



## Feedback on Treasury hypothecation report

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Security Level	IN CONFIDENCE	MfE Priority:	Non-Urgent

	<b>Action sought:</b>	<b>Response by:</b>
To Hon James Shaw, Minister for Climate Change	“note this Briefing”	25/11/2019

Actions for Minister’s Office Staff	<b>Return</b> the signed report to MfE.
Number of appendices and attachments	Nil
Note any feedback on the quality of the report	

### Ministry for the Environment contacts

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# Feedback on Treasury NZ ETS revenue hypothecation report

## Key Messages

1. The purpose of this briefing is to update you with our feedback on the Treasury report *ETS Revenue and Mitigation Spending Options* that you received on 15 November 2019.
2. We broadly support the advice within the Treasury report.
3. There are two additional key messages that we wish to bring to your attention:
  - a. We think that there could be further attention paid to the use of New Zealand Emissions Trading Scheme (NZ ETS) revenue to meet the potential costs of purchasing international units in future to meet our emissions reduction targets.
  - b. We want to highlight that it is likely that the cash received from the ETS (either through the fixed price option or auctioning) is likely to receive more public attention than the accounting revenue.

### *Purchase of international units*

4. The Treasury report discusses international emissions reduction obligations and how the purchase of carbon credits from overseas could potentially be used to meet our climate change targets in future. However, there could be stronger considerations of the use of NZ ETS revenue in meeting these potentially large future fiscal costs.
5. Although international unit purchase is not necessarily a cost that the Crown would be liable for, as participants may be able to purchase international units directly, it is an important consideration to keep in mind when planning any future options for spending NZ ETS revenue.
6. It should also be noted that there appears to have been a misunderstanding in regards to the assumptions upon which the Treasury reported the additional number of international units and related costs necessary to meet our Nationally Determined Contribution (NDC).
7. Treasury reported the cost to be <sup>s 9(2)(i)</sup> [REDACTED] for the 2021-2025 period, assuming that an additional <sup>s 9(2)(i)</sup> [REDACTED] will be required to meet our NDC based on our current net emissions projections. However, this actually appears to be based on a ten year period of 2021-2030.
8. The latest Ministry for the Environment estimates suggest a lower cost of <sup>s 9(2)(i)</sup> [REDACTED], from an estimated emissions reduction trajectory that would require an <sup>s 9(2)(i)</sup> [REDACTED] to be purchased from international markets for the period 2021-2025.

### *Cash vs. revenue*

9. NZ ETS revenue refers to both the cash revenue from auctioning and the non-cash revenue from when NZ units (NZUs) are surrendered to the Government.
10. The Treasury report focusses almost entirely on the use of NZ ETS revenue, without differentiating between cash and non-cash revenue. In overseas markets, public attention and hypothecation decisions have focussed much more strongly on the auction cash that governments receive from the ETS. This public focus on cash doesn't change the accounting considerations for the Government, but it does change the public perception of how much money is available for government use.

11. It is likely that any specific use of the NZ ETS revenue will come under most public scrutiny at the time when the Government receives the cash, rather than when the units are surrendered, due to the greater visibility.

**Signature**

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Mark Storey  
**Acting Director, Climate Change**

Hon James Shaw  
**Minister for Climate Change**

**Date**