



Economic Development Portfolio: Climate change work programme

Date:	13 December 2023	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2324-0756

Action sought		
	Action sought	Deadline
Hon Melissa Lee Minister for Economic Development	Note the advice in this briefing on the Equitable Transitions and Circular Economy and Bioeconomy work programmes that sit within the Economic Development portfolio.	21 December 2023

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Kirsty Flannagan	General Manager, Economic Strategy	Privacy of natural persons	✓

The following departments/agencies have been consulted
Ministry of Social Development

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Economic Development Portfolio: Climate change work programme

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Purpose

To provide an overview of the implications of climate change for the Economic Development portfolio, and detail on climate change work programmes you are responsible for (the Equitable Transitions Strategy, and the Circular Economy and Bioeconomy Strategy). A summary of other climate change issues that have implications for the Economic Development portfolio is also included.

Executive summary

The New Zealand economy faces challenges from the impacts of climate change. Many of our industries, exports and infrastructure are exposed to climate hazards. Reducing greenhouse gas emissions to meet our domestic and international emissions reduction targets will require changes to patterns of economic activity. A consistent, long-term approach to reducing emissions and adapting to climate change is essential to rebuilding a resilient economy that can withstand future climate-related shocks and changing market conditions.

Diversifying the economy into lower-emissions sectors and activities and reducing the emissions intensity of existing activities in the economy, will reduce the risks to our economic resilience and support economic growth. However, this shift will bring change and disruption for businesses, workers, households, and communities.

You are responsible for the Equitable Transitions Strategy work programme. This aims to plan for and manage the risks and opportunities stemming from a shift to a low-emissions economy, to avoid and minimise long-term fiscal and social costs. It is a cross-government approach to create cost-effective and coordinated interventions for affected groups, such as businesses, workers, communities, and households. An overview of this work programme and options for next steps are provided in Annex One.

You are also responsible for the Circular Economy and Bioeconomy Strategy work programme, which aims to extract greater value and efficiencies from New Zealand's resources while reducing emissions over the longer term. Many of our trading partners have adopted circular and bioeconomy strategies to decarbonise their economies, increase economic value and improve national supply chain resilience. An overview of this work programme and options for next steps are provided in Annex Two.

The Equitable Transitions Strategy and the Circular Economy and Bioeconomy Strategy are actions from the first Emissions Reduction Plan that fall within your Economic Development Portfolio. Both programmes are funded through appropriation allocations. You can set the direction for both pieces of work in line with your own priorities and the Government's 100-day plan commitments to reduce public sector expenditure. MBIE has developed options for progressing these work programmes that we would like to discuss with you in early 2024.

Recommended actions

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that the Equitable Transitions Strategy and the Circular Economy and Bioeconomy Strategy are actions from the first Emissions Reduction Plan that fall within your Economic Development Portfolio.

Noted

- b **Note** that MBIE has funded research to model economic impacts of a changing climate on regional economies.

Noted

- c **Agree** to commence a \$250,000 research project examining how Māori firms can meet environmental requirements to support the Circular Economy and Bioeconomy Strategy.

Agree / Disagree

- d **Note** that there are a range of options to progress the equitable transitions work programme. These include:

- i. Continue with the development of a Strategy (or scaled back Strategy); or
- ii. Publish a draft policy-oriented action plan focused on your priorities; or
- iii. Do not publish a specific document, with the option to progress specific policy initiatives if you choose.

Noted

- e **Note** that there are options to progress the Circular Economy and Bioeconomy work programme. These are:

- i. Develop and publish a high-level Strategy, through more limited consultation; or
- ii. Progress an action-oriented work programme, using research findings, without developing a Strategy.

Noted

- f **Note** that you need to make a decision on how to progress both work programmes in early 2024, to inform fiscal savings.

Noted

- g **Agree** to discuss the options for the Equitable Transitions work programme with the Minister for Social Development and Employment and subsequently with the Minister for Climate Change.

Agree / Disagree

h **Agree** to meet with officials to discuss how to align the Equitable Transitions and the Circular Economy and Bioeconomy work programmes with your priorities, and as part of broader fiscal decisions in your Economic Development portfolio early in 2024.

Agree / Disagree

pp



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Te Waka Pūtahitanga (formerly Strategic
Policy and Programmes), MBIE

..... / /

Hon Melissa Lee
Minister for Economic Development

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Background

New Zealand's economy faces challenges from the impacts of climate change

1. New Zealand has set domestic and international targets to reduce greenhouse gas emissions (joining with our international counterparts) to mitigate the long-term impacts of climate change. Meeting these targets will require taking advantage of new approaches and technologies, and growing New Zealand's economy and export base in low-emissions, high-value activities.
2. Responding to climate change sits alongside other persistent economic challenges, including weak productivity, increasing cost-of-living pressures, and significant disparities between different population groups. These challenges are compounded by global trends including technological change and rising geopolitical tensions. Combined with immediate challenges of high inflation and interest rates, and forecasted slow economic growth, the climate change response presents both risks to, and opportunities for the economy.
3. A consistent, long-term approach to reduce emissions and adapt to climate change will provide business and industry with the certainty to invest in change. As Minister for Economic Development, you have opportunities to advance the Government's economic and climate objectives through work programmes in your portfolio.

Existing climate change work in the Economic Development portfolio

There are legislative requirements to prepare for and adapt to climate change

4. The Climate Change Response Act 2002 (CCRA) sets the legislative framework to allow New Zealand to prepare for, and adapt to, the effects of climate change. It sets domestic 2050 emissions reduction targets and establishes a system of emissions budgets to act as stepping stones towards the 2050 target.
5. The CCRA also requires the Government to develop Emissions Reduction Plans (ERPs) which set out measures to achieve emissions reduction targets, and National Adaptation Plans (NAPs), which contain policies to prepare for the physical effects of climate change.
6. The first ERP and NAP were published in 2022, and the second ERP is due to be developed by the end of 2024. An interagency Chief Executive Board was established to oversee the cross-government effort to implement these plans, and the development of subsequent ERPs and NAPs.
7. You will be receiving a Briefing to Incoming Ministers from this Board. This provides a summary of the CCRA and its requirements along with information about New Zealand's climate change challenges and important upcoming decisions regarding climate change. The Board's briefing provides the broader context for the decisions you need to make on your climate change work programmes.

You have responsibility for current ERP and NAP actions

8. Responsibility for implementing current ERP and NAP policies and actions is spread across multiple Ministerial portfolios.

9. Key work programmes that fall under the Economic Development portfolio are to develop:
 - a. an Equitable Transitions Strategy
 - b. a Circular Economy and Bioeconomy evidence base and Strategy.
10. Both work programmes are key actions within the first ERP. Under the CCRA, the responsible Minister may amend the ERP and supporting policies and strategies to maintain their currency. We can provide further advice on any implications based on your preferences for progressing this work, including whether you will need to seek agreement from any of your Ministerial colleagues.
11. These work programmes are funded through Government allocations. The Government's 100-day plan includes an objective to reduce public sector expenditure. We are seeking your views and direction so that we can progress or adapt these work programmes in line with your objectives for the Economic Development portfolio while reducing expenditure.
12. Note that the extent of savings sought from the Economic Development portfolio will be dependent on Cabinet decisions, and that we have recommended a collective approach by MBIE Ministers that delivers on the Government's priorities. As MBIE Ownership Minister, you have a lead role in coordinating this process.
13. A decision is need on these work programmes in early 2024 to align with this process.
14. An overview of work to date and the rationale for these work programmes is provided below. These can be shifted to focus on the priorities and outcomes you wish to achieve.

Other climate change work programmes are relevant to your portfolio

15. There are a range of climate change work programmes underway, led by other agencies, for which you have shared responsibility for or that have implications for the Economic Development portfolio. These include the Emissions Trading Scheme, the Carbon Neutral Government Programme, and development of the second ERP. Annex Three provides a summary of these work programmes, and officials can provide further information and advice as needed.

Equitable Transitions Strategy

Lowering our emissions will impact businesses, workers, households, and communities

20. Moving into lower-emissions sectors and activities and adopting climate-resilient technologies and approaches to meet New Zealand's climate change targets will reduce risks to our long-term economic resilience. However, these changes will bring disruption for businesses, workers, households, and communities. For example, some workers are likely to see less demand for their skills as firms adopt lower-emissions technology and practices, with flow-on effects for their households and communities.

21. For some sectors, regions, and communities the impacts will be more pronounced, and the adaptation challenges more difficult. Failure to manage these impacts risks creating long-term fiscal and social liabilities that will compromise the Government's ability to deliver a highly productive and prosperous economy.
22. Section 5ZG of the CCRA requires that ERPs include a strategy to mitigate the impacts that reducing emissions and increasing greenhouse gas removals will have on employees and employers, regions, iwi and Māori, and wider communities, including the funding for any mitigation action. The Climate Change Commission's advice to Government on the policy direction for the first ERP recommended developing an Equitable Transitions Strategy to enable an inclusive shift that maximises opportunities and minimises disruption and inequities.
23. To meet the CCRA requirement and the Climate Change Commission's advice, the first ERP includes a chapter on Equitable Transitions and commits to the delivery of an Equitable Transitions Strategy. You, along with the Minister for Social Development and Employment, are responsible for delivering the Equitable Transitions Strategy. As such the work undertaken to date has been led by MBIE and the Ministry for Social Development.
24. The Climate Change Commission has just released their final advice on the policy direction for the Government's second ERP. In that advice, they recommend expanding the scope of the Equitable Transitions Strategy to also include the impacts of climate change and adaptation (for example, impacts associated with more frequent extreme weather events), as well as impacts that arise as a result of measures to reduce emissions. They also recommend that the Government manages the impacts of climate policies using existing policy levers until the Equitable Transitions Strategy is implemented, rather than delaying climate action.

The Equitable Transitions work programme aims to proactively identify and manage the risks and negative impacts from our shift to a low emissions economy

25. The aim of this work is to manage the uneven distribution of risks and opportunities stemming from a shift to a low-emissions economy, to avoid and minimise long-term fiscal and social costs. Work to date has focused on a co-ordinated, cross-government policy response for groups who already face disadvantages, and who are more likely to experience negative impacts from policies to reduce emissions.
26. The work programme sits alongside other initiatives such as the Just Transitions Partnership programme, which supports regions to plan and to respond to major economic shocks such as climate events. The equitable transitions work looks at how a national approach can create enabling policies to support businesses and workers across the country to manage the impacts of change. This differs from the targeted Just Transition Partnerships programme that supports community-led responses tailored to specific community needs and circumstances (such as the work already underway in Taranaki and Southland).
27. Impacts stemming from the physical impacts of climate change (adaptation) were not included in the original scope of this work programme.

28. The current work programme aims to deliver:
 - a. policies and actions to support businesses, workers, households, and communities to manage impacts stemming from the shift to a low-emissions economy; and
 - b. a longer-term monitoring framework and tool to ensure timely responses to impacts as they emerge.
29. Publication of a pragmatic, evidence-based plan for managing impacts will help build confidence in how the Government is managing the shift to a low-emissions economy. This is also an opportunity to build social license for the changes that are needed to reduce emissions and adapt to climate change.
30. The current work programme also provides a vehicle to develop and promote policies to support disadvantaged New Zealanders, who are currently not supported with respect to climate change challenges by Government policies otherwise.
31. MBIE and the Ministry of Social Development have undertaken extensive public and stakeholder engagement to identify the challenges and opportunities that the shift to a low-emissions economy is likely to bring for different communities and businesses across New Zealand.
32. Our engagement has raised public and stakeholder awareness of this work programme. It has set an expectation that the Government will consider options to address challenges raised by the groups that were consulted.

Identifying the economic impacts of a changing climate on regional economies

33. MBIE has contracted an adaption research project within this work programme to model the economic impacts of a changing climate on regional economies. The findings will support an evidence-based approach to economic development, through better understanding the impacts of a changing climate on regional economies. The modelling is focused on land-based primary industries because of their importance to regional economies and vulnerability to climate change. Further climate-exposed sectors, such as fisheries, tourism, and energy, could be modelled in the future.
34. The Commercial information contract is funded from the Equitable Transitions Strategy appropriation but it is a separate project that contributes to action 10.9 in the first NAP (*Identify the impacts of climate change on regional economies*). The work is largely being delivered by Crown Research Institutes (Manaaki Whenua – Landcare Research, Scion, and Plant and Food Research) reflecting their specialist knowledge and modelling capabilities. One component of the work will be delivered by an independent consultancy, the New Zealand Institute of Economic Research (NZIER).
35. Work is already underway on this project and initial payments have been made. We consider it will make an important contribution to the evidence base regarding how regional economies can grow and become more resilient.

Options for further development

36. This work programme is at a point where there is a need for Ministerial direction to progress. We have identified three options for your consideration. Irrespective of which option you choose, a cost saving of approximately \$3.5m is possible. This is because, for the work to date, we have adopted an engagement approach that is less resource intensive than originally anticipated.
37. Depending on your preferred next steps for the work programme, additional cost savings up to a maximum of approximately \$5m are possible. Following a discussion about your preferred options we can provide you with more detailed information about potential cost savings.
38. The options provided below represent different points along a scale of potential actions that can be taken to progress this work programme. A combination of different options can also be developed to reflect your priorities.
39. Within all options there are a range of approaches for further consultation that could be employed, from a broad to a more targeted consultation process.


Option 1: Publish a draft version of the Strategy in 2024

40. The status quo option is to continue with the publication of a Strategy document. This document could maintain its current scope, focusing on the impacts affecting workers, businesses, households and communities and actions to address these, or could proceed with a different (or narrower) scope.
41. You would have the opportunity to set priority areas for policy action and to specify the types of challenges that the work programme addresses. Options to amend the scope include:
 - a. publishing a high-level strategic direction focusing on embedding consideration of distributional impacts in Government policy (excluding actions for specific population groups);
 - b. focusing on a narrower set of population groups e.g., workers and businesses; and
 - c. expanding the scope of the work programme to include consideration of impacts stemming from the physical effects of climate change (which aligns with the advice of the Climate Change Commission regarding the policy direction for the Government's second ERP).
42. This option would provide the greatest impact to mitigating the distributional challenges of moving to a low-emissions economy. Publishing a long-term strategic approach will help to build social license by highlighting the Government's commitment to a fair shift to a low-emissions economy. It will also meet stakeholders expectations that a public strategy document is published.
43. A narrowly scoped Strategy with limited stakeholder consultation could deliver cost savings of around \$1m – \$1.3m (in addition to the savings outlined in paragraph 36).

Option 2: Publish a draft policy-oriented action plan focused on Government priorities

44. This option would develop an action plan that focuses on policies and actions to be implemented in the short term.
45. The current work programme has already identified a range of policy areas for development which could be progressed. Examples include:

Confidential advice to Government



46. This option would have a significant impact on mitigating climate change impacts provided that there is a commitment to investing in policies to manage impacts, although it lacks the long-term approach provided by publishing a strategic document (as in Option 1). However, outlining a package of proposed policies in a public facing document would provide a strong signal of the Government's commitment to a fair shift to a low-emissions economy.
47. Confidential advice to Government

Option 3: No specific publication

48. Work to progress specific policy options could continue without the publication of a plan or strategy. Under this option the development of policies to manage impacts could continue as part of the wider work programme to develop the Government's second ERP. However, a standalone plan or strategy separate to the ERP would not be produced for public engagement.
49. The extent to which this option mitigates the distributional challenges of moving to a low-emissions economy is contingent on progressing policies to include in the second ERP.
50. A disadvantage of this option is that it will not deliver the benefit of a coherent work programme that drives the development of policies to support disadvantaged New Zealanders.

51. A further drawback of this approach is that it does less to build social license for the Government's climate change policy package, as there is no published document that the Government can use to demonstrate to the public how it will address the challenges of the shift to a low-emissions economy.

52. Confidential advice to Government

Circular economy and bioeconomy work programme

53. You and the Minister for Energy are responsible for the Circular Economy and Bioeconomy chapter of the ERP, and you are responsible for delivering two funded actions:

- a. research on how to get greater value and efficiencies, and reduce emissions, from the resources utilised in the New Zealand economy; and
- b. based on that evidence, a Circular Economy and Bioeconomy Strategy.

Circular economy approaches address resource loss and hard to abate emissions...

54. The circular economy increases resource efficiency and can reduce emissions by designing waste out of products, keeping products in circulation as long as possible, and then recovering and reutilising materials. New Zealand is one of the highest generators of waste per person in the OECD, losing two-thirds of materials the economy uses.

55. New Zealand's key trading partners, including China, the European Union and the United States are implementing circular strategies to meet future emission budgets once immediate reductions from energy conversions are exhausted. Studies indicate countries could theoretically reduce greenhouse gas emissions by 25 to 39 percent by adopting ambitious circular approaches. International experience is however demonstrating that achieving circular approaches is complex and takes time.

...and help New Zealand exporters meet emerging market requirements

56. New Zealand's markets and investors are increasingly requiring environmental credentials. These include verification of emissions reductions across a firm's or product's whole supply chain (known as scope 3 emissions). For example, Nestlé, Fonterra's largest customer, has a 50 percent emission reduction target by 2030, primarily focussed on scope 3 emissions. It is likely that a wider range of New Zealand exporters will need to meet similar customer requirements in the future.

57. Countries are also adopting circularity as a security and resilience response to projected global resource scarcity (e.g., rare minerals needed for EVs), geopolitical uncertainty, and to create local jobs.

Bioeconomy strategies manage the transition to biobased energy and materials

58. Bioeconomy strategies aim to decarbonise an economy by transitioning from fossil fuel to bio-based energy and materials (e.g., replacing concrete with wood and bio-based plastics). Governments, including our trading partners, have adopted strategies to incentivise investment in new bioeconomy industries and ensure biological resources are used sustainably and for greater value.
59. New Zealand already imports large amounts of biological material (e.g., animal feed) to support current biological industries and would need significantly more biological material for domestic bioenergy production. One aim of the work programme is to understand the economic implications of future supply and demand of biological resources and how they could be best utilised to maximise value. This includes options to move to higher-value, lower-volume bio-based activities.

Most of the research is completed or well on track for completion.

60. As the circular economy and bioeconomy are new areas for New Zealand, the work programme has initially focused on building evidence on the benefits and risks for New Zealand that a circular economy and growing bioeconomy can provide. It will identify where existing Government policies and institutions may be a barrier to businesses undertaking this change, and/or whether there is a case to be made for targeted enabling policies or actions. More detail is outlined in Annex 2.
61. MBIE has designed the research to support government and business decision-making with or without a strategy. For example, research on high-value low-emissions bioeconomy opportunities is already being used by New Zealand Trade and Enterprise and business to target investments.
62. One research project is on hold waiting your decision. The project is intended to identify how Māori firms can meet the growing number of environmental domestic and global market requirements. We worked with your Māori Economic Advisory Board to determine its focus. It informs the Strategy and the action plan of He Kai Kei Aku Ringa: Māori-Crown Economic Growth Partnership, and has links to our other research already underway. The project is budgeted at \$250,000 and would be contracted to a consortia of Māori researchers.

Circular economy and bioeconomy actions as input to Government's next Emissions Reduction Plan

63. The Strategy was planned to go out for public consultation over the second half of 2024, for completion by June 2025. The Strategy's purpose is to provide coherence and direction across government agencies, with actions being embedded in the second and third ERPs, and relevant government plans.
64. The Climate Change Commission's advice for the policy direction for the second ERP was released in mid-December 2023. It reaffirms the importance of developing New Zealand's circular economy and bioeconomy to reduce emissions and achieve wider economic benefits. Following feedback from submitters on its draft advice, the Climate Change Commission included three recommendations to progress these objectives:
 - a. Strengthen product stewardship and expand coverage across products and packaging to help avoid emissions associated with waste.

- b. Declare construction material wood waste as a priority product (under the Waste Minimisation Act) to help reduce emissions from construction and demolition waste.
- c. Provide overarching guidance and an enabling regulatory framework to advance a circular bioeconomy that reduces emissions and increases resilience to climate change, ensuring cross-sector coherence.

Alignment of work to Government's economic priorities

- 65. We understand that the Government's economic priorities include maximising added value before exporting, lifting productivity, and technology-enabled innovation and growth. As circular approaches and the bioeconomy have multiple economic benefits, beyond emissions reduction, there is flexibility to align the work programme with your goals.
- 66. These wider benefits include growing export value and competitive advantage, supporting costs and resource efficiencies, and hence productivity, and contributing to more resilient supply chains. There is also the opportunity for new circular business and community activity to help mitigate the disruptions arising from the transition to low-emissions economy including jobs and business opportunities in regions.
- 67. The work programme is also an opportunity to better prepare for the risks and opportunities arising from our trading partners' shift to circular and bioeconomy approaches. New Zealand's trading partners have made significant investments in the circular and bioeconomy over the last decade. Circular approaches emphasise localising production which could result, for example, in countries developing substitutes for our exports. In addition, demand for verifiable, environmental credentials across supply chains will require New Zealand exporters to demonstrate emissions reductions.

Options to take the work programme forward

- 68. We have developed two options to scale the work programme and deliver fiscal savings. These are either deliver a Strategy with limited consultation (Option 1), or not deliver a Strategy but move directly to an action-oriented work programme (Option 2). These options are laid out in Table 1. Both assume the research currently underway, including contracted research, is completed.
- 69. For either option, because the scope of the Strategy covers a range of portfolios, there will be a need to work with other Ministers to embed actions (or circular principles) in their plans or work programmes. The lead Ministers and agencies of these strategies and programmes would be responsible for the detailed policy development, implementation, and reporting following the work of our team. Actions would be included in ERP2 and ERP3, and in aligned work programmes such as the Waste Strategy Action and Investment Plan.
- 70. The Advanced Manufacturing Industry Transformation Plan and Construction Accord both have significant work programmes to support adoption of circularity. The Government has issued a stop work notice on these initiatives. The construction sector, in particular, has a high emissions and waste profile and alternative mechanisms will be needed if the Government wishes to promote circular approaches to reduce emissions and leverage other benefits in these sectors.

Table 1: Options to scale the Circular Economy and Bioeconomy work programme			
Option	Description	Benefits	Disadvantages
<p>Option 1</p> <p>Develop and publish a high-level Strategy, through pared down consultation.</p> <p>Complete current research underway.</p>	<p>Develop a Strategy that provides high level direction, including some high-level actions. The public consultation would be largely online, with some targeted engagement with Iwi and business sectors.</p> <p>Delivery by June 2025.</p>	<ul style="list-style-type: none"> • Signals the Government's direction to business and provides coherence across Ministerial portfolios. • Delivers on two funded actions you are responsible for in the first ERP. • We had previously secured fiscal savings by bringing Iwi engagement & some research in house and by limiting the scale of consultation. This provides combined cost savings over FY23/24 and FY24/25 of \$822,000. 	<ul style="list-style-type: none"> • Builds greater expectations for comprehensive government investment. • Lower cost savings compared to option 2.
<p>Option 2</p> <p>Progress an action-oriented work programme, using research findings, without developing a Strategy.</p> <p>Complete current research underway.</p>	<p>This option would not deliver a Strategy but would integrate research findings into current government initiatives and would identify and progress a targeted set of actions which would be fed into relevant plans (e.g., ERP 2).</p> <p>Delivery (identification of first actions) by June 2024.</p>	<ul style="list-style-type: none"> • More rapidly progresses actions to help meet future emission budgets. • Delivers on the research action you are responsible for in the first ERP. • Free up policy resource to focus on actions within the wider context of reduced MBIE policy resourcing. • Can be scaled. • Combined cost savings over FY23/24 and FY24/25 of \$959,000. 	<ul style="list-style-type: none"> • Does not develop a Strategy you are responsible for (though still meets the intent). • Less strategic coherence and direction without a strategy to span portfolios.

71. If you decide not to commence the Māori business research, there would be an additional \$250,000 fiscal saving to both Options 1 and 2 in this financial year.

72. We recommend you select Option 2 if you want to achieve the greatest fiscal savings. Option 2 will still develop a set of actions to reduce emissions which was the intent of Circular Economy and Bioeconomy chapter in the ERP.

73. We would welcome an opportunity to further brief and discuss with you how the programme can be structured to support your portfolio and wider government objectives.

Next steps

74. We recommend that you meet with officials from MBIE in early 2024 to discuss your priorities and preferred approaches for these two work programmes.
75. Following your discussion with officials, we recommend discussing the Equitable Transitions work programme with the Minister for Social Development and Employment who has joint oversight of the work. Officials can provide you with further advice or talking points in support of this meeting.
76. Note that this work relates to actions under the Emissions Reduction Plan to meet New Zealand's climate obligations which were funded through the Climate Emergency Response Fund. Legal professional privilege
[REDACTED]
[REDACTED]. Nonetheless we recommend that you discuss the work with the Minister for Climate Change before making any final decisions on both work programmes. MBIE will then update interested stakeholders on the future direction of both work programmes.

Annexes

Annex One: Overview of the Equitable Transitions work programme

Annex Two: Overview of the Circular Economy and Bioeconomy work programme

Annex Three: Other climate change work programmes relevant to the economic development portfolio

Annex One: Overview of the Equitable Transitions work programme

Annex Two: Overview of the Circular Economy and Bioeconomy work programme

Annex Three: Other climate change work programmes relevant to the economic development portfolio

1. There are other work programmes across Government that you are responsible for or that have implications for the Economic Development portfolio, as follows.

Design and operation of the New Zealand Emissions Trading Scheme (NZ ETS)

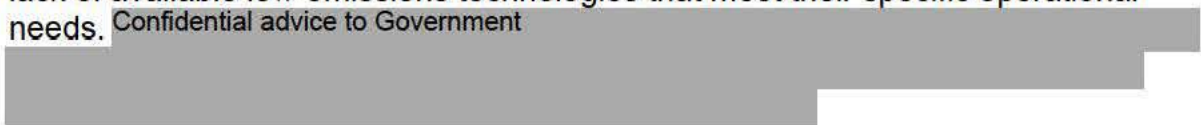
2. Emissions pricing is an important pillar in New Zealand's response to climate change. Decisions around the NZ ETS will shape the types of economic activity incentivised by the scheme, and in so doing the patterns of economic activity in New Zealand. This means decisions around the architecture of the NZ ETS need to align with the Government's overarching climate change and economic strategy.
3. Agencies have undertaken work to examine whether the NZ ETS should focus on net or gross emissions reduction – net emissions are total (gross) emissions minus removals from forestry. A public consultation document exploring options to amend the design of the NZ ETS to drive greater gross reductions was released earlier this year. We understand this review will be stopped, as set out in the coalition agreement between the National Party and New Zealand First.
4. However, National's policy programme and the coalition agreements with Act and New Zealand First signal other objectives related to the NZ ETS, including:
 - a. keeping agriculture out of the NZ ETS and implementing a fair and sustainable pricing system for on-farm agricultural emissions by 2030
 - b. allowing full recognition of on-farm carbon sequestration on a robust, scientific basis
 - c. enabling farmers and landowners to offset sequestration against their on-farm emissions
 - d. progressing work to recognise other forms of carbon sequestration, including blue carbon
 - e. banning foreign farm-to-forest conversions for carbon farming (therefore reducing the amount of forestry credits entering the NZ ETS).
5. MBIE can provide advice on the settings and architecture of the NZ ETS as needed.
6. We note that at a firm level, decisions to reduce emissions often involve long planning and investment horizons. As such, the stability of NZ ETS policy settings and institutional arrangements is crucial. MBIE can provide a more detailed briefing on the interface between the NZ ETS and economic and climate change strategy should you find this useful.

Development of the second Emissions Reduction Plan

7. The CCRA requires the Minister of Climate Change to publish the second ERP (ERP2) by 31 December 2024. ERP2 must set out the policies and strategies to meet the second emissions budget (2026-2030) and may include policies and strategies to meet the third and fourth emissions budgets.
8. The Climate Change Commission has released its final advice on the direction of policy for ERP2. This advice must be considered in preparing ERP2 and supporting policies.

9. The Ministry for the Environment is leading development of ERP2, with support from agencies across government, including MBIE.
10. Development of the ERP2 provides an opportunity to align emissions reduction with economic development policy.

Carbon Neutral Government Programme

11. The Carbon Neutral Government Programme (CNGP) was launched in 2020 to demonstrate Government leadership on climate action, and is an action in the first ERP. Under the previous Government, the Minister for Economic Development co-lead CNGP alongside the Minister for Climate Change.
12. CNGP requires participants to:
 - a. measure, verify and report their emissions annually
 - b. set gross emissions reduction targets and longer-term reduction plans
 - c. introduce a plan to reduce their organisation's emissions
 - d. offset remaining gross emissions from 2025/26 to achieve carbon neutrality.¹
13. Some agencies (including the New Zealand Defence Force, Department of Corrections and NZ Police) face challenges to meet CNGP requirements due to the lack of available low-emissions technologies that meet their specific operational needs. Confidential advice to Government

14. We can provide you with further advice on the CNGP as and when needed.

¹ CNGP reporting is staged. Tranche 1 (departments, departmental agencies, executive branch) and Tranche 2 (Crown agents) entities must comply with CNGP requirements. Tranche 3 (tertiary institutions, legislative branch, Offices of Parliament, and state-owned enterprises) entities are encouraged to comply.

ANNEX ONE: OVERVIEW OF THE EQUITABLE TRANSITIONS WORK PROGRAMME

This work programme will lay out the government's long-term approach to managing the impacts of climate change policies on businesses, workers, households and communities. We are seeking direction on your key priorities and next steps. We recommend that you discuss with officials your objectives and priorities for this work.

Climate change will create challenges and opportunities

The impacts of policies to reduce emissions will affect groups in society differently.

How people adapt to challenges will vary across NZ based on exposure and current hardship. Some groups will be more affected and have less ability to respond to challenges.



Businesses and workers will need to adapt

Future industries and jobs will look different as our economy changes and lowers emissions.

Employers and workers need to be prepared for these changes (along with our training system).



Communities will need to be resilient

Communities reliant on high-emissions employers or industries reliant on climate conditions will experience significant change.

Communities will need to adapt and prepare to withstand change and extreme weather events.



Costs for households may increase

Policies to reduce emissions can result in higher household costs in areas such as energy and transport.

Low-income households are often particularly exposed to these costs as they have less ability to invest in low-emissions alternatives.

A consistent, long-term approach to reduce emissions and adapt to climate change will provide business and industry with the certainty to invest and change.

We have been working on an approach to manage these impacts

The Climate Change Response Act 2002 sets the legislative framework to allow New Zealand to prepare for, and adapt to, the effects of climate change.

The Climate Change Commission recommended (for ERP1) the delivery of an Equitable Transitions Strategy and this was included as an action in the first Emissions Reduction Plan.

This work aims to plan for and manage the risks and opportunities stemming from a shift to a low-emissions economy, to avoid and minimise long-term fiscal and social costs.

This work will help to build social license for the changes that are needed to reduce emissions and adapt to climate change.

As Minister for Economic Development, you are jointly responsible for this work alongside the Minister for Social Development and Employment.

This work has been co-led by MBIE and MSD (with involvement from MoE and MoT) and is a cross-government approach to create cost-effective and coordinated interventions for affected groups (businesses, workers, communities, and households).

We have already carried out public and focused stakeholder engagement which raised some key concerns e.g.

1. The importance of reliable information to support decision making.
2. Lack of proactive action for impacted workforces and communities.
3. Insufficient locally-led solutions for communities and iwi/hapū.

We are seeking your direction for how to progress this work programme. We have identified options which can be scaled based on areas you want to prioritise.

We recommend you meet with officials ahead of discussing this with the Minister for Social Development and Employment and Minister for Climate Change.

There are options to focus this work on your priorities

Option 1: Strategy with actions

Continue with a Strategy document to be published for public consultation in mid-2024 with the same or a targeted (narrower) scope. Options include:

- Focusing on a narrower set of affected groups e.g. workers and businesses.
- Developing a high-level approach to managing the distributional impacts of climate policy and events to be integrated across government agencies.

Option 2: Focused policy action plan

Develop and publish a focused policy action document for public consultation in mid-2024.

Options exist to align policy actions with your objectives and priorities. Potential actions include:

- Confidential advice to Government

Option 3: No publication

Work on policy options can continue without any publication. The development of policies could become part of the work to develop the Government's second ERP.

There are options to scale this work to what is needed for ERP2 and to focus on specific Government priorities.

Annex Two: Overview of the Circular Economy and Bioeconomy work programme

You are responsible for developing the Circular Economy (CE) and Bioeconomy (BE) Strategy, and the research programme that informs it. These are two funded actions in the Emissions Reduction Plan.

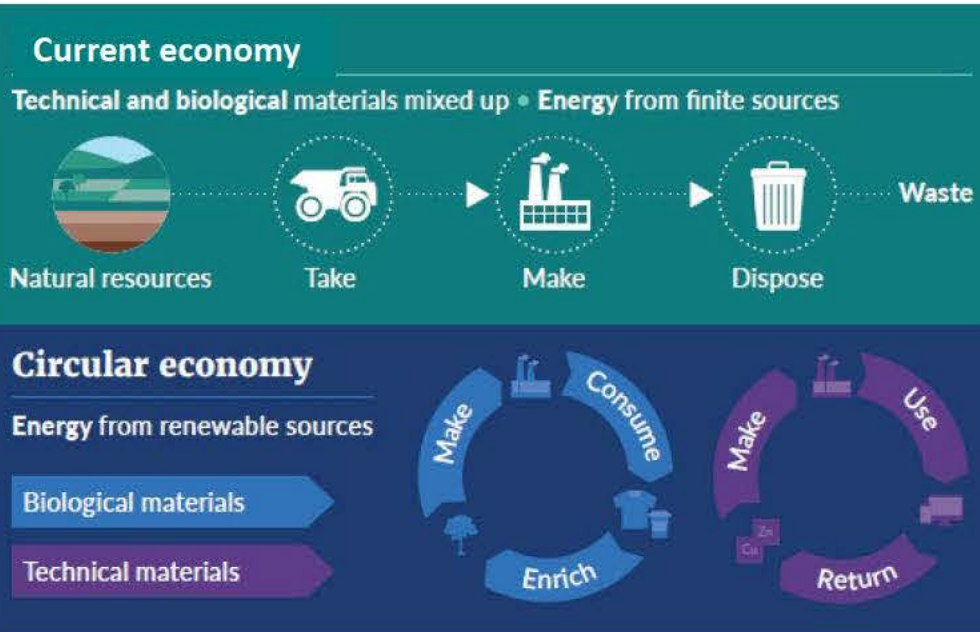
The Circular Economy is a medium-term emissions reduction approach...

New Zealand's key trading partners are implementing CE strategies to meet future emission budgets once immediate reductions from energy conversions are exhausted. Studies indicate countries could potentially reduce greenhouse gas emissions (GHG) by 25 to 39 percent by adopting ambitious circular approaches¹. The global transition to circularity represents a new, disruptive shift, with both potential benefits and risks to New Zealand that need more work to be fully understood and leveraged.

..which can help NZ meet emerging export requirements.

New Zealand's markets and investors are increasingly requiring environmental credentials including verification of emissions reductions across a firm's or product's whole supply chain (known as scope 3 emissions). For example, Nestlé, Fonterra's largest customer, has a 50% emission reduction target by 2030, primarily focussed on scope 3 emissions. It is likely that a wider range of New Zealand exporters will need to meet these requirements in the future.

Countries are also adopting circularity as a security and resilience response to projected global resource scarcity (e.g., rare minerals needed for EVs), geopolitical uncertainty, and to protect biodiversity and increase local jobs.



The Circular Economy reduces emissions and resource loss by designing waste out of products, keeping products in circulation as long as possible, then recovering and reutilising materials. New Zealand is one of the highest generators of waste per person in the OECD, losing two-thirds of materials the economy uses.

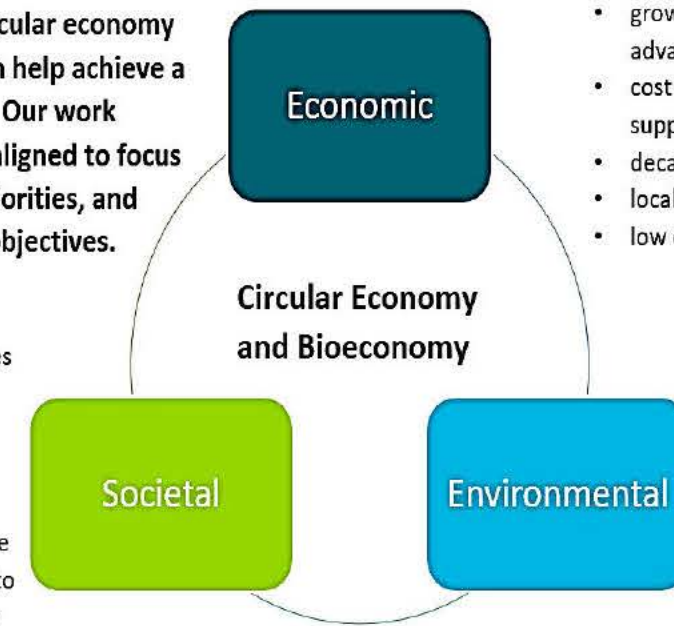
Figure 1: *New Zealand Waste Strategy*, Ministry for the Environment (2023)
Reference 1: Circle Economy. (2022), *The Circularity Gap Report 2022*, Amsterdam
<https://www.circularity-gap.world/2022>

Bioeconomy strategies manage the transition to biobased energy and materials.

Countries have been adopting BE strategies to ensure necessary investment and active management of trade-offs in the transitions to bio-based energy and materials. New Zealand already imports significant amounts of biological material* and would need significantly more for domestic bioenergy production. The aim of the BE work programme is to understand the economic implications of future supply and demand of biological resources and how they could be best utilised to maximise value to New Zealand. This includes options to move to higher-value, lower-volume bio-based activities. *Source: Statistic NZ, Coriolis Analysis.

Actions toward a circular economy and bioeconomy can help achieve a range of outcomes. Our work programme can be aligned to focus on your portfolio priorities, and wider government objectives.

- connected communities and economies
- new skills for low-emissions society
- could help mitigate challenges from climate change and transition to a low-emissions future



- grow export value and competitive advantage
- cost savings and resource efficiency supporting productivity
- decarbonisation through bioresources
- local sourcing for supply chain resilience
- low emission jobs and activities

- emissions reduction
- waste and pollution reduction
- reduced reliance on finite resources
- biodiversity and ecosystems
- energy savings

Most of the research is completed or well on track, for providing evidence on:

- parts of the economy with the largest potential to reduce emissions and provide other benefits (e.g., exports, jobs) through circular approaches.
- policy and regulatory approaches emerging in other countries and markets, e.g., digital product passports, and implications for New Zealand.
- opportunities and challenges for advanced technologies to improve resource and business efficiency.
- New Zealand's biological resource use, including emerging areas and implications of competing demands for resources.
- commercially viable high-value, low-emissions bioeconomy opportunities.

MBIE has designed the research to support government and business decision-making, with or without a strategy.

Options to scale the work:

The Strategy is in early stages of development and was due to go out for public consultation in the second half of 2024 for completion in June 2025. Capitalising on the research investment to date, there are options to scale and more tightly align the work programme to deliver on the government's economic priorities.

	Description	Benefits	Challenges
Option 1	Develop and publish a high-level Strategy, through pared down consultation Delivery by June 2025.	<ul style="list-style-type: none"> • Signals the Government's direction to business and provides coherence across Ministerial portfolios. • Delivers on two funded actions you are responsible for in the first ERP. • Combined cost savings over FY23/24 and FY24/25 of \$822,000. 	<ul style="list-style-type: none"> • Builds greater expectations for comprehensive government investment. • Lower cost savings compared to option 2.
Option 2	This option would not deliver a Strategy but would integrate research findings into current government initiatives and would identify and progress a targeted set of actions which would be fed into relevant plans (e.g., ERP 2). Delivery (identification of first actions) by June 2024.	<ul style="list-style-type: none"> • More rapidly progresses actions to help meet future emission budgets. • Delivers on the research action you are responsible for in the ERP. • Frees up policy staff to focus on actions. • Can be scaled. • Combined cost savings over FY23/24 and FY24/25 of \$959,000. 	<ul style="list-style-type: none"> • Does not develop a Strategy you are responsible for (though still meets the intent). • May result in less strategic coherence across sectors without a strategy to span portfolios.
+ Commence research supporting Māori business	Supporting both options, we are seeking your decision on commencing research on how Māori firms can build on circular economy opportunities and meet growing domestic and global market sustainability requirements. This work has been overseen by your Māori Economic Development Advisory Board.	<ul style="list-style-type: none"> • Informs the Strategy and the action plan of He Kai Kei Aku Ringa: Māori-Crown Economic Growth Partnership. • If not undertaken, an additional cost saving of \$250,000 for FY23/24 for both Option 1 and 2. 	