

Office of the Minister for Climate Change

Chair

Cabinet Environment, Energy and Climate Committee

**FRAMEWORK FOR CLIMATE CHANGE POLICY AND KEY UPCOMING DECISIONS**

**Proposal**

1. I recommend that Cabinet:

- Agree an all-of-government framework to serve as the basis for climate change policy development and decision-making, including understanding benefits and trade-offs;
- Note the key upcoming decisions on climate change policy from now until the end of 2019 (*Appendix 1*).

**Executive Summary**

2. Taking decisive action on climate change is a priority for this Government. We are committed to a transition to a net-zero emissions economy that is just and inclusive. This is an opportunity for the Government to embed the required changes within the wider economic strategy for New Zealand. As part of transitioning the economy, there will be consequences that we need to manage to ensure the change is just and inclusive.
3. The transition will require significant economic transformation, with a mix of innovation, investment and policy interventions across a range of Ministerial portfolios to drive down New Zealand's emissions and build climate resilience. Our decisions will need to be based on the same set of objectives and a clear and consistent understanding of the benefits and trade-offs.
4. It is my intention that by the end of 2019, the Government will put in place the necessary enduring institutional architecture to enable a just transition to a net-zero emissions economy.
5. I also intend that, by 2020, we will:
  - Demonstrate our commitment to leadership on climate change and promote global action to achieve the Paris Agreement's goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels and aiming to limit the increase to 1.5°C.global warming;
  - Be on track to meeting our first emissions budget under the proposed Zero Carbon Act.

6. I recommend that Cabinet agree an all-of-government framework (*Figure 1*) to serve as the basis for climate change policy development and decision-making, including understanding benefits and trade-offs, which is centred on three pillars:
  - Leadership at home and internationally;
  - A productive, sustainable and climate-resilient economy; and
  - A just and inclusive society.
7. The framework will assist us to make key upcoming decisions on priority climate change matters in 2018 and 2019, which are outlined in *Appendix 1*. These include – but are not limited to – decisions by the end of August 2018 on the 2050 emissions reduction target, as well as the powers and functions of an independent Climate Change Commission vis-à-vis the Government.
8. The all-of-government framework will also support:
  - the development of a Climate Policy Impact Assessment (CPIA) proposal, which I intend to introduce to Ministers by the end of 2018;
  - the ongoing programme of policy work by the interagency Transition Hub, which will form the basis of the 2050 Climate Change Transition Strategy;
  - delivering on the Government’s economic strategy and 12 priority outcomes, in particular the transition to a clean, green and carbon-neutral New Zealand.

## Background

### ***Addressing climate change is a key priority for this Government and we have already made significant progress***

9. Climate change is a global issue. New Zealand’s core strategy to manage our interests, including our economic and social wellbeing, lies in influencing the global response. This means taking ambitious action on mitigation and adaptation at home and promoting transparent, credible and ambitious action overseas.
10. The global climate has already changed as a result of greenhouse gas emissions from human activities and it will continue to do so. In New Zealand, we will experience increased frequency and intensity of extreme events such as higher temperatures, flooding, droughts and wildfires, increased sea-level rise, and warmer and more acidic oceans. We are already seeing evidence of this.
11. Significant progress is already underway in many areas of the climate change portfolio. As a Government we have already:
  - **Zero Carbon Bill:** agreed a process for introducing a Zero Carbon Bill that will create enduring architecture to transition to a net zero emissions and resilient economy [CAB-17-MIN-0547.01 refers].
  - **Chief Executives Board:** agreed to establish a Chief Executives Board to strengthen collective responsibility and align climate change policies and outcomes across the public sector;
  - **Climate Change Ministers’ meetings:** begun regular meetings of ministers holding relevant portfolios to ensure cross-sectoral and cross-systems collaboration on climate change matters.
  - **Negotiations mandate:** agreed a new mandate for New Zealand’s engagement in the United Nations (UN) climate change negotiations [CAB-

18-MIN-0164 refers], that signals New Zealand's intention to be a global leader on climate change, to hold ourselves and others to account and ensure our national interests are not compromised.

- **Transition Hub:** commenced economic analysis of the opportunities and challenges of a new 2050 target, which will continue throughout 2018 and 2019 for a longer term assessment of the expected costs and benefits, and distributional impacts, of the transition.
- **Interim Climate Change Committee:** announced the membership and terms of reference of the Committee that will develop independent and expert evidence and analysis on the roles of agriculture and electricity generation in meeting our emission reduction goals (on behalf of the Commission to make recommendations to Government).
- **Fossil fuels:** announced an end to issuing new offshore oil and gas exploration permits, demonstrating international leadership to phase out fossil fuels and replace them with clean energy.

12. We have also already made significant decisions outside of the climate change portfolio that give effect to our ambitions, including but not limited to:

- **One Billion Trees:** the ambitious but achievable goal of planting one billion trees over the next 10 years to improve soil and water quality, provide local jobs and life-long careers, and help New Zealand hit its climate change goals;
- **Draft Government Policy Statement (GPS) on Land Transport:** our commitment to reducing transport's adverse effects on the climate, local environment and public health, and negative effects on the global climate.

## Comment

***I recommend that Cabinet agree the all-of-government framework to understand the benefits and trade-offs of climate change decisions***

13. We cannot achieve action in the climate change portfolio alone: many Ministers and agencies are involved in achieving our climate change goals. It will be critical that the transition is in-step with this Government's economic strategy and enables New Zealanders to make informed choices and build their own resilience.

14. To achieve this, we need an all-of-government framework that helps us understand benefits and trade-offs across our portfolios and that clearly signals to all of New Zealand what effective action on climate change means in practice.

15. In *Figure 1*, below, I propose three fundamental pillars which together underpin the all-of-government framework (further explained in paragraphs 20-29):

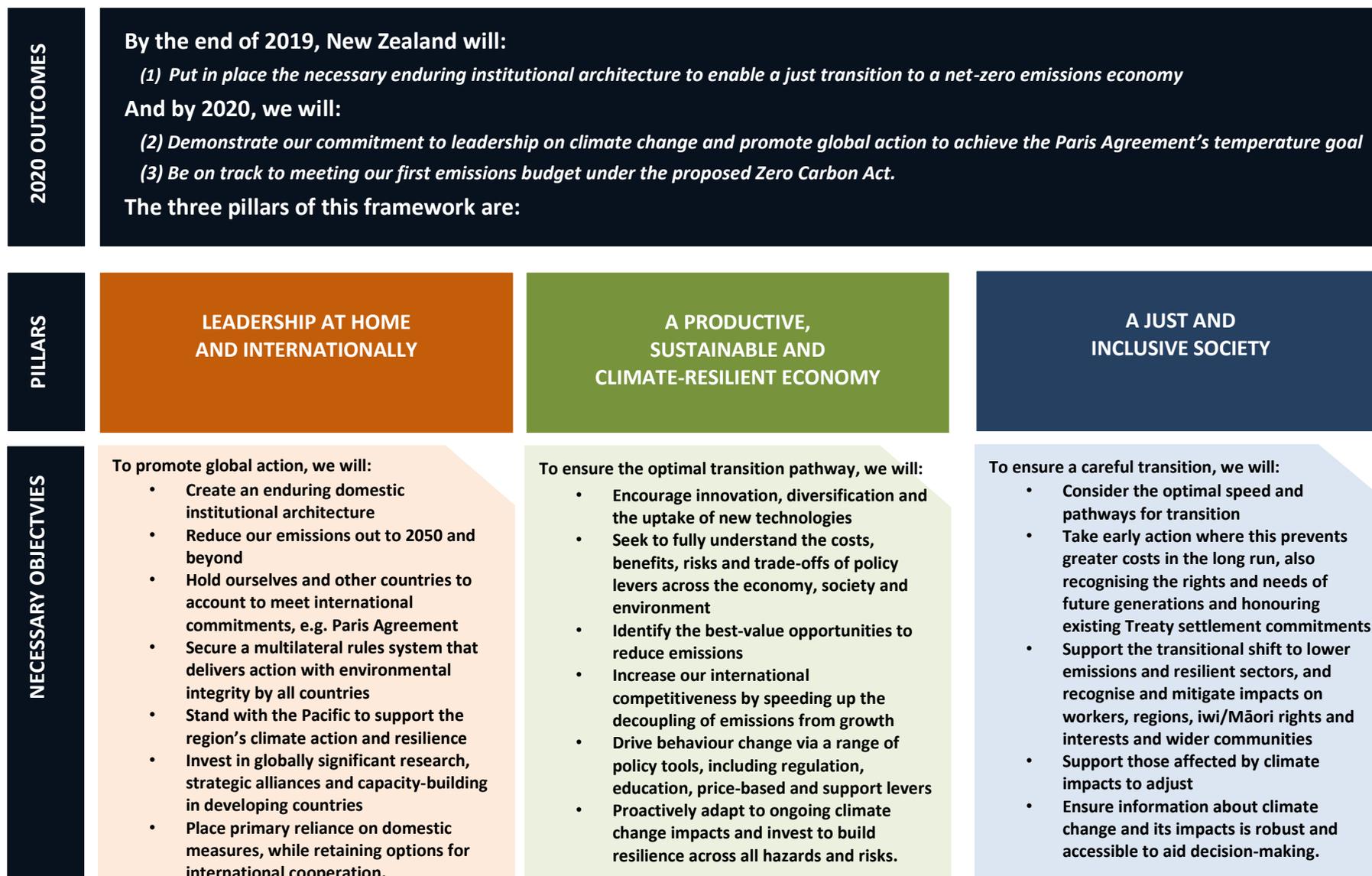
- Leadership at home and internationally
- A productive, sustainable and climate-resilient economy
- A just and inclusive society.

16. I also propose three 2020 outcomes, which intend that we will:

- by the end of 2019, put in place the necessary enduring institutional architecture to enable a just transition to a net-zero emissions economy;
- and, by 2020, that we will:

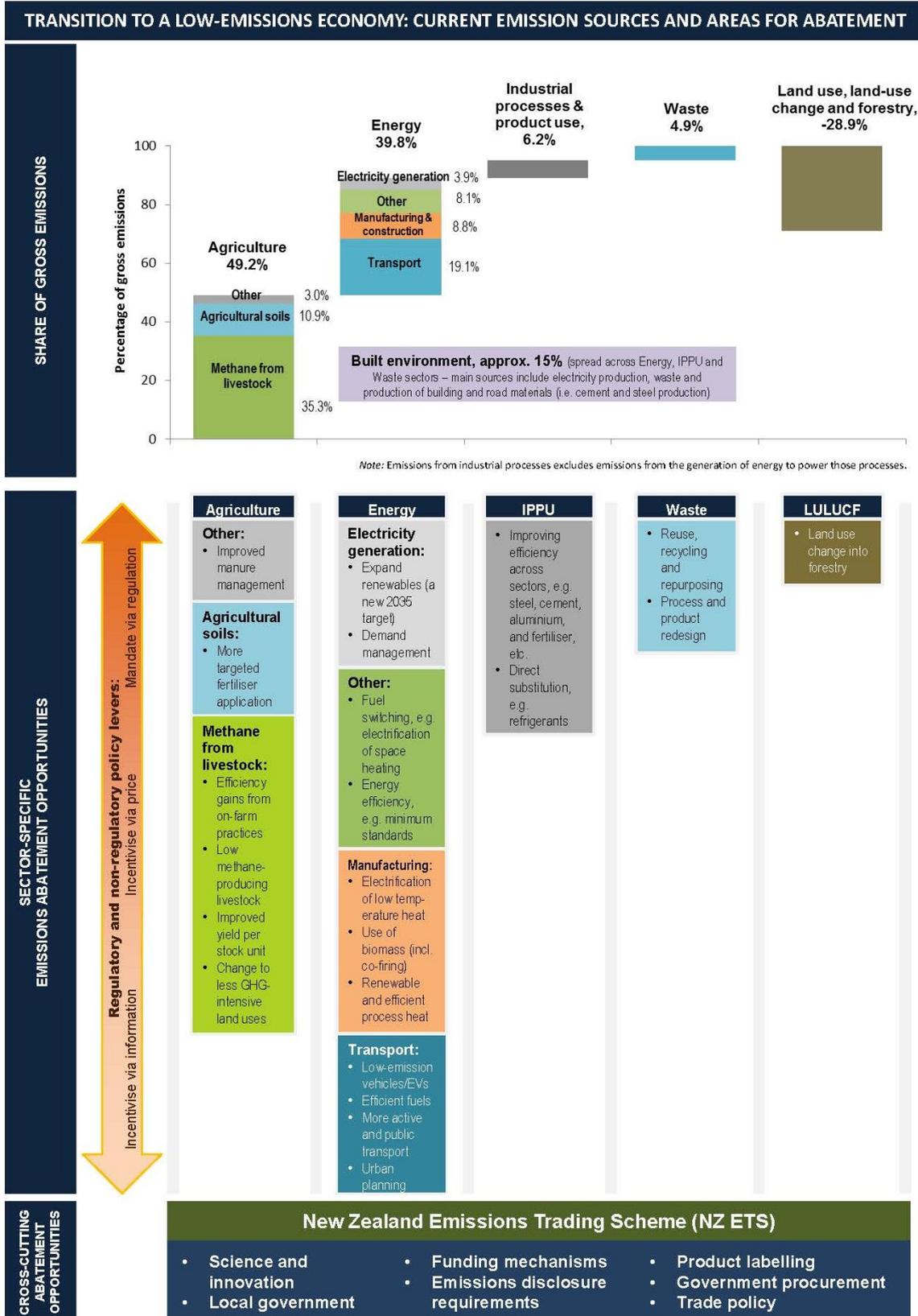
- demonstrate our commitment to leadership on climate change and promote global action to achieve the Paris Agreement's goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels and aiming to limit the increase to 1.5°C.global warming;
- be on track to meeting our first emissions budget under the proposed Zero Carbon Act.

Figure 1: The all-of-government framework for climate change policy and decision-making



17. There are a range of policy levers across our portfolios that we can pull to drive the transition to lower emissions, for example science and innovation policy, funding mechanisms and Government procurement. These are shown in *Figure 2*, below.

**Figure 2: Areas for emissions abatement in the transition to a low-emissions economy**



18. The all-of-government framework for climate change, centred on the three fundamental pillars and their necessary objectives, will ensure we make decisions in a consistent manner, with a clear understanding of benefits and trade-offs.
19. The three pillars are detailed in paragraphs 20-29 below.

#### *Leadership at home and internationally*

20. Domestic action is a core strategy for New Zealand to influence the global response to climate change and ensure global action is in line with our interests. While we cannot act in isolation, taking domestic action which is consistent with the expectations of us as a developed country will give us standing to hold others to account for acting consistently with the Paris Agreement.
21. International leadership and domestic action are mutually supportive. By making investments that allow New Zealand to lead innovation on areas of our comparative advantage, such as forestry and agriculture (for example, through the Global Research Alliance and Climate and Clean Air Coalition), we can devise solutions that both reduce global emissions in line with the Paris Agreement and enhance New Zealand's brand and trade position.
22. New Zealand has shown strong support for global initiatives – including in the G20, APEC and WTO<sup>1</sup> – to identify, restrict and eventually abolish environmentally harmful subsidies (e.g. fossil fuel and fisheries subsidies). Along with environmental provisions in trade agreements, this is a tangible way to advance common climate change objectives with like-minded governments on a bilateral or plurilateral basis. It is also one of the considerations behind the Government's consultation with New Zealanders on the Trade for All Agenda.
23. Our security is interdependent with that of the Pacific: climate change is a risk multiplier and we are the destination of choice for Pacific migrants. Leadership also means providing support to the Pacific and building the region's capacity for mitigation, adaptation and participation in the design and implementation of the international rules set.

#### *A productive, sustainable and climate-resilient economy*

24. As we move to a more sustainable and resilient economy, we must fully take into account – and be transparent about – the potential costs, benefits and trade-offs of policies to meet our targets and adapt to future climate change impacts. We must also recognise there are different policy pathways, which will each have a different distributional impact across sectors, regions and communities.
25. The required changes to investment and behaviour can be driven by Government through regulation, education, price-based levers and support levers, including investment. We must use the right tools and take an evidence-based approach to understand the best balance of gains versus challenges across the economy to mitigate and adapt to climate change. Where transition is desirable, we will also put in place policies to mitigate any downside risks.
26. International evidence suggests that being proactive on climate change mitigation and adaptation has the potential to increase New Zealand's comparative advantage and international competitiveness (through improved efficiency and innovation, as well as demanding a higher premium for our products). It can also help achieve

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<sup>1</sup> Group of 20, Asia-Pacific Economic Cooperation, World Trade Organisation.

conservation and environmental goals, such as maintaining coastal wetlands and restoring indigenous forest. By acting now to encourage innovation and uptake of low-emissions technology, and focusing on the necessary social adjustments, we can speed up the decoupling of emissions from growth and achieve diversification in our economy.

*A just and inclusive society*

27. There will be adjustments across sectors, regions and communities as our economy faces change and disruption from multiple areas, including the effects of climate change and the effort to achieve the transition to low emissions. There will be choices about when is the right time to take action.
28. We will need to ensure a careful transition by managing the speed and pathways for the transition. We must assess the merits of taking early action, also recognising the rights and needs of future generations and having regard for iwi/Māori interests and existing commitments made through Treaty settlements.
29. We must support the shift to lower-emission sectors and employment, support regions and communities affected by transitional policies, and support those affected by climate impacts (such as coastal and flood-prone communities) to adapt. Underpinning these considerations is the need to provide robust and accessible information about the ongoing changes to our climate to aid decision-making.

***In particular, the framework will assist with key upcoming decisions in 2018 and 2019 to reset New Zealand's economic direction***

30. There are a number of key upcoming decisions on priority climate change policy matters throughout 2018 and 2019 in particular.
31. These decisions relate not only to introducing the Zero Carbon Bill in October 2018, but also to proposed amendments to the Climate Change Response Act 2002 to strengthen the New Zealand Emissions Trading Scheme (NZ ETS) and implement the Paris Agreement, as well as decisions on our international engagement on climate change. A more detailed overview of the key upcoming decisions in each work programme is provided in *Appendix 1*.
32. These decisions each have significant fiscal, economic and social implications. They will reset New Zealand's institutional architecture and future economic direction and signal the beginning of the transition to a low-emissions, climate-resilient economy.
33. The all-of-government framework will assist Ministers to understand benefits and trade-offs across our portfolios and agree on the key upcoming decisions throughout 2018 and 2019.

***The framework will also support ongoing work, including a Climate Policy Impact Assessment (CPIA) proposal and 2050 Climate Change Transition Strategy***

34. I recognise there will be decisions that other Ministers are pursuing in their respective portfolios which will have climate change implications.
35. Cabinet has agreed to support decision-making by introducing a Climate Policy Impact Assessment (CPIA) requirement, which will provide information on a policy proposal's potential impact on both emissions and adaptation efforts. I consider the framework will support the CPIA proposal, which officials from the Treasury and Ministry for the Environment are developing together as part of a wider set of

changes to the Government's Regulatory Management System, and which I intend to introduce to Ministers by the end of 2018.

36. The framework will also support ongoing work in the interagency Transition Hub within the Ministry for the Environment to identify and advise on a necessary policy work programme to support the just and inclusive transition. This will form the basis of a 2050 Climate Change Transition Strategy. It will also align with the Government's economic strategy and 12 priority outcomes, particularly the Environment, Energy and Climate Committee's responsibility for the transition to a clean, green and carbon-neutral New Zealand.

***I will return to Cabinet in late May with a range of options for public consultation on the Zero Carbon Bill***

37. The Zero Carbon Bill proposes to create the necessary enduring institutional architecture to meet New Zealand's long-term emission reduction goals. Public consultation and engagement on the Government's proposals for the Zero Carbon Bill is scheduled for June/July 2018.

38. At this stage, I expect to propose that the content of a Zero Carbon Bill discussion document could primarily refer to decisions on:

- the definition and form of a new 2050 target and a mechanism for setting emissions budgets to meet the target
- the role, powers and functions of the Climate Change Commission vis-a-vis the Executive
- the inclusion of specific adaptation (i.e. climate resilience) functions in the Bill.

39. I will return to Cabinet in late May 2018 to approve the discussion document, including the range of options for public consultation.

## **Consultation**

40. I have developed the framework and 2020 outcomes together with a core group of Ministers and government agencies: the Ministry for the Environment, Ministry for Primary Industries, Ministry of Business, Innovation and Employment, Ministry of Foreign Affairs and Trade, Ministry of Transport and the Treasury.

41. Other relevant agencies were also consulted on this paper, including the Department of Conservation, Department of Internal Affairs, Ministry for Women, Ministry of Justice, Te Puni Kōkiri, and the Department of Prime Minister and Cabinet (Ministry of Civil Defence and Emergency Management and National Risks Unit; Policy Advisory Group).

42. The Department of Prime Minister and Cabinet has been informed and reviewed the proposals in this paper.

## **Financial implications**

43. There are no financial implications associated with the proposals in this paper.

44. The Treasury and Ministry for the Environment will further investigate options for reporting on the financial implications of legislated climate change targets and progress towards them. This work will be available to inform final Cabinet policy decisions on a target for inclusion in the Zero Carbon Bill.

## Human rights

45. The proposals in this paper are consistent with the Human Rights Act 1993.

## Legislative implications

46. There are no legislative implications associated with this paper.

## Regulatory impact analysis

1. There are no regulatory implications associated with this paper.

## Publicity

47. I propose to release this paper on the Ministry for the Environment's website.

## Recommendations

The Minister for Climate Change recommends that the Committee:

1. **Approve** the following three fundamental pillars which together underpin the all-of-government framework for climate change:
  - Leadership at home and internationally
  - A productive, sustainable and climate-resilient economy
  - A just and inclusive society.
2. **Approve** the proposed 2020 outcomes to ensure that:
  - By the end of 2019, the Government will put in place the necessary enduring institutional architecture to enable a just transition to a net-zero emissions economy;
  - And that, by 2020, we will:
    - Demonstrate our commitment to leadership on climate change and promote global action to achieve the Paris Agreement 1.5/2-degree goal
    - Be on track to meeting our first emissions budget under the proposed Zero Carbon Act.
3. **Agree** the all-of-government framework in *Figure 1* to serve as the basis for climate change policy development and Ministerial decision-making, including understanding and balancing trade-offs across portfolios;
4. **Note** the all-of-government framework will assist Ministers to make key upcoming decisions in 2018 and 2019, as outlined in *Appendix 1*;
5. **Note** the framework will also support:
  - the development of a Climate Policy Impact Assessment (CPIA) proposal, which officials from the Treasury and Ministry for the Environment are developing together as part of a wider set of changes to the Government's Regulatory Management System, and which I intend to introduce to Ministers by the end of 2018;

- the ongoing programme of policy work by the interagency Transition Hub, which will form the basis of the 2050 Climate Change Transition Strategy;
  - delivering on the Government's economic strategy and 12 priority outcomes, in particular the transition to a clean, green and carbon-neutral New Zealand.
6. **Note** the Minister for Climate Change will return to Cabinet in late May 2018 with a range of options for public consultation on the Zero Carbon Bill;
  7. **note** the Treasury and Ministry for the Environment will further investigate options for reporting on the financial implications of legislated climate change targets and progress towards them, which will be available to inform final Cabinet policy decisions on a target for inclusion in the Zero Carbon Bill;
  8. **Agree** that the Minister for Climate Change proactively release this paper on the Ministry for the Environment's website.

Authorised for lodgement.

Hon James Shaw

**Minister for Climate Change**

## Appendix 1. Overview of key decisions on priority climate change matters

Area of work	Sub-areas	Decisions required
Zero Carbon Bill	Targets	<ul style="list-style-type: none"> <li>The form that the 2050 target should take and level that the target should be set at</li> <li>Costs and benefits</li> </ul>
	Climate Change Commission	<ul style="list-style-type: none"> <li>Level of independence</li> <li>Role (i.e. decision making or advisory)</li> <li>Functions (e.g. role regarding emissions budgets, NZ ETS, adaptation, etc.)</li> </ul>
	Emissions budgets	<ul style="list-style-type: none"> <li>Approach to establishing 'stepping stones'</li> <li>What period will these be for</li> <li>When and how far in advance will these be set</li> <li>Relationship to NZ ETS, international commitments</li> </ul>
	Role of the executive	<ul style="list-style-type: none"> <li>The requirement (if any) for the government to respond with policies/strategy to Commission/emissions budgets</li> </ul>
New Zealand Emissions Trading Scheme changes	Decision-making and cap-setting process	<ul style="list-style-type: none"> <li>Establishing the institutional and legal framework for coordinating decisions about NZ ETS unit supply (e.g. roles, powers, constraints or considerations)</li> </ul>
	Auctioning	<ul style="list-style-type: none"> <li>How to implement an auctioning mechanism to sell NZUs, including design issues such as bid format, auction frequency and who can participate</li> </ul>
	Limiting the use of international units	<ul style="list-style-type: none"> <li>How to limit participants' future use of international units if the NZ ETS reopens to carbon markets, including how international units might be able to enter the NZ ETS and how a limit would operate</li> </ul>
	Developing an alternative to the current price ceiling	<ul style="list-style-type: none"> <li>How and whether a different price ceiling should be implemented into the NZ ETS and managed over time</li> </ul>
	Free allocation	<ul style="list-style-type: none"> <li>Whether and how to phase out free allocation</li> </ul>
	Forestry accounting	<ul style="list-style-type: none"> <li>Potential changes to forestry carbon accounting rules, including if and how an 'averaging approach' should be implemented</li> </ul>
	Forestry operational improvements	<ul style="list-style-type: none"> <li>Making operational improvements for how forestry in the NZ ETS works, including whether and, if so, how the Permanent Forest Sink should be moved into the Climate Change Response Act (CCRA) 2002</li> </ul>
	Operational improvements	<ul style="list-style-type: none"> <li>Streamlining the penalties regime to improve compliance operations and outcomes</li> <li>Any other minor or technical improvements to how the NZ ETS works</li> </ul>
Other changes to the CCRA	Potential role of agriculture	<ul style="list-style-type: none"> <li>How, agriculture will face surrender obligations in the NZ ETS following consideration by the Commission</li> </ul>
	Legislative amendments to reflect the Paris Agreement	<ul style="list-style-type: none"> <li>What changes need to be made to the CCRA to reflect the Paris Agreement</li> </ul>

Adaptation and resilience to climate change	Adaptation	<ul style="list-style-type: none"> <li>• A whole-of-government response to the Climate Change Adaptation Technical Working Group (CCATWG) report recommendations</li> <li>• National direction through the Resource Management Act on enabling resilience through land-use planning for climate change and natural hazards</li> </ul>
Decisions on international engagement on climate change	International negotiations under the UNFCCC and the Paris Agreement	<ul style="list-style-type: none"> <li>• Engagement in negotiations of the Paris Agreement Work Programme</li> <li>• Potential supplement to the mandate for international negotiations (ahead of the 24<sup>th</sup> Conference of the Parties in December 2018 in Katowice, Poland)</li> <li>• Review New Zealand's Nationally Determined Contribution (NDC)</li> <li>• Communication of a Long-Term Low-Emissions Development Strategy (LT-LEDS)</li> </ul>
	Trade Strategy	<ul style="list-style-type: none"> <li>• Integrating climate change in the Trade for All Agenda</li> </ul>
	Climate Finance	<ul style="list-style-type: none"> <li>• Decisions on a future climate finance strategy</li> <li>• Climate finance budgetary allocations</li> </ul>
	Climate Migration	<ul style="list-style-type: none"> <li>• New Zealand action on Pacific Climate Migration</li> <li>• Policy positions on Pacific Climate Migration</li> </ul>
	International carbon markets	<ul style="list-style-type: none"> <li>• Use of international carbon markets</li> </ul>