



Changes to NZ ETS settings regulations draft Cabinet paper

Date Submitted:	29 April 2020	Tracking #: 2020-B-06676	
Security Level	In-confidence	MfE Priority:	Urgent

	Action sought:	Response by:
To Hon James Shaw, Minister for Climate Change	Agree to begin Ministerial consultation on the Cabinet paper	Wednesday 29 April

Actions for Minister's Office	Return the signed report to MfE.
Number of appendices and attachments: 2	<ol style="list-style-type: none"> Cabinet paper: NZ ETS settings regulations [2020-C-06573] CIPA disclosure sheet

Ministry for the Environment contacts

Position	Name	Cell phone	1 st contact
Principal Author	Vanessa Chalk		
Responsible Manager	Matthew Cowie	██████████	✓
Director	Roger Lincoln	██████████	

Changes to NZ ETS settings regulations draft Cabinet paper

1. This briefing seeks to update you on the changes that have been made to the draft Cabinet paper, NZ ETS settings regulations [2020-C-06573], based on feedback from yourself and your office.
2. Officials have addressed your comments and made the requested changes so that the Cabinet paper can be ready to begin Ministerial consultation on Thursday 30 April 2020. This is in keeping with the goal of lodging the paper on 7 May 2020 so that it can be taken to Cabinet at the same time as the Cabinet paper *Approval of further policy changes to the ETR Bill* [2020-C-06541].
3. Our briefing note of two weeks ago (2020-B-06643) provides further background on the purpose, context and summary of the NZ ETS settings regulations Cabinet paper.

Shortening the paper

4. We have shortened the paper, particularly the executive summary, at your request. We have addressed this where possible without removing necessary information.
5. Shortening the paper included removing the figure which illustrated our high, medium and low expectations of the impact of COVID-19 on New Zealand's net emissions, because that information was not used to support any analysis in the paper. In your comments on this figure you asked why net emissions within this graph were forecast to see such a significant increase from 2020 to 2021. This is due to changes in forestry harvesting cycles and a significant reduction in sequestration based on forestry activities. The gross emissions from 2020-2021 are forecast to have a minor decrease, from 80.93 Mt CO₂-e, to 80.76 Mt CO₂-e.

Text additions you requested

6. The revised Cabinet paper contains the edits you made in the draft Cabinet paper to paragraph 14 regarding why the time for setting regulations is now and paragraph 28 regarding submitter's opinions on the provisional emissions budget. These edits can be seen in paragraphs 6.1, 6.2 and 20 of the revised Cabinet paper.
7. In new paragraphs 30 and 31, we have clearly explained that the proposed provisional emissions budget does not set us on track to meet our Nationally Determined Contribution under the Paris Agreement. In doing so, we have highlighted that meeting our Nationally Determined Contribution will likely require additional policy measures and international units.
8. We have added new paragraph 50 that states you are considering ways to return cash made from auctioning to all New Zealanders.
9. The CIPA statement in paragraph 106 has been reworded to explain that factors other than the NZ ETS will also cause emissions reductions. We have included the full CIPA disclosure sheet as an appendix.

Additional changes we have made

10. New paragraph 61 explains that the annual increase in the auction reserve price and cost containment trigger price based solely on inflation, does not align with the recommendation made by officials in the Regulatory Impact Assessment (RIA) to increase the price controls at 5 per cent plus inflation annually. We believe this clarification needs to be made as the RIA will be released with the Cabinet paper, and therefore requires an explanation for why this recommendation was not followed.
11. We have added an impacts section to identify how households and different types of businesses will be impacted by increasing emission prices. The Regulatory Impact Analysis provides further relevant detail.

12. The financial implications section has been clarified to show the difference between the proposals and the existing fiscal forecast.

Editorial and formatting

13. All other changes were primarily minor editorial and formatting related, and include a new table in the executive summary for the annual figures on limits on emissions covered by the NZ ETS. This table now clarifies how the overall limit on units is reached by adding together four factors: the units to be auctioned, the units withheld from auction to reduce the stockpile, the units forecast to be released through other means (currently made up of industrial allocation and Negotiated Greenhouse Agreement) and approved overseas units.

Consultation feedback

14. The revised paper has not had time to be sent out for another round of agency consultation.

15. The MfE legal team has reviewed the revised paper and provided only editorial comments.

Next Steps

16. We ask you circulate the Cabinet paper for consultation with your Ministerial colleagues. Lodging of the paper is expected for 7 May 2020.

17. We will continue to finalise the regulatory impact analysis and work on a communications strategy to support any announcement of the policy decisions.

Recommendations

18. We recommend that you:

- a. **Note** the changes that officials have made to the NZ ETS settings regulations draft Cabinet paper
- b. **Agree** to begin Ministerial consultation on this Cabinet paper Yes/No

Signature

This briefing has been electronically approved by

Roger Lincoln
Director
Climate Change Directorate

Hon James Shaw
Minister for Climate Change

Date