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## **Vote Environment**

Report in relation to selected Non-Departmental Appropriation for the year ended 30 June 2015

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# Report on Non-Departmental Appropriation 2014/15

The Ministry for the Environment is the Government's primary adviser on the New Zealand environment and international matters that affect the environment.

The Minister for Climate Change Issues is required under the Public Finance Act 1989 to report against the following non-departmental appropriation for the year ended 30 June 2015.

## Allocation of New Zealand Units

### Scope of appropriation

This appropriation is limited to the granting of New Zealand Units to sectors of the New Zealand Economy.

### Intended impacts, outcomes or objectives

Outcome – New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle.

Impact – Decrease New Zealand's net emissions of greenhouse gases below business as usual levels in a cost-effective way.

### Description of activities

The Allocation of New Zealand Units (NZUs) provides financial assistance to reduce the impact of the NZ Emissions Trading Scheme (NZ ETS) on some sectors and to incentivise activities which remove greenhouse gases by providing participants with units. This appropriation was initiated in 2008/09.

Industrial allocation partially compensates eligible businesses for increased energy and fuel costs under the NZ ETS and will help businesses make the necessary changes to reduce their greenhouse gas emissions and adjust to emissions pricing.

Currently 26 industrial activities are eligible to receive industrial allocation, which is based on meeting an emissions intensity threshold and being a trade-exposed activity.

Pre-1990 forestry owners also received an allocation to offset some of the economic impacts of the initial introduction of the NZ ETS. The allocation was transferred in two tranches, with the second tranche transferred in 2012/13. Any landowners who take up offsetting will be required to return the second tranche of their allocation. Owners of fishing quota were also eligible to receive a one-off allocation of NZUs as partial compensation for the impact of the NZ ETS.

Owners of post-1989 forests may voluntarily enter the NZ ETS and receive NZUs for increases in the carbon stock of their forest as a result of growth. Owners have the option of applying for NZUs annually, or in arrears for the whole of a five-year Mandatory Emissions Reporting Period (MERP). For this reason a significant number of these allocations were made in 2012/13 to cover the entire first MERP (2008 to 2012) and another peak in allocations is likely at the end of the current MERP in 2017.

A number of post-1989 forestry participants deregistered from the NZ ETS from 2012 to 2014. Later re-registration of their land may also increase the number of units required to be allocated in future years.

## Performance

### Non-financial

Performance measures	2013/14 Result	2014/15 Target	2014/15 Result
Percentage of applicants deemed to be eligible receive units to compensate for increased costs resulting from the Emissions Trading Scheme	100%	100%	100%
Percentage of eligible forestry participants, who have entered the Emissions Trading Scheme, that receive units	100%	100%	100%

### Financial

Expenses	2013/14 Actual \$000	2014/15 Estimates \$000	2014/15 Supplementary Estimates \$000	2014/15 Actual \$000
Total appropriation	46,223	164,710	149,820	132,999

#### *Comment on variance*

The variance between the Supplementary Estimates appropriation and actuals recognised for 2014/15 is primarily due to the difference in carbon price adopted for appropriation purposes. The appropriation is based on \$10 per carbon unit, while the actuals is based on the monthly average price of the carbon unit at the time the expense is recognised. Further, more units were allocated to post-1989 forestry and industrial sectors than forecast at Supplementary Estimates.