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IN-CONFIDENCE



THE TREASURY
Kaitiaki Take Kōwhiri

Treasury Report: Climate Change - Important Decisions Between Late 2014 and Mid-2015

Date:	Monday 6 October 2014	Report No:	T2014/1674
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Action Sought

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Minister of Finance (Hon Bill English)	<p>Note that Ministers will have to make decisions on New Zealand's post-2020 international climate change target and future ETS settings, over the next few months.</p> <p>Note that the cost of meeting climate change targets is expected to rise significantly after 2020.</p> <p>Note that Ministers have options around the cost and form of the target.</p> <p>Indicate if you want to meet with the Minister of Climate Change Issues to discuss options for New Zealand's post-2020 target</p>	21 October 2014
Associate Minister of Finance (Hon Steven Joyce)	<p>Note that Ministers will have to make decisions on New Zealand's post-2020 international climate change target and future ETS settings, over the next few months.</p> <p>Note that the cost of meeting climate change targets is expected to rise significantly after 2020.</p> <p>Note that Ministers have options around the cost and form of the target.</p> <p>Indicate if you want to meet with the Minister of Climate Change Issues to discuss options for New Zealand's post-2020 target</p>	21 October 2014

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Discuss options with your Ministerial colleagues

25. The Minister for Climate Change Issues is considering options for targets and for a process of public consultation on the options. He may bring a paper to Cabinet in November 2014. It would be advantageous to have an early discussion with the Minister for Climate Change Issues and other senior Ministers about the issues covered in this report. It would be an opportunity to discuss the cost / credibility trade-off and to focus policy development on options that manage cost and address credibility risks. It would also be an opportunity to discuss what kind of public consultation may be desirable.

The link to domestic policy: opportunity to provide longer-term regulatory certainty

26. Tabling a post-2020 target in mid-2015 does not have immediate implications for domestic policy settings, but changes may be needed before 2020 to ensure the scheme will allow New Zealand to meet the new target. ~~Ministers will need to consider the terms of reference for a review of the ETS [CAB Min (12) 23/10] and to consider introducing a mechanism to auction units into the ETS [EGU Min (14) 16/7].~~

27. The ETS has been amended several times in recent years, the last time in Budget legislation without public warning. The ETS was also the subject of political party manifestos at the election, with some parties suggesting repeal altogether. There is, therefore, a degree of regulatory uncertainty surrounding the continued operation of the ETS and its precise settings.

28. While there is evidence that some firms are factoring future carbon prices into their long-term decisions in spite of this uncertainty, individual firms and business groups have said that greater certainty about long-term policy settings would help firms make better decisions and increase the level of abatement activity.

29. Taken together, the decision about New Zealand's post-2020 target and any changes to ETS settings in the pre-2020 period will set New Zealand's long-term climate change policy settings. In our view, these decisions are an opportunity to provide greater certainty about the ongoing operation and settings of the ETS. This will assist firms and individuals to better factor climate change into their long-term decision-making.

30. If Ministers are interested in taking explicit steps to provide greater regulatory certainty, the decisions needed are an opportunity to do so. The first would be to consult on the design of an auctioning process and, give clear direction about how many units will be supplied before 2020. Secondly, when taking a post-2020 target, signal the longer-term changes to ETS settings that will be required to meet the target.

31. Beyond those two steps there are a number of things Ministers could consider to provide greater certainty. Probably the most significant would be to secure a greater degree of political party consensus about targets and ETS settings. Another approach would be to institutionalise regular reporting on long-term targets and regulatory settings. The latter approach has been used with some success overseas. Officials can provide more advice about possible steps if you are interested.

The New Climate Economy report: summary and relevance to New Zealand

32. You are attending G20, World Bank and IMF meetings from 9-11 October. We expect that a recent report on climate change and the economy may come up in discussions and have therefore included a summary of the report and talking points about its relevance to New Zealand in your meeting briefing pack.