.

The Commission is required to produce certain pieces of advice; the Government is then required to make decisions and produce certain documents. What is envisaged is a mechanical process that repeats itself in cycles. In general, the onus is on the Commission to demonstrate that its proposed budget is achievable. The onus is on the Government to demonstrate that its planned actions will plausibly deliver an emissions outcome that matches its emissions budget.

While the statute sets deadlines, it is silent on when the Government should *begin* the process for pulling together an ERP. This makes some sense. The time between the delivery of the Commission's advice and the decisions required by the Government is too abbreviated for the Government to begin its policy work after receiving the Commission's advice. What appears on the face of the statute to be a linear process could be – or should be – much more iterative and parallel than the delivery timeline suggests.

The detail of what is required by the statute (advice, decisions and documents) is at the same time prescriptive and flexible. For example, the statute *requires* a given ERP to be sufficient to meet the next emissions budget; but it also *allows* it to look out towards the next two budget periods. The former invites specific policy initiatives aimed at directly and immediately reducing emissions; the latter invites both specific policies and general strategies that prepare the way for future reductions.

The Government could stick to the exact requirements of the statute and focus exclusively on the next budget. Or it could take advantage of the flexibility offered by the statute to consciously prepare the foundations for future budgets.¹¹ The decision whether or not to venture beyond the next budget itself calls for an active decision about the purpose, scope and focus of any given emissions reduction plan.

A final point. Though the statutory process presents itself as a repetitive one out to 2050, the first cycle (advice, decision making and the production of documents) is fundamentally different from later cycles. It is different in terms of what is required, the timing of those requirements and the policy context of those requirements. In particular, the first cycle:

- set three emissions budgets (whereas future cycles will only set one new emissions budget and potentially tweak the forthcoming two budgets)
- set the emissions budget for a plan that was to be published forthwith (whereas future cycles will set the emissions budget for a plan that will be published 10 years later)
- published a plan for the first time (whereas future cycles will publish a plan against the context of one or more existing plans).

¹¹ There is also implicit flexibility offered in that the Government could look out all the way to 2050.

This last point is worth emphasising. For the first cycle, the Government had to come to terms with the purpose, scope and focus of its ERP. For the first cycle, the Commission's advice had to be *anticipatory* and *proactive*. It was anticipatory in the sense that the Government had not yet agreed to the first emissions budget. It was proactive in the sense that it was advising on the direction of policy against a relatively unstructured policy landscape. The Government already had a wide variety of climate policies, including the NZ ETS. Although it already had a Climate Action Plan (its response to the Productivity Commission's report on a low-emissions economy), that document lacked both the legislative context (for example, an emissions budget) and specific requirements (for example, a cross-sector strategy) of an ERP.¹²

Unsurprisingly, the Commission's draft advice for the second ERP appears to be more *reactive* (given the existence of the first plan) and *corrective* (given the fact that there is now a predetermined emissions budget in place).¹³ The Commission is now rightly responding to the consequences of the policy choices made for the first ERP.

The roles and responsibilities of key players

The Climate Change Response Act identifies only two actors in the preparation of ERPs:

- the Climate Change Commission, which provides advice on the direction of the policy required
- the Minister of Climate Change, who must prepare the ERP and make it publicly available.

In reality, preparing such a plan involves a very large number of individuals and organisations. Reducing emissions cuts across the functioning and regulation of every sector of the economy. Even a very bare-bones plan (for instance, one that relied largely on a single policy instrument like the NZ ETS) would run up against a wide range of regulatory codes that have been shaped by a century's reliance on fossil fuels. A wide range of ministers and the agencies who advise them will be implicated whether they like it or not. The need to coordinate between them all adds further players to the field.

This section provides a summary of the roles and responsibilities of key players. What those key players did is covered in the following section.

Ministerial roles and responsibilities

- The **Climate Response Ministerial Group (CRMG)**, established in March 2021, was the key ministerial forum directing New Zealand's climate change programme. The role of the group was to surface and steer issues, consolidate priorities, coordinate and provide direction. The group included a wide range of ministers making up most of the Cabinet.¹⁴
- The **Prime Minister** was the Chair of the CRMG and had responsibility for governance and management of New Zealand's climate change programme.

¹² See New Zealand Government, 2019; New Zealand Productivity Commission, 2018.

¹³ Commission, 2023.

¹⁴ Initial membership of this group included: Rt Hon Jacinda Ardern, Prime Minister (Chair); Hon James Shaw, Minister of Climate Change (Deputy Chair); Hon Grant Robertson, Minister of Finance and Minister for Infrastructure; Hon Nanaia Mahuta, Minister of Foreign Affairs and Minister of Local Government; Hon Dr Megan Woods, Minister of Energy; Hon Michael Wood, Minister of Transport; Hon Damien O'Connor, Minister of Agriculture; Hon David Parker, Minister for the Environment; and Hon Stuart Nash, Minister of Forestry. The original membership did not cover all parts of the ERP. The intention was that ministers would be invited for specific meetings and agenda items (MfE, pers. comm., 6 June 2023).

- The **Minister of Climate Change** was the Deputy Chair of the CRMG. The minister has the statutory duty to set emissions budgets, prepare and publish ERPs and ensure emissions budgets are met.
- The **Minister of Finance** was the lead budget minister, overseeing the budget process, including funding decisions made through the Climate Emergency Response Fund (CERF).
- **Portfolio ministers** were responsible for developing climate policies within their portfolios and collectively deciding on cross-sectoral climate policies as members of the CRMG.
- **Cabinet** was the formal executive decision-making body. Its responsibilities included approving the scope, process and timeframes for the ERP process, as well as approving final policy decisions.

Agency roles and responsibilities

- **Ministry for the Environment (MfE)** is the lead agency for climate change. The Secretary for the Environment and Chief Executive of MfE was the Chair of the Climate Change Chief Executives Board (the board). MfE's key responsibility was to coordinate, develop and publish the ERP. This responsibility extended to developing the strategy to mitigate impacts that emissions reductions will have on iwi and Māori, and ensuring that consultation with iwi and Māori was adequate.
- **Sector agencies** developed climate policy for their sectors. Sector agencies contributed to cross-agency advice, including to the board. Agencies were to consult with iwi, local government and stakeholders. Key agencies included the Ministry of Business, Innovation and Employment (MBIE), Ministry for Primary Industries (MPI), Ministry of Transport (MoT) and MfE.
- **Department of the Prime Minister and Cabinet** provided independent advice to the Prime Minister on the ERP and climate policies through its Policy Advisory Group. The Policy Advisory Group contributed to officials' processes as required.
- **The Treasury** was the lead agency for economic and fiscal advice. The role of the Treasury was to provide advice on budget initiatives, including those relating to the CERF. This role extended to providing second-opinion advice on the economic and fiscal implications of climate policies. The Treasury also played a role as a central agency and regulatory steward.
- **Te Arawhiti** provided advice on the Treaty of Waitangi and engagement with Māori on a needs basis.

Interagency forums

- The **Climate Change Chief Executives Board** was a key pre-existing interagency forum for climate policy.¹⁵ Its role was to provide collective strategic leadership to agencies, provide advice to ministers and identify policies that enable system-wide benefits.^{16,17} An interagency deputy chief executives group also met regularly, usually ahead of the board's meetings, to discuss key issues.
- The **interagency directors group** (established in February 2020) was a key interagency decision-making forum.¹⁸ The membership of the group was more select than working-level groups.¹⁹ The group had three roles: directing and steering the process; overseeing whole-of-government advice; and overall stewardship of the strategic direction of the ERP.
- The **interagency officials group** (established 29 January 2020) coordinated and collated the contributions of agencies to ensure consistency of the process.²⁰ The group was regularly attended by many officials, including chapter leads who contributed directly and indirectly to the ERP. The group did not make policy-facing decisions.
- The **interagency climate change data and modelling group** (established 13 February 2020) was the key forum for technical discussions aimed at improving data, evidence, quantification and modelling. The group was largely attended by technical experts from agencies contributing to the ERP.²¹

All the interagency forums were led by MfE at its respective levels. An underlying issue for whole-of-government policy documents, such as an ERP, is the need to build a suitable horizontal structure across government systems.

Independent advice

- **He Pou a Rangi Climate Change Commission** provided independent advice to the Minister of Climate Change on emissions budgets and ERPs.
- **Ihirangi** (operational arm of Pou Take Āhuarangi – the National Iwi Chairs Forum climate pou) provided advice on the content for the Māori chapter. Ihirangi provided support to MfE on climate priorities for te ao Māori.

¹⁵ Establishment of the board preceded the process for putting together ERP1. The first board meeting focused on the first ERP was held on 11 March 2020 (MfE, pers. comm., 6 June 2023).

¹⁶ Membership of the board from its first ERP-focused meeting included: MfE, MoT, the Treasury, MBIE, MPI, Energy Efficiency and Conservation Authority, Department of Conservation, Land Information New Zealand, Ministry of Foreign Affairs and Trade, Department of Internal Affairs and the Commission (MfE, pers. comm., 6 June 2023).

¹⁷ In July 2022 (following the publication of ERP1), the board was formalised as an interdepartmental executive board under the Public Service Act 2020. This modified the legal status of the board, changed the accountability of the chief executives who were members and allowed for the creation of an independent secretariat. Formalisation as an interdepartmental executive board was also accompanied by an expansion in its role.

¹⁸ Prior to February 2020, the directors group existed informally. In December 2020, the group became further formalised.

¹⁹ Initial membership of the group included: MfE, MBIE, MPI, MoT and the Treasury. Membership increased as ERP1 expanded after December 2020 (MfE, pers. comm., 6 June 2023).

²⁰ Initial membership of the group included: MfE, MFAT, MPI, MoT, the Treasury, MBIE, HUD, DOC, EECA and Waka Kotahi. Other agencies were brought in to play a supporting role, including TPK and Te Arawhiti (MfE, pers. comm., 6 June 2023).

²¹ Initial membership of the group included: MfE, MPI, MBIE, MoT, the Treasury, Stats NZ, Environmental Protection Authority, EECA and Waka Kotahi. The Commission was also invited to the group so everyone was kept updated on emerging work and discussions (MfE, pers. comm., 6 June 2023).

The actual process for producing the first emissions reduction plan

18

The process for producing the first ERP took place in a context characterised not only by a government-declared climate emergency but also by a public health crisis. The Covid-19 pandemic disrupted not only people's lives but the Government's policy agenda. Climate mitigation policy was no different. Extensions from the legally mandated timeline were provided to both the Commission (for its advice) and the Government (for its plan).

But what did the actual process look like?

To those on the outside, government processes can often be opaque. Even to insiders, such processes can be hard to follow. Part of the motivation for this report is to provide Parliament, and New Zealanders in general, with a clear picture of what happened when.

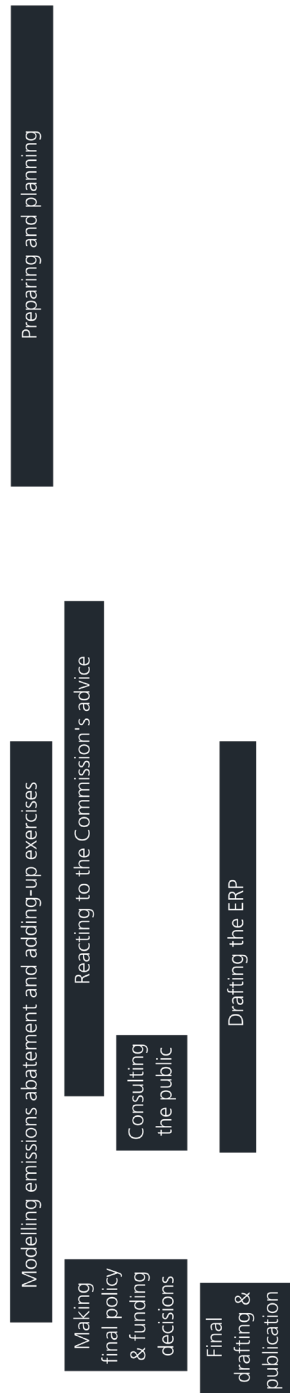
To make that picture comprehensible, the process is described as a series of phases. This runs the risk of painting the process as more orderly than it was. Inevitably, it involved a complex interplay in which elements overlapped and the intensity of work by different agencies varied.

Figure 2.2 provides an overview of the process for producing the first ERP.

The balance of this chapter describes that process.²² With an eye to the second ERP, chapter three provides some key findings about what went well in the first ERP process and what could have gone better.

²² In addition to documents produced in the course of the ERP process, this description draws on personal communications with the board (19 October 2022; 20 March 2023), Commission (26 October 2022; 15 December 2022; 26 January 2023; 1 June 2023; 7 July 2023), DOC (28 November 2022; 29 June 2023), DPMC (12 April 2023; 28 June 2023), MBIE (16 December 2022; 30 January 2023; 8, 9, 15 and 16 February 2023; 30 May 2023; 7 July 2023), MfE (14 October 2022; 2, 8, 10, 23 and 25 November 2022; 13 and 19 December 2022; 15 and 21 February 2023; 2 and 7 March 2023; 9, 24 and 25 May 2023; 6 June 2023; 7 July 2023; 21 July 2023), MoT (25 November 2022; 6 and 16 December 2022; 23 May 2023; 6 June 2023; 7 July 2023), MPI (29 November 2022; 30 May 2023; 5 July 2023; 7 July 2023; 20 July 2023), Te Arawhiti (26 May 2023; 7 July 2023), TPK (22 December 2022; 7 July 2023) and the Treasury (2 December 2022; 8 and 20 March 2023; 7 July 2023).

Phases of the ERP process



2020



2021



2022



- Interagency forums
- Advice from officials
- Statutory process
- Key decisions by ministers

Source: PCE

Figure 2.2: A simplified timeline of the development of the first emissions reduction plan. Note that the process was less linear than this timeline portrays.

Preparing and planning

From early 2020 (just under two years out from the original statutory deadline for its release), key agencies took part in preliminary discussions about ERP1. Early cross-agency discussions were general and focused on raising awareness of what was happening across agencies, the broader policy context and the kinds of actions that might be needed.

Broad strokes of interagency governance were put in place or repurposed: an interagency officials group, an interagency climate change data and modelling group, an interagency directors group, an interagency deputy chief executives group and the board.

MfE coordinated the development of a series of think-pieces on different sectors and themes during this phase of the process. Their purpose was to provide a focus for agencies to work collaboratively to explore cross-cutting areas and potential priority areas.²³

Some agencies were already undertaking significant work on climate mitigation policy. For example, MoT launched its own ERP project in March 2020. This included significant policy work, modelling, public engagement, the release of working papers and preparation of a green paper.²⁴ MPI was preoccupied with the separate, but related, He Waka Eke Noa process. Some agencies were receiving direction from their ministers and – as the year progressed – briefing their ministers.

While many agencies were preparing for the development of the ERP, work on how to frame iwi and Māori input trailed behind and responsibility for this element of the plan was still unclear. It would not be until final recommendations were published by the Commission that an official was designated to lead a Māori chapter.

At this initial phase of the process, there was a lack of clarity as to which ministers and agencies had responsibilities for leading what. It was not until May 2021 that Cabinet approved the scope, process, accountabilities and time frame for the ERP.²⁵

²³ MfE, pers. comm., 6 June 2023.

²⁴ MoT, 2021.

²⁵ Office of the Minister of Climate Change, 2021c.

“Preparation” work may have been “underway” during 2020,²⁶ but the ambition and quality of that preparation varied considerably. Some agencies may have been engaging with interagency groups but it appears – at least to some agencies – that others were not proactive. Some agencies were very transparent that not much was happening from a policy standpoint or that they were effectively operating on the basis that existing policy settings would be sufficient. At the end of 2020, the Government declared a climate emergency and decided to establish a ministerial group dedicated to climate issues.²⁷

Towards the end of this phase of the process, two sets of advice were provided to ministers.

1. On 4 November 2020, MfE produced a briefing to the incoming Minister of Climate Change.²⁸ It also produced a piece of second-tier advice specifically related to its climate change work programme.²⁹
2. On 9 December 2020, the first major piece of cross-agency advice was provided to the ministers responsible for key portfolios.^{30,31} This joint briefing outlined the process to prepare for the decisions required by statute for New Zealand’s first emissions budgets and ERP.³²

This second-tier advice identified an “urgent need” for a “clear position on the Cabinet approach” to delivering the ERP.³³ During this phase, the timeline for subsequent phases of the ERP process was still subject to significant uncertainty.^{34,35} As one agency communicated to MfE, there was uncertainty regarding “what will be needed by when”.³⁶

New Zealand’s preparations for the United Nations Climate Change Conference UK 2021 (COP26) (held in Glasgow in November 2021) added complexity to the ERP process. Ministers and officials were simultaneously working on developing New Zealand’s Nationally Determined Contribution (NDC) and its Long-term Low Emissions Development Strategy to meet New Zealand’s international commitments (from around April 2020), whilst developing the ERP to meet domestic requirements (from the end of 2020 and the beginning of 2021). Much of the policy thinking required for all three was similar but the outputs were different. This caused some uncertainty.

²⁶ MfE, 2020d, p.2.

²⁷ See <https://www.beehive.govt.nz/release/climate-emergency-declaration-will-be-matched-long-term-action>.

²⁸ MfE, 2020a.

²⁹ MfE, 2020c.

³⁰ MfE, 2020d.

³¹ They comprised the Minister of Climate Change, Minister of Transport, Minister of Energy and Resources, Minister of Agriculture, Minister of Forestry, Minister for Building and Construction and Minister for the Environment. The briefing was also forwarded to the Minister of Finance and Minister of Conservation. (MfE, pers. comm., 6 June 2023).

³² It contained several appendices that provided a broad overview of cross-sector work, work within different sectors and work concerning distributional impacts. Appendix 3 related to cross-sector work; appendices 4–9 related to forestry, transport, heat, industry and power, agriculture, building, construction and waste; Appendix 10 related to distributional impacts. See MfE, 2020d.

³³ MfE, 2020c, p.3.

³⁴ MfE, 2020b.

³⁵ MfE, 2021d.

³⁶ MfE, 2021d, p.8.

In the face of this, the Minister of Climate Change proposed compressing the timeline for the publication of the ERP to align it with COP26. It appears that every single agency was extremely concerned about the possibility of compressing the timeline. Specific concerns included impacts on engagement and consultation, the quality of advice, the analysis of sufficiency, whole-of-government coherency, ministerial engagement and level of detail that could be included about specific policies.³⁷

Around this time, the Minister for the Environment produced a ‘big plays’ think-piece, which canvassed several significant investment options aimed at directly reducing New Zealand’s domestic emissions.³⁸ It was designed to catalyse Cabinet’s thinking about ambition for the NDC. It was later repurposed as an input into the ERP process to provide some focus on the big picture.

Reacting to the Climate Change Commission’s advice

On 31 January 2021 the Commission released its draft advice.³⁹ This document included advice on the first three emissions budgets, as well as the direction of policy required for the first ERP. Through February and March 2021, the Commission undertook consultation on its draft advice. On 31 May 2021, the Commission provided its final advice to the Minister of Climate Change.⁴⁰

The advice of the Commission preoccupied the work and advice of officials for much of 2021. From this point onwards, advice from MfE and other agencies is saturated with references to the recommendations of the Commission. This makes sense – the Commission provided substantial and valuable advice. In quick succession, multiple pieces of advice were provided to ministers collectively through the CRMG. For example, MfE produced advice summarising the Commission’s draft advice,⁴¹ identifying key issues in the draft advice and communicating agencies’ responses to its final recommendations.^{42,43} Sector agencies likewise provided advice directly to their portfolio ministers.

The reaction to the Commission’s advice went beyond mere policy content. Officials from a number of agencies recalled that the release of the Commission’s draft advice played a catalysing role. Some officials recalled how it made the ERP seem real for the first time. For some agencies, the Commission’s advice brought mitigation policy into focus. One official recalled that prior to the release of the Commission’s draft advice, the development of climate policy was both concentrated and diffuse – concentrated in the sense that it was taking place in pockets, and diffuse in the sense that it was not connected up.

This phase of the process culminated in an increase in the tempo of cross-agency work. For example, the frequency of interagency meetings increased and more developed project management was put in place. Prior to this, it may have been more accurate to say that cross-agency work was largely background work. The exact timing of this increase in intensity was experienced differently by different agencies. But, generally, it was less pronounced in those agencies where there was already a more proactive and even-keeled policy process.

³⁷ MfE, 2021.

³⁸ MBIE, 2021b.

³⁹ Commission, 2021a.

⁴⁰ Commission, 2021b.

⁴¹ MfE, 2021i.

⁴² MfE, 2021e.

⁴³ MfE, 2021a.

Ministerial leadership and the establishment of the Climate Response Ministerial Group

During this phase, ministers became more involved. The Prime Minister – alongside the Minister of Climate Change – drove the process and provided direction to ministers and senior officials. Direction was also provided by the Prime Minister’s Office and the Minister of Climate Change’s office (and to a lesser extent the Minister of Finance’s office).

In between the release of the Commission’s draft and its final advice, the key ministerial forum – the CRMG – was established. It was not treated like a regular cabinet committee and it met less frequently than other committees over the course of the ERP.⁴⁴ But the establishment of the group signalled an increase in collective ministerial oversight and acted to catalyse the resources of at least some agencies.

Starting in mid-2021, the CRMG steered issues, weighed in on priorities and provided guidance and instructions. It discussed a range of issues related to climate policy, including:

- the Commission’s draft advice on emissions budgets and the direction of policy
- the scope and content of the ERP
- accountability for delivery of the ERP
- governance of the ERP
- consultation
- emissions budgets
- the role of the NZ ETS.

During this phase of the process, the CRMG directed agencies to prepare responses to the Commission’s recommendations.

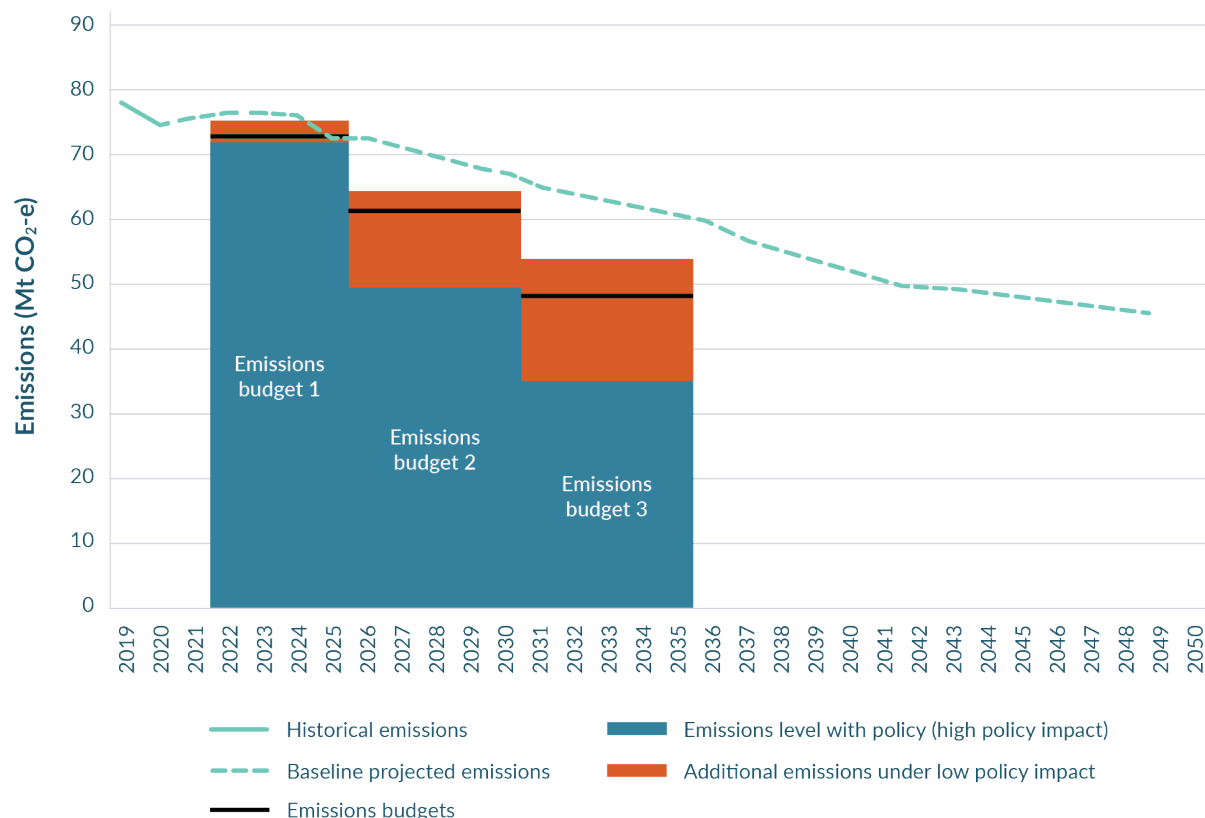
In practice, the core function of the board was to provide advice to the CRMG. For that reason, it often met in advance of CRMG meetings. The board also played a role in ensuring there was coordination across agencies and portfolios. However, the board appears not to have provided any substantial collective direction to agencies.

Further discussion of ministerial and agency leadership is provided in chapter three.

Modelling emissions abatement and adding-up exercises

Agencies did not spend all of 2021 simply reacting to the Commission’s advice. Adding-up exercises were a key focus for both officials and ministers and intensified the process of pulling together ERP1. These exercises consisted of calculating the projected emissions abatement of proposed policies (see Figure 2.3).

⁴⁴ MfE provided secretariat support to the CRMG. Following formalisation of the board as an interdepartmental executive board, the secretariat of the board replaced MfE in this role.



Source: New Zealand Government, 2022b, p.36

Figure 2.3: Expected impact of the first emissions reduction plan on emissions over the first three emissions budgets. Modelling results are presented for both “high policy impact” and “low policy impact” scenarios. Similar representations were presented to ministers and senior officials during the course of developing ERP1, at both the sector level (benchmarked against sub-sector targets) and the whole-of-economy level (benchmarked against emissions budgets).

By mid-2021, initial modelling of the impact of the NZ ETS provided some indication of what might be needed from additional policies to close the gap with the first emissions budget.⁴⁵ Adding up the emissions abatement of proposed policies could then provide a sense of what additional reductions might be needed. These exercises extended into 2022, essentially until final decisions were made.

Most agencies had modelling capabilities for their sectors of interest and conducted their own modelling to contribute to the ERP. Agencies identified early on the need for forward-looking projections to assist with adding up potential emissions reductions. There was no whole-of-economy approach due to agencies only having the ability to undertake modelling sector by sector. The general approach to modelling focused on the impacts of policies over and above the NZ ETS, including bringing forward abatement. This included some consideration of how policies could impact on one another.

⁴⁵ MfE, 2021b, p.7.

The interagency climate change data and modelling group was the key interagency forum relevant to this phase of the process. The emphasis of the group changed over time. An early focus was cross-agency pollination and learning. Early discussions were orientated towards understanding what information agencies had. Functioning as a community of practice, officials also discussed key pieces of work, approaches to modelling and the assumptions that they or others were making.

A later focus of the modelling group was the alignment of modelling capabilities. The group worked to identify cross-sector modelling issues and provided a limited number of suggestions to agencies to manage discrepancies (for example, assumptions around population). However, the group lacked decision-making authority so any consensus reached could be overturned by decision-making processes internal to agencies.

A core function of the interagency directors group was focused on adding-up exercises and related advice (including advice focused on identifying and managing uncertainties attached to these exercises). Alongside this, the group had robust discussions on some strategic elements of the emissions budgets and ERP. However, this appears to have been of lower priority in comparison with the adding-up exercises (and directing the broader ERP process).

The results of the adding-up exercises were regularly communicated to ministers. The (in)sufficiency of potential policies was a focus of CRMG meetings from mid-2021 into 2022. Identification of gaps provided a basis for the CRMG and Cabinet to direct agencies to propose additional policies capable of closing them.⁴⁶

Alongside this, the CRMG and the board engaged around some strategic dimensions of climate mitigation policy. For example, the CRMG discussed the role of the NZ ETS and a limited number of strategic issues, including gross versus net emissions and the balance of domestic versus international removals. The board also provided some strategic direction. For example, chief executives identified the lack of an overall strategic vision for the ERP and this was the catalyst for a small piece of work on a vision for a net zero economy in July 2021.⁴⁷

Drafting the emissions reduction plan

Alongside reacting to the Commission and undertaking adding-up exercises, officials were focused on drafting the ERP. The original structure of the ERP was suggested early in the process by the Minister of Climate Change, who proposed a series of chapters. That structure became a focus for debate between both ministers and officials. Alongside officials, key ministers set about iterating the overarching structure and content of the ERP.

The drafting of the ERP was iterative and began relatively early in the process. For at least some chapters, drafting commenced before basic facts were known and basic issues were settled. For example, drafting was sometimes commenced before there was a comprehensive sector-wide view of existing climate mitigation efforts.

⁴⁶ MPI, 2021.

⁴⁷ MBIE, 2021c.

Starting from March 2021, MfE provided guidance to agencies regarding the proposed structure of the ERP and the proposed requirements for individual chapters.⁴⁸ This guidance would change as ministers – collectively or individually – revised their views about what material should be included and the way that material should be structured. The final chapter template was provided in February 2022.

One official described 2021, with its focus on drafting and redrafting chapters, as a “year of churn”. A first draft of chapters was due by 23 March 2021, while a second draft of chapters was due on 21 May 2021.⁴⁹ The churn of drafting was due to both changes in guidance for the chapters and changes in what chapters were required.⁵⁰

Interagency groups played a key role during this phase of the process. Although the focus of the interagency officials group was on process, the group also spent considerable time on issues related to content. For example, the group discussed templates for chapters of the ERP. Though the interagency climate change data and modelling group was not primarily operational, it produced a technical appendix to the ERP.⁵¹

As part of the drafting process, MfE was eventually given responsibility for drafting the chapter on empowering iwi and Māori. It also provided Treaty of Waitangi guidance templates, peer-reviewed related content and provided advice to agencies. Ihirangi also provided advice throughout the development of the Māori chapter of the ERP.

Due to the cross-cutting nature of the Commission’s recommendations, sector agencies individually considered Treaty of Waitangi implications, and identified the impacts of their policies on iwi and Māori.

Consulting the public

As part of its process for producing advice, the Commission consulted with the public on both its proposed emissions budgets and proposed policy direction.

In late 2021, the Government undertook formal consultation of its own.⁵² On 13 October the Government released an ERP discussion document on which commentary and submissions were due by 24 November 2021.⁵³ Submissions analysis occurred from 27 November to 20 December 2021.⁵⁴

The discussion document sought feedback on a wide range of high-level policy options. It was jointly developed by agencies, with MfE leading coordination. Formal consultation included webinars, workshops and written submissions. In total, 10,050 submissions were received from a range of individuals and groups.⁵⁵ Agencies also carried out more targeted engagement on their policies and programmes with interested parties during the consultation period.

⁴⁸ MfE, 2021f, 2021h.

⁴⁹ MfE, 2021g, p.1. The first draft of chapters was an outline of work that agencies already had in scope and what they would bring to the ERP.

⁵⁰ For example, guidance produced in February 2022 included a request for a new chapter on nature-based solutions (MfE, 2022f).

⁵¹ MfE, 2022d.

⁵² Public consultation was deemed to be required as the Commission’s earlier consultation had only advised on the direction of policy whereas the ERP dealt with specific policy proposals (Office of the Minister of Climate Change, 2021b, p.2).

⁵³ See MfE, 2021j.

⁵⁴ Analysis was contracted to Allen + Clarke Policy and Regulatory Specialists Ltd; MfE, 2022a.

⁵⁵ Office of the Minister of Climate Change, 2022, p.9.

Iwi- and Māori-specific engagement was undertaken. While each sector agency was responsible for its own iwi and Māori engagement for its individual policy development, MfE was responsible for the overall ERP engagement. In June 2021 MfE sent invitations to all iwi entities to engage with them on both the emissions reduction and adaptation plans via online and in-person hui.

As part of the public consultation period throughout October and November, a targeted roadshow for iwi/hapū and other Māori was planned; however, Covid-19 restrictions came into force and the roadshows were cancelled. An alternative approach was taken via a series of online wānanga coordinated by MfE.

Ihirangi also conducted an online survey as part of its advisory role to MfE. The survey included a focus on emissions reductions and priorities from a te ao Māori perspective that also traversed some of the issues in the discussion document. The results were reported to MfE.

While consultation was most intense during the formal consultation process, it took place throughout the process for pulling together the ERP. At the sector level, some agencies engaged with stakeholder groups in targeted ways throughout the ERP process.⁵⁶ For example, officials leading the work on distributional impacts also undertook targeted engagement with community groups. Generally, however, agencies undertook limited engagement with stakeholders outside formal, whole-of-government consultation.

Some agencies raised concerns about the tight timeframe for consultation. They noted that it would be difficult to undertake public engagement at the same time as analytical work due to limited resources. Against the backdrop of tight timeframes and Covid-19 restrictions, many agencies and many of their stakeholders were experiencing general consultation fatigue. Some sectors, and many iwi and Māori had already been through recent consultation processes with government. And, of course, the Commission had undertaken its own consultation only months earlier.

Making final funding and policy decisions

As a result of the extraordinary pressures placed on the Government by the pandemic, the original deadline for release of the ERP – 31 December 2021 – was pushed back until 31 May 2022. This placed the ERP process on a timeline parallel to the budget process.

In late 2021, the Government announced the establishment of the Climate Emergency Response Fund (CERF) through the Budget Policy Statement 2022.⁵⁷ Prior to this, it had received a steady stream of advice from officials about how the Government might finance the transition. For ERP1, the CERF was an important funding mechanism and another catalyst and motivator for agencies. As many CERF initiatives corresponded to potential ERP policies, the budget process acted as a focal point for the ERP. For more information on the CERF, see Box 2.1.

At the start of 2022, ministers were yet to make final decisions about what policies would be included in the ERP. Many policies were still up for grabs, with ministers deep in discussions about which policies would be definitively included, which policies would be framed in more conditional terms and which policies would be dropped.

⁵⁶ For example, MoT released its green paper for public consultation in May 2021. See MoT, 2021.

⁵⁷ New Zealand Government, 2021.

Box 2.1: The Climate Emergency Response Fund

In Budget 2022, the Government established the CERF.⁵⁸

The CERF is a mechanism designed to fund the Government's climate mitigation and adaptation initiatives. By deliberate design of the CERF's original criteria, everything funded by the CERF through Budget 2022 had a mitigation focus aligned to the ERP.⁵⁹ These criteria have since been updated for Budget 2023 to include both mitigation and adaptation (see Figure 2.4).⁶⁰

Despite its description as a "fund", it is in practice closer to a budget allowance. In this respect, it is more like the annual budget's operating allowance than the National Land Transport Fund, for example.

From its establishment up until Budget 2023, the CERF was sized proportionally to the Treasury's forecast cash proceeds from the NZ ETS over a four-year forecast period. However, in the Budget Update 2023 forecast, cash proceeds from the NZ ETS had fallen by \$2.7 billion in the forecast period relative to the Half Year Update 2022, largely due to a reduction in the market price of New Zealand Units. Instead of reducing the size of the CERF proportionally to reflect lower NZ ETS cash proceeds, Cabinet agreed to return \$605.8 million of savings reprioritised from Budget 2022 CERF initiatives to the CERF and to top up the fund by an additional \$1.9 billion. The current balance of the CERF is \$1.5 billion.⁶¹

The Government has, however, acknowledged that NZ ETS cash proceeds will not be enough to address the intergenerational wellbeing impacts of climate change.⁶²

The CERF has come to be a key instrument the Government points to in communicating its climate ambitions to the public. It features heavily in both ministerial communication and budget documents. The CERF is also a focal point for fiscal reporting requirements beyond those associated with standard budget initiatives. This is undertaken to provide an additional layer of scrutiny.⁶³

⁵⁸ New Zealand Government, 2021, pp.24–25.

⁵⁹ MfE and the Treasury, 2021; New Zealand Government, 2021, p.25.

⁶⁰ New Zealand Government, 2022a, p.22.

⁶¹ New Zealand Government, 2023, p.38.

⁶² New Zealand Government, 2022b, p.114.

⁶³ This reporting is provided by the Treasury. See <https://www.treasury.govt.nz/publications/data/climate-emergency-response-fund-cerf-monitoring-and-reporting-document-library>.



Source: Dave Young, Flickr

Figure 2.4: Ōkato Farm, Taranaki. Budget 2022 funded three agricultural initiatives through the Climate Emergency Response Fund. The majority of this funding was provided to an initiative aimed at accelerating the development and uptake of high-impact agricultural mitigation technologies. Funding was also provided to support mātauranga-based approaches to reduce agricultural emissions.

Alongside the traditional stream of advice provided by the Treasury,⁶⁴ the board – assisted by officials from MfE and other agencies – undertook an assessment of CERF initiatives ahead of Budget 2022. It focused on applying a “strategic lens” to the assessment of initiatives.⁶⁵ In practice, this appears to have involved a consideration of the alignment between potential CERF packages and broader climate change considerations. Ultimately, the board recommended a budget package to the CRMG that would achieve a “relatively balanced mix” of “directly reducing emissions” and “laying the foundations for future emission reductions and transformative system change”.⁶⁶

At this point in the process, the focus of the CRMG was firmly on decision making, including budget decisions. Funding decisions took place throughout February 2022, before the CERF spending package for Budget 2022 was finalised in April. Alongside this – between February and April 2022 – a series of cabinet papers sought final policy decisions across multiple ministerial portfolios.⁶⁷ With the last of these papers, the formal decision-making process about what actions would feature in the ERP was concluded.

⁶⁴ This advice was provided in early February 2022 to its traditional recipients, the Minister of Finance and other budget ministers. It focused on value for money, including implementation readiness and wellbeing impacts, and a draft package of climate initiatives.

⁶⁵ MfE, 2021c, p.8.

⁶⁶ MBIE, 2022, p.4.

⁶⁷ MfE, pers. comm., 23 November 2022. These papers included: Managing afforestation (21 February 2022); Government accountability and coordination (7 March 2022); Te Tiriti o Waitangi and the role of Māori in the transition (14 March 2022); Equitable transition (14 March 2022); Transport (21 March 2022); Research, science, innovation and technology (21 March 2022); Energy and industry (21 March 2022); Building and construction (21 March 2022); Waste and fluorinated gases (21 March 2022); Circular and bioeconomy (28 March 2022); Working with nature (4 April 2022); Agriculture (4 April 2022); Addressing emissions leakage (4 April 2022).

Final drafting and publication

By the time it came to making formal funding and policy decisions, the text of the ERP – though far from final – had already gone through several iterations. But redrafting of the ERP continued alongside the decision-making process.

From early 2022, officials were focused on redrafting and the publication process. Agencies handed their chapters to a core writing team in mid-February 2022. Though the bulk of final drafting of at least some chapters was completed by March, drafting continued into April.⁶⁸ From this point, the emphasis shifted to editorial decisions and publication processes (including editing, proofreading and design).⁶⁹

⁶⁸ The core writing team worked with a professional writer to complete drafting by early April.

⁶⁹ MfE, pers. comm., 23 November 2022.

3

Key findings

This chapter distils key findings concerning the strengths and limitations of the process described in chapter two.¹ It makes no judgement about the substance of the decisions that were finally taken.

Specifically, it sets out to determine whether the process that was followed enabled ministers to address the key choices they faced and provide clear direction to officials; and whether officials – properly directed – provided the advice needed to enable ministers to close the process with well-informed decisions.

The findings fall into three broad topics: firstly, the way ministers and officials approached the task of putting together the first emissions reduction plan (ERP); secondly, the way ministers and officials provided leadership and drove collaboration; and finally some selected but critical ‘nuts and bolts’ of the process:

- the sufficiency of agencies’ resourcing
- the approach to modelling
- consultation and engagement with iwi and Māori.

¹ In addition to documents produced in the course of the ERP process, this description draws on personal communications with the board (19 October 2022; 20 March 2023), Commission (26 October 2022; 15 December 2022; 26 January 2023; 1 June 2023; 7 July 2023), DOC (28 November 2022; 29 June 2023), DPMC (12 April 2023; 28 June 2023), MBIE (16 December 2022; 30 January 2023; 8, 9, 15 and 16 February 2023; 30 May 2023; 7 July 2023), MfE (14 October 2022; 2, 8, 10, 23 and 25 November 2022; 13 and 19 December 2022; 15 and 21 February 2023; 2 and 7 March 2023; 9, 24 and 25 May 2023; 6 June 2023; 7 July 2023; 21 July 2023), MoT (25 November 2022; 6 and 16 December 2022; 23 May 2023; 6 June 2023; 7 July 2023), MPI (29 November 2022; 30 May 2023; 5 July 2023; 7 July 2023; 20 July 2023), Te Arawhiti (26 May 2023; 7 July 2023), TPK (22 December 2022; 7 July 2023) and the Treasury (2 December 2022; 8 and 20 March 2023; 7 July 2023).

A coherent policy framework was lacking

In a nutshell, ministers did not systematically turn their minds to key strategic choices and potential pathways. While officials did try to get ministers to address some key framing questions along the way, they did not present those questions as a coherent package, nor did they ask them early enough. As a result, ministers were unable to provide some provisional answers to key questions that, taken together, would have provided a coherent policy framework for officials to work to.

Key framing questions were not tackled up front

Many of the shortcomings identified can be traced to the beginnings of the process. From the time the Climate Change Response Act 2002 was passed into law, ministers and officials were on notice that they would have to prepare an ERP. Preliminary work was obviously desirable but difficult to give focus to, given that no one knew what the shape of He Pou a Rangī Climate Change Commission's (the Commission's) advice was going to look like. However, once ministers were in receipt of the Commission's draft advice on emissions budgets and policy direction, they had important dimensions of the task in front of them.

For ERP1, that should have been the moment to have engaged in in-depth and rigorous discussions about *how* such a plan should be elaborated. In particular, discussions were needed on what decisions could be taken up front (at least provisionally) to provide guidance and direction to officials on where they should focus their attention. For whatever reason, the development of a policy framework does not appear to have taken place, although some of the elements that such a framework would raise surfaced on multiple occasions.

Though the process for pulling together the plan took place over a period of years, opportunities for confronting key framing questions were repeatedly missed. Officials did raise some key framing questions, sometimes repeatedly. But they could have done more to help ministers think about how best to go about developing the country's first ERP. Had officials provided ministers with a well-packaged and coherent set of key framing questions alongside corresponding policy advice, ministers could then have provided clearer guidance about what was going to be useful to them.

Neither officials nor ministers stood back and asked: how can we make sense of the Commission's advice in its totality; how can we apply systems thinking and an economy-wide lens that will identify the most significant points of leverage and then enable all elements of the plan to be assembled coherently? If officials had done more preparatory policy work about key framing issues to be addressed by ministers, everyone might have been in a better position to take stock. Ministers would have been better placed to provide early and clear direction, including their level of ambition and their appetite for policy innovation.

There is no shortage of references to the need for a *strategic* approach to be found in departmental advice and cabinet papers. But a starting point from which the plan's development evolved appears to be missing. The word 'strategic' is widely and imprecisely used in official discourse. Calling for a more *strategic* approach evokes, for many people, the need to adopt some lofty or distanced point from which to view the terrain. But there is often little in the way of route maps back down into the lowlands of competing viewpoints.

Something more concrete and practical should have occurred. There was the need to agree on a framework for moving forward that ensured some of the key questions and trade-offs likely to emerge were flagged, and some high-level priority choices exposed.

It was understood that an ERP needs to engage the entire economy. There was a realisation that the economy needed to transition to net zero emissions. It was understood that a succession of these plans would entail a very significant transition by 2050. But there was very little consideration given to what the potential macro-level objectives of the transition might be. Even though advice was saturated by talk about a transition, there was a lack of precision about *what* that transition could ultimately be heading towards, what the different options were for getting there, what it was that ministers might want to achieve and what agencies should be collectively trying to focus on.

Given that there is no preordained way to go about stitching together something as ambitious as the economy-wide elimination of fossil fuel emissions and minimisation of agricultural emissions, ministers should have been confronted by officials, at the outset, with some big framing choices that would provide a measure of coherence to much of the detailed policy work that followed. This did not happen early enough or in a well-packaged format.

While some key judgements and framing choices were identified, others were not subject to adequate advice or provisionally settled by ministers.² And although there was some whole-of-economy advice on key trade-offs, this engagement generally happened too late for clear ministerial direction to be provided to officials. While some of these engagements were useful, they did not happen in a way that focused and simplified the remainder of the process. As a result, a more bottom-up approach ensued that not only compromised policy coherence but added unnecessary complexity.

When the time came to making fine-grained policy decisions at the end of the process, there was no framing available to ensure coherence between the various elements of the plan.³ In the course of making final policy decisions, there was no whole-of-economy advice available to say whether, collectively, the sum of proposed policy instruments would be:

- **consistent**, in that proposed policy instruments were complementary, synergistic and aligned with each other, or were not contradictory or conflictual
- **comprehensive**, in that the proposed policy instruments would attempt to cover all market and institutional failures and barriers to change.

² Some of this variation is detailed below.

³ Risks to the overall coherence of ERP1 were informally identified by multiple officials from multiple agencies. There are even occasions where this concern made it into official advice; for example, MfE, 2021d, p.8.

Key framing questions that should have been asked

The following key framing questions all needed to be asked at the outset as part of a wide-ranging policy discussion. They needed to be asked in a well-packaged and well-coordinated way, supported by advice from officials. They did not need to be answered definitively, but even provisional answers to all of them, together with an appreciation of their interdependence, would have enabled ministers to provide much clearer direction. Provisional answers would have provided framing to the adding-up exercises and would also have enabled a more coherent approach to the fine-grained decision making regarding specific actions.

- **To what extent does the Government wish to rely on neutral, economy-wide policy tools like pricing emissions, as distinct from a raft of more selective interventions tailored to particular sectors, players and groups of consumers?**

On the face of it, this sort of framing choice carries a good deal of ideological baggage. It can be presented as a choice between a more passive and more active state. Or, more philosophically, a choice between the discovery of emissions reduction opportunities by individuals and their identification and mandating through the offices of central government.

The political nature of a choice like this should not be minimised. But in New Zealand's case, it was unavoidable anyway, since an increasingly sophisticated emissions trading scheme has been in place since 2008. As such, debating the extent to which emissions prices should be relied on to incentivise decarbonisation would have been justified from a purely pragmatic point of view. It would have facilitated a preliminary view on the appropriate balance between different policy instruments and given officials a clear signal of where non-price instruments such as regulation, subsidy, direct investment and information provision should or should not be considered. It was not until late 2021 that these fundamental issues were identified in a sustained, focused or systematic manner. By this time the process had been underway for close to two years.

Around this time, the Treasury began raising concerns with the Minister of Finance about the coherence of the ERP regarding the mix of policies that were likely to be included.⁴ Prior to this, one agency noted that "further work and analysis is needed to understand the optimal mix of emissions pricing and complementary measures".⁵ These were not small issues to raise.

Whatever the limits of their advice, it appears agencies did not receive sufficient unambiguous direction from ministers early enough to encourage a focus on proposing policies that were joined up or complementary. Relatively late in the process, ministers were eventually asked to confirm a "strategic approach" to developing mitigation policy and making final policy decisions for ERP1.⁶ This strategic approach was described as "a mutually supportive and balanced mix of emissions pricing, well-targeted regulation, tailored sectoral policies and direct investment".⁷ Given how much of the process had already unfolded, it is curious that this was described as an "early decision".⁸

⁴ See the Treasury 2021, 2022b.

⁵ MfE, 2021b, p.11.

⁶ Office of the Minister of Climate Change, 2021a, p.3.

⁷ Office of the Minister of Climate Change, 2021a, p.2. Similar ideas had been present in advice from at least mid-2021 – but had the character of an assumed approach. See, for example, MfE, 2021b, p.8.

⁸ Office of the Minister of Climate Change, 2021a, p.1.

- **What distributional consequences are of particular concern? What is the Government prepared to do to outflank them?**

An economy-wide instrument as extensive as an ERP will inevitably impose transitional costs as well as opportunities. The extent to which particular industry sectors and societal groups are affected is likely to be politically contentious. Changes on the scale that climate action demands will not be without costs.

Distributional impacts – and their management – were of interest to ministers both in general terms concerning vulnerable populations, and in specific regional cases such as Taranaki. More emphasis on the trade-offs between the potential efficiency of the transition and its social and economic costs could have been useful at the outset. It appears to have been lacking.

More timely and probing advice would have assisted ministers. While there was a general understanding of the impact of price on distributional impacts, a better understanding of the impact of pricing pathways would have assisted ministers' deliberations.⁹ More clarity around the likely carbon price path implied by the Government's intended settings for the New Zealand Emissions Trading Scheme (NZ ETS) would have indicated the kinds of distributional impacts that might need to be managed.

- **Where should the fiscal burden fall?**

Related to the distributional question above is consideration of where the burden of investing in economic adjustment could be expected to lie, including with central government, local government, businesses and households.

Answering this question in granular ways would not have been easy with no assessment of the likely public investment needed for different transition pathways. Indeed, advice from officials did not communicate a meaningful sense of the scale of long-term investment that might be required to meet emissions budgets, the fraction that would likely have to come from public sources and how that would be spread across different sectors.¹⁰ This, in turn, depended on the balance the Government wished to strike between direct investment and subsidy, on the one hand, and other policy instruments, on the other hand.

- **What should the balance be between gross and net emissions reductions, and to what extent should those reductions be achieved domestically or offshore?**

New Zealand has relied, to a uniquely large degree, on meeting emissions reduction targets through afforestation. This is reflected in the deliberate design of the NZ ETS to include forestry sequestration and allow international offsets (currently set at zero). It has been reinforced in the legislated reduction target of *net* zero emissions by 2050.¹¹

At the outset, ministers should have reached an understanding about the consequences of relying on gross emissions reductions versus tree planting (or similar offsets) and making progress towards meeting New Zealand's obligations at home, or purchasing reductions abroad.

⁹ Additional work on distributional impacts has since come into focus. For example, the Treasury produced a supplementary document to the Commission's advice on NZ ETS settings, including a cover note providing context for the Treasury's modelling. See the Treasury, 2022a. However, there are limits to what can be understood on the basis of this modelling.

¹⁰ When work was being undertaken on establishment of the CERF, the Treasury provided general advice to the Minister of Finance on the potential scale and costs of the transition as part of its role as fiscal advisor. This advice was similar to that contained in the recently published Climate Economic and Fiscal Assessment. See the Treasury and MfE, 2023.

¹¹ In fact, that target applies only to long-lived gases, while a gross reduction target applies to biogenic methane.

These considerations surfaced on many occasions and formed, perhaps, the most proactive and consistent framing question raised by agencies.¹² However, the failure to reach a clear resolution about their relative weight meant that ministers were unable to communicate clear expectations to officials trying to develop the plan. Instead, agencies appear to have disagreed over how to interpret and unpack the policy implications of the direction provided by ministers.

This meant that the role of forestry in a pathway to 2050 was not resolved. Should forestry be restricted to mopping up hard-to-abate activities? Should forestry be about getting to net zero and ensuring a cost-effective transition? Should forestry be restricted to offsetting biological emissions?

Complicating matters is the Climate Change Response Act's requirement that, in preparing its advice on the ERP, the Commission must consider New Zealand's Nationally Determined Contribution (NDC) under the Paris Agreement.¹³ (Interestingly, the Minister of Climate Change is not required to do so.) As New Zealand's NDC is different from its legislated targets and gazetted emissions budgets, meeting that contribution will require consideration of both net versus gross and domestic versus offshore mitigation. The Minister for the Environment's paper on 'big plays' to help New Zealand meet its contribution was later repurposed to help consider ways to deliver the ERP.¹⁴ Several ministers and senior officials observed that the NDC caused confusion in the ERP process.

- **To what extent should the focus be on emissions reduction in the near term (i.e. within the upcoming emissions budget period) as against laying the foundations for future reductions?**

There was a lack of clarity early on around the temporal focus and coverage of the first ERP. Ministers should have addressed the extent to which they could and should take into account the explicit flexibility provided by the Climate Change Response Act and look out to the second and third emissions budgets, and even further to 2050. While there was a need to settle on an ERP for the immediate term, insight was needed into how choices made or not made would then contribute to medium- and long-term outcomes.

These are the sorts of key questions officials should have presented to ministers to help them think about how the plan should be put together. This would have enabled ministers to then provide clear direction to officials on where work should be focused. They are questions that identify some of the key trade-offs to be made and bring into focus some of the potential co-benefits that could be unlocked.

The reality is that any process of this nature will be iterative, so high-level decisions taken at an early stage are likely to be provisional. Trade-offs made or avoided may well have to be revisited in the light of new evidence and specific policy proposals. But such an approach at least provides a coherent basis around which policy work can proceed.

¹² For example, the first major cross-agency piece of advice focused on two key trade-offs: the balance between reductions and removals, and the balance between domestic and international contributions. See MfE, 2020d, pp.6–7.

¹³ Section 5ZH(3) requires the Commission to apply s 5ZC(2) as if it referred to preparing an emissions reduction plan. Section 5ZC(2)(b) includes: (x) responses to climate change taken or planned by parties to the Paris Agreement or to the United Nations Framework Convention on Climate Change and (xi) New Zealand's relevant obligations under international agreements.

¹⁴ MBIE, 2021b.

Too much emphasis was placed, too early, on adding up sector-specific policies

Adding up will always be a necessary feature of developing an ERP. Whole-of-government adding-up exercises can provide the necessary confidence that mitigation policies will collectively meet an emissions budget – something any government must, by law, plausibly demonstrate. But it sheds no light on whether the totality of the policies make for a coherent package. Without adequate whole-of-economy advice, there is a real risk that a given package of policies will simply unleash more problems.

Whatever the cause, the absence of even a provisional policy framework led to a great deal of focus being placed on adding up the mitigation impacts of policies. This focus on adding-up actions may be partly explained by the requirements of the Climate Change Response Act and the legal accountability of the Minister of Climate Change.

The Minister of Climate Change, in part to corral his own thinking and in part to fill a gap he saw in officials' advice, sketched an outline of what he expected the ERP to look like. This resulted in a document whose structure and chapters closely mapped the advice provided by the Commission.

Sector-specific visions were produced and, as policy options were identified, so were choices of policy instrument. There was significant variation in the quality of that advice, however. The Ministry of Transport (MoT) was widely recognised as leading the field because it had started early, was able to identify both immediate reduction possibilities and future ones, and then laid them out in the form of alternative pathways.

By contrast, the Ministry for Primary Industries (MPI) was largely in 'wait and see' mode awaiting the outcomes of the He Waka Eke Noa partnership.¹⁵ While there was some work underway in response to the Commission's advice, the risks associated with predetermining the results of the He Waka Eke Noa partnership limited MPI's ability to think creatively and proactively about policy options.¹⁶ When directed by ministers to do more, MPI's response was more substantial and formed the basis for significant new investment in agricultural research.¹⁷

Sector-level plan development had a tendency to remain relatively siloed in its own sector-orientated work stream. Isolated work on isolated sectors stayed isolated as sectors were treated as separate chapters. It appears the ERP process did not encourage thinking about how sectors connected and interacted. There were of course exceptions to this, such as advice provided on the dependency between energy and transport for electrification of the light vehicle fleet. Highlighting these interdependencies is central to developing a whole-of-economy lens.

¹⁵ He Waka Eke Noa is a partnership between the Government, primary sector and Māori agribusiness to create a plan to reduce agricultural emissions.

¹⁶ This work drew on analysis from the Biological Emissions Reference Group and the He Waka Eke Noa partnership process.

¹⁷ See, for example, MPI, 2022.

Sub-sector targets were key to adding up-exercises and contributed to a focus on sectors at the expense of a whole-of-economy view.¹⁸ In at least one respect, agencies appear to have found the reliance on sector-specific emissions reduction targets useful: they provided a concrete and tractable sense of ambition. And within their sector-specific limitations, agencies generally did a good job of providing advice to ministers on instruments and policy options available. But this should have been underpinned by more substantial advice from officials on the relative merits of alternative pathways, including costs and benefits, winners and losers.

The focus on adding up also meant that, despite all the references to a transition, there was very little consideration of what higher-level outcomes ministers were trying to achieve over longer time horizons. This ambiguity was even more pronounced as the time horizon extended to the second and third emissions budgets and further again to 2050.¹⁹

Over-reliance on the Commission's advice and inadequate analysis of cross-sector trade-offs limited consideration of alternative pathways

Understandably, the Minister of Climate Change was acutely aware that, in setting an emissions budget under section 5ZB of the Climate Change Response Act, he was required to respond to the Commission's advice and explain any departures from that advice.

However, for the ERP, the Climate Change Response Act does not require the minister to do anything more than *consider* the Commission's advice. Properly digesting the Commission's advice makes a great deal of sense. It recognises that the purpose of the Commission is to provide expert advice to the Government. But the minister was perfectly free to reach a different conclusion provided he could justify it. In practice, however, and in the absence of determining the framing of the prior questions outlined, the minister and the Government chose to stay very close to the Commission's advice.

This might have been for practical and political reasons. At the time of its release, the Commission's advice was in many cases based on a more advanced analysis than that generated by officials. Furthermore, the Commission's authority provided political cover for some of the hard choices the Government was being asked to make.

Nowhere was the Government's reliance on the Commission more apparent than in its decision to transform the Commission's demonstration pathway into sector-specific targets. While consistency with the demonstration pathway no doubt provided a measure of reassurance that the targets were credible, the demonstration pathway was just one possible pathway among many. A pathway reflects not only expert judgements but social, economic and political value judgements. It is these judgements that politicians, not the Commission, are ultimately elected to make and defend.

¹⁸ Similar concerns were raised by agencies during the process for pulling together ERP1. See, for example, MBIE, 2021a, pp.3–4.

¹⁹ There were exceptions. Work was undertaken separately by both the Minister of Climate Change and MBIE to produce visions for the ERP. For reasons that are not clear, it appears that neither vision was used as a framework for policy development or decision making across different agencies and portfolios.

The basis for the *desirability* of the Government's sector-specific targets is not clear from officials' advice. Indeed, it is not clear that officials undertook the analysis needed to interrogate alternatives to the Commission's demonstration pathway. Noting its dissent from the proposal to adopt sector-specific emissions targets, one agency commented that "further analysis is needed before sector sub-targets can be agreed".²⁰ The same agency stressed that the Commission's demonstration pathway was only one of several ways that emissions budgets could be met.²¹

Advice from other officials identified that the ERP *should* contain clarity of pathways. For example, one early proposed structure for ERP1 identified that a chapter on the "transition strategy and pathway" would "set out the key elements of the 'pathway' to meeting the emissions budgets".²² While some traces of this chapter are found in the subsequent ERP consultation document, it appears that this original expectation was not fulfilled.

Where it did take place, advice on pathways appears to have been largely focused on the first emissions budget. Arguably, the most developed analysis was provided by MoT. But the variability of advice constrained a whole-of-economy view, given the interdependencies between sectors.

Regardless, the whole-of-economy advice generated by officials focused on variations of the Commission's advice and did not identify other potential long-term pathways, either for the first three emissions budgets or for the target date of 2050.²³ In general, what was missing was systematic analysis of potential pathways that could connect the lofty vision of a net zero economy with coherent packages of policies.

Developing alternative, whole-of-government pathways would have required two key things: greater consideration of cross-sector issues (and the trade-offs between sectors); and systematic analysis of how different potential policies could be packaged and sequenced, that is, alternative pathways. What got in the way?

Generally, officials contributing to the ERP were not enabled to collectively think through what individual components of the ERP might imply for other components, or what the ERP could mean in its entirety. The authorising environment in which they were operating likely limited this. But in practice, the problem that officials were responding to appears to have been understood not as an economic transition (requiring some amount of management) but rather as an arithmetical exercise dependent on the modelling of mitigation potentials.

There appeared to be significant variation in starting points, perspectives and mental models across the agencies. This resulted in disconnects between agencies when it came to understanding cross-sector trade-offs. While different views are to be expected given the different roles and mandates of different agencies, the implications across sectors needed to be proactively confronted. They were not. Consequently, different trade-offs did not receive the attention needed. While there was a focus on adding up impacts on emissions, there was no equivalent attention to adding up projected knock-on impacts on, say, land use. This likely meant that unintended (and potentially perverse) consequences were overlooked.

²⁰ Office of the Minister of Climate Change, 2021a, p.17.

²¹ Office of the Minister of Climate Change, 2021a, p.17.

²² Office of the Minister of Climate Change, 2021c, p.4.

²³ It could be argued that it would have been redundant for officials to supply advice on pathways, given the work already undertaken by the Commission as part of its advice. But this is ultimately not convincing. For one thing, the purpose of the Commission's modelling was simply to establish that there were several pathways through which emissions budgets could be met.

Take, for example, the extent of reliance on gross versus net emissions. Such a question involves weighing the costs of mitigation, changes in option values through large-scale land-use change and the risks of managing forests intergenerationally in the face of climatic and biological threats. Thoroughly understanding such issues up front might only have led to a provisional conclusion, but it would have given ministers a sense of how far they would have to press on other levers, and officials a clearer sense of where other opportunities would need to be incentivised. Confronting those trade-offs would have highlighted the desirability of understanding alternative pathways.

In short, had ministers, with advice from officials, considered the framing questions posed above, and returned to them in an iterative process as cross-sector issues and trade-offs became apparent, they would have been better placed to evaluate different pathways and choose one whose whole-of-economy and distributional consequences were acceptable. The resulting policy framework could then have been used to guide more fine-grained decision making and the business of adding up projected emissions reductions.

Leadership and collaboration

Top-down political leadership, especially from the Prime Minister, unlocked the emissions reduction plan process

The Prime Minister and the Minister of Climate Change were clearly invested in the ERP, and this was essential in driving the process. With her ministerial colleagues, the Prime Minister generally acted as an arbiter for most of the process. This included convening discussions between ministers on some of the more difficult, contentious and complex issues. She pushed hard for better interagency cooperation and drove cross-agency collaboration. The Prime Minister took a more directive role in some aspects of the process, such as weighing in on the level of policy innovation expected of agencies. She provided the kind of political leadership that only a Prime Minister can.

The 'neutral arbiter' role of the Prime Minister provided space for the Minister of Climate Change to engage portfolio ministers directly. The Minister of Climate Change took the role of coordinating ministers and providing parameters for them to work within. Often, the leadership role of the minister was exercised outside of the Climate Response Ministerial Group (CRMG) in the context of bilateral meetings. At times, the minister directly engaged officials from portfolio agencies. This was particularly apparent where there was an understanding that it would be productive for the minister to have insight or access to advice from an agency (as in the case of forestry). As noted earlier, he was the architect of the structure of the ERP document.

Being a minister outside of Cabinet cannot have made his task any easier, given the fact that his brief cut across the responsibilities of virtually every other minister. But regardless of Cabinet rankings and arrangements, the Minister of Climate Change was only ever going to be one minister among many who had to apply their mind to an economy- and society-wide upheaval. No individual minister could ever take responsibility for the whole-of-government view needed to land such an important policy package. The Prime Minister had to take that responsibility.

Strong political leadership from the Prime Minister was essential to ensure that every minister prioritised time, resources and direction to the ERP. To form a system-wide view, the Prime Minister received synthesised advice on the ERP from both her political advisors and the Department of the Prime Minister and Cabinet. By chairing the CRMG and providing political leadership, the Prime Minister provided conditions for a whole-of-government view to emerge. Whether or not that happened for the issues that matter is another question.

Interviews with officials suggest that the clarity of ministerial direction to their individual agencies alongside collective direction from Cabinet was varied. While some officials said they received clear messages from ministers, others said there was no shared ministerial view. Within agencies, direction from ministers could be complex and contradictory. While the Minister of Climate Change's message was consistently one of ambition in terms of the transition to a low-emissions economy, it took some time for a collective ministerial view to catch up. Ministerial messaging could have been clearer, more consistent and provided earlier in respect of the relative priorities that ministers were seeking. This would have required political leadership to be focused on the kinds of questions canvassed earlier in this chapter.

Institutional forums needed to be more focused on framing questions and cross-cutting issues

The CRMG seemed to have been most effective when it took a directive approach. One such instance was the CRMG's approach to managing uncertainty around the implications for emissions budgets of the continued operation of the Tiwai Point aluminium smelter. The effect of the CRMG's direction was to focus officials on the need for additional policies to ensure that emissions budgets were met should the smelter continue (see Figure 3.1). The CRMG also played a useful role in directing portfolio ministers to be more ambitious, and in leading agencies to coordinate and cooperate with one another.



Source: David Unger, Flickr

Figure 3.1: Tiwai Point aluminium smelter produces approximately 600,000 tonnes of carbon dioxide each year. Despite New Zealand Aluminium Smelter announcing plans to shut it down, there remains uncertainty about whether operations will be extended. In considering whether policies would add up in the first emissions budget, ministers faced a decision about whether they would assume the best or the worst (from an emissions standpoint). Closure of the smelter would make the emissions budget easier to meet.

The core function of the Climate Change Chief Executives Board (the board) was to provide collective advice to the CRMG, so the discussions of the two bodies largely mirrored one other. The CRMG and the board engaged around some strategic dimensions of climate mitigation policy. The CRMG discussed the role of the NZ ETS and a limited number of strategic issues, including gross versus net emissions and the balance of domestic versus international removals. The board also provided some strategic direction. For example, relatively late in the day, chief executives identified the lack of an overall strategic vision for the ERP and this was the catalyst for a small piece of work in July 2021 on a vision for a net zero economy.²⁴ The impact of this work was relatively small as it appears that agencies and ministers did not adopt it for either their policy development or decision making.²⁵

It appears that the board was not able to provide collective advice on a consistent basis. There was some focus on steering the overall policy coherence of the ERP, such as commissioning work on its strategic vision and production of advice on the Climate Emergency Response Fund (CERF) budget package. But a focus on, say, sector interdependencies, key whole-of-economy trade-offs and the sequencing of key actions appears to have been lacking. The board could have been more active in directing agencies to produce collective advice on potential whole-of-economy pathways.

The scale and complexity of the cross-agency work programme pushed the Ministry for the Environment's leadership to its limit

In turn, the Ministry for the Environment (MfE) had a leadership role in supporting ERP1. This made sense given MfE's more general responsibility for climate policy and the Minister of Climate Change's role under the Climate Change Response Act.

Some officials noted that the job of coordinating across agencies was nearly impossible. However, MfE was reasonably effective in organising the process that pulled the ERP document together. Furthermore, a designated project group serviced all levels of governance groups (including the CRMG at one point) to strengthen coordination. Though improvements are certainly possible and lessons have been learnt, MfE worked reasonably well to organise the process for *compiling* the ERP.

A stronger leadership approach may have been more than MfE could deliver under the circumstances. Where MfE's leadership appears to have been weakest was in ensuring that the key choices and trade-offs that raised economy-wide implications were tackled in a way that achieved a coherent whole-of-government response. While it was not MfE's role to resolve those issues, it could have displayed more leadership in pressing for this focus in both cross-agency and cross-ministerial forums.

But there were probably limits to the extent to which MfE was able to do this, given the tension the Secretary for the Environment faced as both the Chief Executive of MfE and Chair of the board. MfE had to provide portfolio advice to its ministers *and* provide 'independent' collaborative advice to the CRMG. Other agencies perceived a conflict of interest as the board secretariat was staffed with MfE personnel. The board has been subsequently formalised as an interdepartmental executive board that appoints its own secretariat. While this will help, some tensions are likely to linger.

²⁴ MBIE, 2021c.

²⁵ The impact of this work appears to have been more pronounced on the narrative of the ERP (as opposed to policy development or decision making). Even in terms of its narrative impact, this was inconsistent across different chapters.

There was variable coordination between agencies on issues and how willing they were to collaborate

There were mixed views about whether the way agencies worked together was adequate. Recognising that cross-agency collaboration is difficult no matter what the policy area is, there was a sense of goodwill from officials working together. There was also a genuine desire by officials for the ERP process to be an all-of-government process. However, concerns were expressed that interagency (and intra-agency) coordination was slow to start with. There was little coordination and collaboration on the key judgements and framing choices at the outset of ERP1.

Much of the coordination between agencies focused on seeking clarity on content and processes. MfE provided guidance to agencies on timelines, actions and the proposed structure of the chapters and ERP.²⁶ Chapter templates were provided by MfE to agencies to help drive consistency. But there was still ambiguity around what information would be collected and the template itself evolved over time.

In general, agencies came closest to a collaborative approach where policy issues touched on the core business of two agencies.²⁷

Critical practicalities

Support and resourcing for the emissions reduction plan should have been given higher priority by agencies

Setting clearer expectations of what is required from agencies in terms of resource and priority was highlighted as an area needing improvement. Pulling together an ERP makes a heavy claim on departmental resources. The requisite skills will often be spread across multiple teams within agencies: strategy, policy, finance, modelling and implementation (as well as multiple skills within each of those categories).

Agencies appeared to have difficulties shifting some of these embedded skills into cross-agency teams. In addition, senior officials had competing priorities and responsibilities within their own agencies, which meant some were stretched thin in contributing to ERP1. More broadly, it was often hard and time consuming to integrate work related to climate change into existing programmes. This is in part because previously climate policy capability had not been consistently prioritised and resourced across agencies.

With the benefit of hindsight, it appears many agencies did not sufficiently prioritise ERP1. It was apparent from conversations with officials that the amount of work needed to land the ERP had caught officials off guard. When ministers directly and explicitly asked agencies for more ambitious policies, it is clear from the trail of advice that officials from several agencies did not have the policy work standing by at the ready. Furthermore, many agencies did not devote enough lead-in time to preparing for the ERP. To some extent, this may be understandable. Some agencies said that at the start of the process, the amount of work the ERP would require of them was unknown. Clarity only emerged later.

²⁶ See, for example, MfE, 2021f, 2021h.

²⁷ For example, a joint work programme was established between MoT and MBIE on energy and transport sector issues.

Need for greater consistency of data and modelling

Agencies made real efforts to foster a consistent approach to modelling. The interagency data modelling group and the Commission worked collaboratively. A memorandum of understanding was negotiated that covered access to data and aimed to promote consistent assumptions. The drive to ensure consistency in the quality of data and modelling was a very positive feature of the process.

There is still room for improvements to ensure a consistent approach to modelling across agencies and with the Commission.²⁸ There was significant variation in key assumptions across agencies (and with the Commission), which meant that the results were not actually comparing like with like.²⁹ Different modelling approaches added complexity (and arguably confusion) to the process of setting emissions budgets and sector targets, as well as understanding the likely mitigation impact of the entire plan.

It appears that the primary aim of the modelling undertaken was to communicate to ministers the range of impacts and uncertainties they could expect from policies. This aligned with a desire by agencies to demonstrate to ministers that the results of adding-up exercises were indeed achievable. It was also the result of demands from ministers.

Though officials did a good job of identifying the range of uncertainties attached to modelling, insufficient information about assumptions made it more difficult for ministers to understand the limitations of the results they were relying on to make decisions (see Figure 3.2). Agencies were only able to undertake modelling sector by sector. Whole-of-economy modelling was absent. Scenario analysis could also have assisted in building out a whole-of-economy perspective.

²⁸ As noted in chapter two the group had no decision-making authority, which meant there was no governance group to escalate data issues to when they arose.

²⁹ See MfE, 2022e. ERP1 includes an assumptions table in the technical appendix providing information about the different assumptions used for different sectors. See MfE, 2022d.



Source: Jon Sullivan, Flickr

Figure 3.2: Pastoral farming and forestry blocks, South Island. The Government uses analytic models to make projections about the volume of emissions released and captured during an emissions budget period. Modelling considers how different decisions impact economic activities, such as pastoral farming, greenhouse gas emissions or the use of carbon sinks, in uncertain future conditions.

Engagement with iwi and Māori needs improvement

The Climate Change Response Act places obligations on both the Commission and the Government to ensure that consultation with the public is adequate. This includes consultation with sector representatives, affected communities, iwi and Māori. With respect to Māori, the Crown has a broader constitutional obligation. “Insufficient or ineffective approaches to partnership and engagement during the development of the plan” was identified as a “key risk” in early advice.³⁰

If consultation is worth doing, it should be neither superficial nor a formality. Adequate consultation with iwi and Māori should consider the principles of the Treaty of Waitangi and Treaty settlement obligations and be undertaken in accordance with tikanga, which may require going beyond fulfilling the bare requirements of the statute.

The Commission’s recommendations were informed by engagement with Māori. The Government’s subsequent attempts to consult with iwi and Māori were limited and fell well short of what was ideal.³¹ It appears that the online survey developed by Ihirangi and the series of online wānanga coordinated by MfE were ineffective in reaching the communities that would be most disproportionately impacted by proposed policies.

³⁰ MfE, 2020d, p.20.

³¹ Office of the Minister of Climate Change, 2022, pp.9–10.

In fairness to the Government, the pandemic got in the way of the consultation process. Alongside this, Māori communities may – like many others – have been experiencing consultation fatigue as they had been consulted on other climate change policies including the national adaptation plan in June 2021.

According to MfE, the invitation to consult was not widely taken up by iwi and Māori.

The results of Ihirangi and MfE's consultation were used to inform the development of the empowering Māori chapter and its policies. However, other agencies utilised their own engagement networks for consulting with iwi and Māori and may have been more reluctant to engage with Ihirangi due to the uncertainty around what role this group played in the development of the ERP. How the results of all agencies' consultation with iwi and Māori directly influenced the policy analysis and decision making of the Crown as a whole is not clear.

Managing so many moving parts from multiple agencies was always going to be difficult, especially for MfE. MfE nominally had that coordination responsibility but also had many other responsibilities to juggle.

Clearer objectives for the Climate Emergency Response Fund are needed

The focus of this review has been on the development of the ERP. How this plan is implemented, monitored and reviewed is another question entirely. However, for completeness and clarity it is worth touching on how development of the plan interfaced with the budget process.

As mentioned in chapter two, one of the consequences of the pandemic was a postponement of the original deadline for the release of the ERP. This placed the ERP process on a timeline parallel to the budget process. Many decisions taken in the context of developing the ERP had financial implications that needed to be integrated with the budget process and weighed up against other priorities. This was largely achieved through the creation of the CERF.

The CERF is a fund set aside for spending on climate-related initiatives (see Figure 3.3). It is not clearly hypothecated as in the case of the National Land Transport Fund, for example. Instead, it is roughly matched to the forecast proceeds from the NZ ETS auctions. Since Budget 2023, the CERF has had to be topped up following a decrease in forecast auction proceeds in the Budget Economic and Fiscal Update 2023.

Such a fund has potential advantages:

- It may help improve accountability by raising the profile of climate-related initiatives and enabling Parliament to identify them clearly.
- It may help build the case for an emissions price when the public can see that the revenue is recycled for climate-related activities.
- It provides a relatively politically secure source of funding for climate-related initiatives. It recognises that long-term environmental considerations have historically faced challenges in the context of budget processes.

However, the fund also has some disadvantages:

- It places the focus on new spending rather than shifting baseline spending to be climate positive (which is the key challenge facing many agencies).
- Reliance on funding from the NZ ETS to fund climate action can create a dependency between the production of 'bads' (emissions) and the production of 'goods' (mitigation, adaptation). In other contexts (such as using gambling proceeds to fund community grants), this has led to an alignment of interests between those who produce 'bads' and those who would otherwise be motivated to seek a reduction in the harm produced by those 'bads'. Arguably, this has stifled political action.
- Heavy reliance on auction revenue from the NZ ETS makes it vulnerable. The two failed auctions in March and June 2023 undermined the effectiveness of the NZ ETS as a stable source of revenue for the CERF. It is possible that future auctions may likewise be unsuccessful.
- The CERF can, from Budget 2023, be spent on several (competing) objectives, including mitigation and adaptation. While this increases flexibility, it reduces certainty of long-term public investment in climate mitigation.
- It is not based on a proactive assessment of investment needs. Depending on the effectiveness of various climate-related initiatives and one's view of the role of government, the CERF may be either too large or too small. The current Government's view appears to be that it is too small, which is why it has undertaken to top it up from other sources. *If* the budget process is working well and *if* we had perfect information about the range of investments the Government might make, climate-related initiatives should be able to stand on their own feet and compete against other budget initiatives for money from the consolidated fund. In practice, the availability and use of evidence within the budget process is unlikely to reach this lofty standard; it is above all a political process.



Source: russellstreet, Flickr

Figure 3.3: Glenbrook Steel Mill, Glenbrook. Budget 2022 provided, through CERF, additional funding to the Government Investment in Decarbonising Industry (GIDI) Fund. New Zealand Steel will be part-funded up to \$140 million from the GIDI Fund for the purchase of a new electric arc furnace. The partnership is expected to eliminate 800,000 tonnes of carbon per year, equivalent to roughly 1% of New Zealand’s total annual emissions or 5.3% of the emissions reductions needed under New Zealand’s second emissions budget (2026 to 2030).

If the CERF is to achieve its potential as the Government’s principal vehicle for investing in climate mitigation, it needs much clearer objectives. These objectives could be used to develop criteria against which to assess and monitor the initiatives that it funds. Such criteria could, of course, be located outside the budget process, for example, in the ERP or the national adaptation plan.

The absence of solid criteria meant that the process for making funding decisions in turn lacked coherence. Funding decisions appear to have proceeded, like the ERP itself, via a focus on identifying policies that could add up to an emissions budget, using the CERF to fund those policies. An ERP process that is light on high-level framing will increase the chances of ad hoc funding decisions.

This brings us back to the key finding of this report: that insufficient thought was given up front to a coherent policy framework that could help to identify how key trade-offs and different policy tools could deliver an ERP that would best promote economy-wide progress towards a net zero goal.

4



Pellaea falcata

Recommendations

It was inevitable that the process for developing the first emissions reduction plan (ERP) would be bumpy. It was a first for New Zealand. There was no template. The Covid-19 pandemic and the Government's response to it were a huge distraction. Importantly, the plan that was delivered does what it is required to do by the letter of the statute. But the process, and the Government's underlying approach, could have been better conceived.

Ministers and officials learnt a great deal in the process of developing ERP1. Preparations for the second plan have begun and already incorporate some positive changes. The purpose of these recommendations is to reinforce changes already underway.

The recommendations are designed to provide present and future ministers (including the Prime Minister) with the essential elements of a 'blueprint' for a process and approach that can be repeated without the need to reinvent the wheel. For officials, recommendations 1 and 2 cover the essential early advice they should provide to their ministers. For parliamentarians, recommendation 1 will, if implemented, provide a clearer paper trail of decision making against which they can test the coherence and ambition of future emissions reduction plans (ERPs).

Recommendation 1: From the very outset of the process, ministers, with advice from officials, should address a small number of high-level questions that can serve as a framework to help resolve some of the key trade-offs that alternative policies raise.

Several key framing questions need to be asked at the outset. All of them have economy- and society-wide implications and need to be answered in a way that delivers a plan with coherent policies that do not compete with one another. They do not need to be answered definitively. But provisional answers to all of them at the beginning of the plan preparation process, together with the trade-offs they imply, will enable ministers to provide much clearer direction to officials.

All of the questions involve political judgements that, ultimately, only ministers can make. Leaving them to the end and trying to superimpose answers on a bottom-up, sector-based approach is likely to reveal conflicts that would have been better addressed much earlier on. The framing questions include at least the following:

- **To what extent does the Government wish to rely on neutral, economy-wide policy tools like pricing emissions, as distinct from a raft of more selective interventions tailored to particular sectors, players and groups of consumers?**
- **What distributional consequences are of particular concern? What is the Government prepared to do to outflank them?**
- **Where should the fiscal burden fall?**
- **What should the balance be between gross and net emissions reductions, and to what extent should those reductions be achieved domestically or offshore?**
- **To what extent should the focus be on emissions reduction in the near term (i.e. within the upcoming emissions budget period) as against laying the foundations for future reductions?**

Given that all of these questions need to be addressed early on, the order in which they are addressed should not matter. But given the current architecture of climate mitigation policies, there is a lot to be said for starting with the first, since that will determine the nature of much of the policy work that needs to be undertaken. What is important is that these questions are asked together so that the implications of what is being attempted can be seen in the round.

As sector and cross-sector policy advice is worked up, trade-offs initially arrived at may need to be revisited in an iterative process. But the key framing questions will provide a structured and coherent way of doing that. They will also be helpful in exploring whether alternative pathways are consistent with meeting a given emissions budget.

Understanding the implications of different answers to these questions requires ministers to be well supported by advice from officials. To assist, officials could usefully provide an analysis of the drivers behind the emissions pathway we are currently on, the consequences of that pathway (including those investment decisions that are likely to be 'automatically' incentivised), how much more action may be needed and what is already being done to relieve distributional impacts.

Answers to these questions should also provide a framework for making sense of adding-up exercises and ensuring that the Government is on track to produce a coherent plan. By the end of the process, final answers to these questions could also support elaboration of the “multi-sector strategy” required under the Climate Change Response Act 2002 and help to prioritise any climate mitigation investments that the Government wishes to make.

Finally, during the lifetime of an ERP, the same framework could be used to test how any policy changes a government might be considering would affect the likelihood of it meeting its climate objectives.

Recommendation 2: Ministers and officials should examine more than one possible pathway to meet New Zealand’s mitigation obligations.

Parliament has established a dedicated specialist Crown entity to advise on a succession of emissions budgets through to 2050. It would be senseless not to take its advice very seriously given the expert resources that have been assembled. But there is no unique pathway to the 2050 goal of net zero emissions and the Government should not feel unduly constrained by the pathway(s) and policy direction proposed by He Pou a Rangi Climate Change Commission (the Commission).

In particular, it should resist the conclusion that the credibility of an ERP stands or falls on whether it mirrors particular sectoral emissions reductions projected by the Commission. The Commission is required by the Climate Change Response Act to provide advice on how the proposed emissions budget “may realistically be met”.¹ That is a requirement for plausibility based on evidence. But, to repeat, there is no unique pathway to managing within an emissions budget or achieving the long-run target.

Ultimately only elected politicians, not the Commission, can make the social, economic and political value judgements involved in deciding what pathway we should travel along, which policy direction will support that pathway and what emphasis individual policies should be given.

To support ministers in making those decisions, officials need to both critically analyse the Commission’s advice and provide their own proactive advice. Among other things, that means the core public service needs to provide a coherent set of whole-of-economy and sector-level pathways that show multiple scenarios out to 2050. This should be informed by:

- a whole-of-government assessment of the alignment (or lack of alignment) between key policy settings and emissions targets
- a whole-of-economy assessment of the broad opportunities and leverage points for reducing emissions out to 2050
- high-level advice on the circumstances in which different policy instruments may be most appropriate.

¹ Section 5ZA(1)(c).

Recommendation 3: The Prime Minister should continue to provide active political leadership over the emissions reduction plan.

The Prime Minister should be the ultimate owner of the ERP and should exercise leadership over the direction of the Government's approach to climate mitigation policy.

Although the Minister of Climate Change is the 'legal owner' of the ERP, climate mitigation policy by its very nature cuts across ministerial portfolio boundaries. Actions to reduce emissions require trade-offs both within sectors and across them. Climate mitigation policy will also run up against other government priorities, as well as the priorities of individual ministers contributing to ERPs. Weighing up and managing those choices and priorities is best overseen by the Prime Minister.

For that reason, the Prime Minister should continue to chair the Climate Response Ministerial Group (CRMG, the key ministerial forum through which ERP1 was developed). The Prime Minister should provide direction to portfolio ministers and agency chief executives through this forum. The Minister of Climate Change should continue to act as deputy chair.

In addition to providing direction on the key framing questions enumerated above, the CRMG needs to be able to communicate to officials:

- its desired level of ambition
- its willingness to experiment and innovate with novel policy responses
- how much uncertainty it is willing to bear and the kinds of risks it is willing to take
- the degree to which it is prepared to shift current ways of living, working and travelling.

Collectively, the CRMG needs to provide a clear and strong mandate to the cross-agency officials forums leading the ERP process and to individual agencies.

Recommendation 4: Chief executives should collectively focus on driving cross-agency decision making with independent advice and an independent chair.

Clear, strong political leadership needs to be mirrored at the agency level and in cross-agency forums. Chief executives can help to ensure that key agencies are collaborating effectively and negotiating a common view on key cross-sector issues and strategic choices.

To encourage this, relevant chief executives should continue to be collectively responsible for driving cross-agency decision making. There are often areas of tension when agencies are brought together and the Climate Change Chief Executives Board (the board) will be key to managing them.

To bring a whole-of-government and whole-of-economy lens to the table, the board needs its own source of advice with sufficient capability, independent of the Ministry for the Environment (MfE). This would enable the board to take ownership of whole-of-government advice, including that supporting the multi-sector strategy required by the Climate Change Response Act. The secretariat of the board should meet this need.

The neutrality and mandate of the board – as well as its alignment with the CRMG – could be enhanced if the role of the chair was not filled by the Secretary for the Environment. Climate mitigation is, after all, more than just an environmental issue. It is at its heart an economic transformation challenge with society-wide consequences.

Two options suggest themselves. The role could be filled by the Chief Executive of the Department of the Prime Minister and Cabinet. Given that the Prime Minister chairs the CRMG, there is some sense to being supported by their own Chief Executive. The head of the Department of the Prime Minister and Cabinet is there, in part, to support the Prime Minister with some of the whole-of-government agendas that go with the job.

Alternatively, the role could be filled by a completely independent chair drawn from outside the current phalanx of departmental chief executives. Such a person would need deep experience of the public sector but could, additionally, bring significant technical expertise and experience of working with ministers and the private sector.

These options would help to avoid a key challenge facing the Secretary for the Environment, namely, having to simultaneously represent line ministers (as Chief Executive of MfE) *and* provide independent collective advice to the CRMG (as chair of the board).

If the board were to be disestablished, it would be unlikely that MfE would have sufficient influence to drive either agency-level commitment or cross-agency collaboration. In that case, alternative governance arrangements would need to be explored, such as a specific unit within the Department of the Prime Minister and Cabinet.

Recommendation 5: Ministers and chief executives should prioritise resourcing within their agencies for development of the emissions reduction plan and associated climate policy analysis.

ERP1 was not sufficiently prioritised by all the agencies tasked with contributing to it. Strong cross-agency leadership is required from agency chief executives that places unified action on climate mitigation policy above (but not to the exclusion of) individual agency priorities.

Specific actions that could be taken to prioritise work on future ERPs could include:

- ensuring that strategic and policy work on emissions mitigation is ongoing and proactive (rather than reactive to ERP timelines)
- collaborating on cross-agency policy issues (rather than just the text of the ERP)
- ensuring a sufficient number of people with the right capability are allocated to work on both the ERP and the underlying policy work.

Recommendation 6: There should be more systematic and consistent modelling of both sector-specific and whole-of-economy pathways.

Modelling is an important tool to inform decision making. Officials generally did a good job modelling the potential emissions abatement of potential policies. However, there were limitations of capacity and capability as well as a lack of scenario analysis, which could have assisted in developing a whole-of-economy perspective. Inconsistency in the data and assumptions underpinning the modelling was also evident. Little effort was put into modelling alternative pathways out to 2050.

Modelling needs to be enhanced across government agencies. This should include:

- additional investment in the modelling capacity and capability of the public sector, including scenario analysis
- better support for the generation of whole-of-economy pathways out to 2050, which includes using scenario analysis approaches
- committing to the use of common assumptions and common data for modelling across agencies.

Given resource limitations in some agencies, the Government should consider centralising whole-of-economy modelling capabilities (including scenario analysis) in a single agency or cross-agency group. The board secretariat may be best placed to oversee this function if it is to lead the development of whole-of-government advice.

Recommendation 7: A dedicated group should lead consultation with iwi and Māori and feed more directly into analysis and decision making.

The consultation process was limited by the pandemic and time constraints; and it was unclear how that advice informed policies across the whole of the ERP. The consultation process requires improved leadership, coordination and oversight. This will also help ensure that impacts on iwi and Māori are better considered when agencies are addressing key trade-offs.

There are several groups that could play a leadership role in consultation with iwi and Māori, including a government organisation like Te Arawhiti, an independent group like Ihirangi or a mix of both. Whoever does it would need a degree of independence from other agencies and have the capacity to represent a large population of Māori and iwi organisations. Its mandate should include at least:

- providing advice on what adequate consultation looks like
- ensuring that agencies are engaging or have effectively engaged with iwi and Māori
- ensuring that information received from iwi and Māori has fed into relevant advice.



Christella dentata

Appendix 1: Ministers, chief executives and agencies engaged with

In the course of the preceding review, the Commissioner and/or his staff engaged with the following individuals and organisations.

Ministers

- Rt Hon Jacinda Ardern, former Prime Minister
- Hon Damien O'Connor, Minister of Agriculture
- Hon David Parker, Minister for the Environment
- Hon Grant Robertson, Minister of Finance
- Hon James Shaw, Minister of Climate Change

Chief executives

- Dr Rod Carr, Chairperson of He Pou a Rangi Climate Change Commission
- Jo Hendy, Chief Executive of He Pou a Rangi Climate Change Commission
- Caralee McLiesh, Chief Executive and Secretary to the Treasury – Te Tai Ōhanga
- Vicky Robertson, former Chief Executive and Secretary of the Ministry for the Environment – Manatū mō te Taiao
- Ray Smith, Chief Executive and Director-General of the Ministry for Primary Industries – Manatū Ahu Matua
- Carolyn Tremain, Chief Executive of the Ministry of Business, Innovation and Employment – Hikina Whakatutuki

Organisations and groups

- Climate Change Chief Executives Board
- Department of the Prime Minister and Cabinet – Te Tari o te Pirimia me te Komiti Matua
- He Pou a Rangi Climate Change Commission
- Department of Conservation – Te Papa Atawhai
- Ministry for Primary Industries – Manatū Ahu Matua
- Ministry for the Environment – Manatū mō te Taiao
- Ministry of Business, Innovation and Employment – Hikina Whakatutuki
- Ministry of Transport – Te Manatū Waka
- Te Arawhiti
- Te Puni Kōkiri
- The Treasury – Te Tai Ōhanga



References

Environment Committee, 2022. Emissions budgets published in 2022, and the first emissions reduction plan. Report of the Environment Committee. Wellington: New Zealand Parliament.

He Pou a Rangi Climate Change Commission (Commission), 2021a. 2021 Draft advice for consultation. Wellington: He Pou a Rangi Climate Change Commission.

He Pou a Rangi Climate Change Commission (Commission), 2021b. Ināia tonu nei: A low emissions future for Aotearoa. Advice to the New Zealand Government on its first three emissions budgets and direction for its emissions reduction plan 2022–2025. Climate Change Commission advice. Wellington: He Pou a Rangi Climate Change Commission.

He Pou a Rangi Climate Change Commission (Commission), 2023. 2023 Draft advice to inform the strategic direction of the Government's second emissions reduction plan. Wellington: He Pou a Rangi Climate Change Commission.

Ministry for Primary Industries (MPI), 2021. Climate Response Ministerial Group meeting – 21 September. MPI briefing. Wellington: Ministry for Primary Industries.

Ministry for Primary Industries (MPI), 2022. Options analysis to narrow the gap in Emissions Budget One (EB1) for agriculture. Wellington: Ministry for Primary Industries.

Ministry for the Environment (MfE) and the Treasury, 2021. Joint report: Funding and financing the climate transition: Additional decisions on CERF scope and process. MfE and Treasury joint briefing. Wellington: Ministry for the Environment.

Ministry for the Environment (MfE), 2020a. Briefing for the incoming Ministers – Environment and Climate Change. MfE briefing. Wellington: Ministry for the Environment.

Ministry for the Environment (MfE), 2020b. Options for presenting the emissions reduction plan at COP26. MfE briefing. Wellington: Ministry for the Environment.

Ministry for the Environment (MfE), 2020c. The climate change work programme. MfE briefing. Wellington: Ministry for the Environment.

Ministry for the Environment (MfE), 2020d. Work towards the first emissions budgets and emissions reduction plan under the Climate Change Response Act. MfE briefing. Wellington: Ministry for the Environment.

Ministry for the Environment (MfE), 2021a. Climate Change Commission's final advice – Key messages. MfE briefing note. Wellington: Ministry for the Environment.

- Ministry for the Environment (MfE), 2021b. CRMG briefing – Item 3: The role of the ETS. Supporting material for CRMG meeting on 27 July 2021. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021c. Delivering the emissions reduction plan and emissions budgets by May 2022. Supporting material for CRMG meeting on 23 November 2021. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021d. Delivering the emissions reduction plan in 2021. MfE briefing. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021e. Emissions budgets and an emissions reduction plan: Key issues arising from the Climate Change Commission’s draft report. MfE briefing. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021f. Guidance to agencies: ERP sector chapter template v1. MfE guidance to agencies. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021g. Guidance to agencies: ERP sector chapter template v2. MfE guidance to agencies. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021h. Guidance to agencies: Proposed ERP chapter structure v1. MfE guidance to agencies. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021i. Summary of the Climate Change Commission’s draft advice. MfE briefing. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2021j. Te hau mārohi ki anamata – Transitioning to a low-emissions and climate-resilient future: Have your say and shape the emissions reduction plan. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2022a. Analysis of submissions for Komiti Taiao inquiry into emissions budgets published in 2022 and the first emissions reduction plan. MfE departmental report. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2022b. Aotearoa New Zealand’s first emissions reduction plan: Table of actions. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2022c. Aotearoa New Zealand’s first emissions reduction plan: The Government’s response to He Pou a Rangi – CCC’s recommendations. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2022d. Aotearoa New Zealand’s first emissions reduction plan: Technical information annex. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2022e. Emissions reduction plan lessons learnt: Summary for DCEs. Internal review. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2022f. Guidance to agencies: ERP chapter template with guidelines V3. MfE guidance to agencies. Wellington: Ministry for the Environment.
- Ministry for the Environment (MfE), 2023. Implementing the emissions reduction and national adaptation plans. Wellington: Ministry for the Environment.
- Ministry of Business, Innovation and Employment (MBIE), 2021a. Climate Response Ministers Group meeting 21 September. Ministerial briefing. Wellington: Ministry of Business, Innovation and Employment.

Ministry of Business, Innovation and Employment (MBIE), 2021b. Minister Parker's NDC proposal. Appendix 1 CRMG advice 27 July 2021. Wellington: Ministry of Business, Innovation and Employment.

Ministry of Business, Innovation and Employment (MBIE), 2021c. Proposed approach for the 2050 economic vision for the emissions reduction plan consultation document. Briefing to the Minister for Economic and Regional Development. Wellington: Ministry of Business, Innovation and Employment.

Ministry of Business, Innovation and Employment (MBIE), 2022. Climate Response Ministers Group meeting 16 February 2022. MBIE briefing. Wellington: Ministry of Business, Innovation and Employment.

Ministry of Transport (MoT), 2021. Hikina te Kohupara – Kia mauri ora ai te iwi. Transport emissions: Pathways to net zero by 2050. Green paper. Wellington: Ministry of Transport.

New Zealand Government, 2019. Transitioning to a low-emissions future: The Government response to the Productivity Commission's low emissions economy report. Wellington: New Zealand Government.

New Zealand Government, 2021. Budget policy statement 2022. Wellington: New Zealand Government.

New Zealand Government, 2022a. Budget policy statement 2023. Wellington: New Zealand Government.

New Zealand Government, 2022b. Te hau mārohi ki anamata – Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand's first emissions reduction plan. Wellington: New Zealand Government.

New Zealand Government, 2023. Wellbeing Budget 2023: Support for today, building for tomorrow. Wellington: New Zealand Government.

New Zealand Productivity Commission, 2018. Low-emissions economy. Wellington: New Zealand Productivity Commission.

Office of the Minister of Climate Change, 2021a. Emissions reduction plan: Meeting New Zealand's emissions budgets. Cabinet paper. Wellington: Office of the Minister of Climate Change.

Office of the Minister of Climate Change, 2021b. Public consultation on the emissions reduction plan: Transitioning to a low-emissions and climate-resilient future. Cabinet paper. Wellington: Office of the Minister of Climate Change.

Office of the Minister of Climate Change, 2021c. Scope, process, timeframes and accountability for delivering the emissions reduction plan in 2021. Cabinet paper. Wellington: Office of the Minister of Climate Change.

Office of the Minister of Climate Change, 2022. Cabinet emissions reduction plan: Completion and launch of the first plan. Cabinet paper. Wellington.

Parliamentary Commissioner for the Environment (PCE), 2017. Stepping stones to Paris and beyond: Climate change, progress, and predictability. Wellington: Parliamentary Commissioner for the Environment.

Parliamentary Commissioner for the Environment (PCE), 2018. A Zero Carbon Act for New Zealand: Revisiting Stepping stones to Paris and beyond. Wellington: Parliamentary Commissioner for the Environment.

The Treasury and Ministry for the Environment (MfE), 2023. Ngā kōrero āhuarangi me te Ōhanga: Climate economic and fiscal assessment 2023. Wellington: the Treasury and Ministry for the Environment.

The Treasury, 2021. Emissions reduction plan: Overview paper and decision making process. Treasury report. Wellington: The Treasury.

The Treasury, 2022a. Cover note: Modelling on the distributional impacts of emissions pricing. Wellington: Climate Change Commission.

The Treasury, 2022b. Emissions reduction plan: Strategic overview. Treasury report. Wellington: the Treasury.

This report has been produced pursuant to subsections 16(1)(a) to (c) of the Environment Act 1986. The Parliamentary Commissioner for the Environment is an independent Officer of Parliament, with functions and powers set out in the Environment Act 1986. His role allows an opportunity to provide Members of Parliament with independent advice in their consideration of matters that may have impacts on the environment.

This document may be copied provided that the source is acknowledged. This report and other publications by the Parliamentary Commissioner for the Environment are available at pce.parliament.nz.

Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata

PO Box 10 241
Wellington 6140
Aotearoa New Zealand

Phone +64 4 495 8350
Email pce@pce.parliament.nz
Web pce.parliament.nz

September 2023

ISBN
978-0-947517-38-0 (print)
978-0-947517-39-7 (electronic)

