

Reference: 20150497

12 February 2016



Thank you for your Official Information Act request, received on 26 November 2015.  
You requested the following:

*“all advice provided to Ministers, in the last 12 months, relating to the scope of the review of the New Zealand’s Emissions Trading Scheme. This should include, but not be limited to, briefings, aide memoires, presentations, and cabinet papers. It should also include any documents provided to support informal discussions between Ministers.”*

On 15 December 2015 I sought an extension of 20 working days.

### Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	6 November 2015	Treasury Report: Emissions Trading Scheme Review: Release of Discussion Documents	Release in part
2.	6 November 2015	Cabinet Committee Briefing Review of the New Zealand Emissions Trading Scheme	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under the following sections of the Official Information Act:

- Personal details under section 9(2)(a) – to protect the privacy of natural persons, including deceased people

- advice under active consideration under section 9(2)(f)(iv) –, to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility; and
- names and contact details of junior officials and other sensitive information under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Libby Masterton  
**Manager, Natural Resources**

# Information Being Released

## OIA 20150497

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## Treasury Report: Emissions Trading Scheme Review: Release of Discussion Document

<b>Date:</b>	6 November 2015	<b>Report No:</b>	T2015/2558
		<b>File Number:</b>	KI-3-2-3

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p><b>Read</b> this report before EGI considers a paper on the Review of the New Zealand Emissions Trading Scheme (ETS) on 11 November</p> <p><b>Support</b> the recommendations in the ETS Review Cabinet Paper</p> <p><b>Note</b> the recommendations on page 3 of this report</p>	Wednesday 11 November 2015

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Withheld under s9(2)(g)(i)]		[Withheld under s9(2)(a)]	✓
Ben Parker	Senior Analyst, Natural Resources	04 917 6017 (wk)	

### Actions for the Minister's Office Staff (if required)

**Return** the signed report to Treasury.

**Refer** a copy of this report to the Associate Ministers of Finance, the Minister for Climate Change Issues, the Minister for the Environment, the Minister for Primary Industries and the Associate Minister of Climate Change issues

Note any feedback on the quality of the report

**Enclosure:** No

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## Treasury Report: Emissions Trading Scheme Review: Release of Discussion Document

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### Executive Summary

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Hon Groser will take a paper to EGI on 11 November, seeking to start consultation on a review of the Emissions Trading Scheme (ETS). The paper includes the proposed terms of reference and process for the review and seeks approval to release a discussion document.

Treasury supports the Cabinet Paper and recommends you agree to its recommendations. The discussion document does not include any Government preferred options, and leaves all policy choices open to consider in 2016.

The **first stage** of the review will consider removing the 'one-for-two' transitional measure that effectively halves the carbon price for all sectors except forestry. It will also consider reducing the price ceiling that sets a maximum fixed price for emissions, to reduce the costs of removing one-for-two. One-for-two could be removed after 2020, to align with our more challenging post-2020 emissions target. However, starting to phase out transitional measures before 2020 would demonstrate a more credible commitment to exposing firms to emissions costs over time, aiding better long term investment decisions

[Information not relevant to request]

The **second stage** of the review will consider other matters that could be progressed over a longer timeframe. These include the role of auctioning and supply management in the ETS, if and when allocations to trade-exposed industry should be reduced after 2020, and complementary measures outside the ETS to reduce greenhouse gas emissions.

The **agricultural sector's** biological emissions are excluded from the review scope. This is because there has been limited progress on the Government's conditions that the sector would only be included in the scheme when there are economically viable technologies available to reduce these emissions, and our trading partners make more progress on tackling their emissions in general. s9(2)(f)(iv)


The **key issues** Ministers will have to decide in 2016 after consultation is complete is when to remove one-for-two, and whether to manage costs to participants of this in the short term. These costs could be managed by removing one-for-two gradually, lowering the price cap, or by introducing an auctioning mechanism. Ministers will also need to decide whether to commit to a pathway of longer term policy changes up to and beyond 2020.

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## Recommended Action

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We recommend that you:

- a **note** that Hon Groser will take a paper to EGI on 11 November seeking to start consultation on the ETS Review.
- b **note** that the ETS review will have two stages, with the first stage considering whether to remove the 'one-for-two' transitional measure and whether to reduce the price cap to manage the additional costs from removing one-for-two. The second stage will consider other matters that could be progressed over a longer timeframe.
- c **note** that the review will not consider including agricultural emissions in the ETS.
- d **note** that there will be an increasing focus on the Government's actions to reduce agricultural emissions, given New Zealand's post-2020 emissions reduction target includes these emissions.
- e **note** that it is timely to assess the Government's actions and strategy for reducing agricultural emissions, even if this is not part of the review.
- f **s9(2)(f)(iv)**  

- g **refer** to the Associate Ministers of Finance, the Minister for Climate Change Issues, the Minister for the Environment, the Minister for Primary Industries and the Associate Minister of Climate Change issues.

*Refer/not referred.*

Ben Parker  
**Acting Manager, Natural Resources**

Hon Bill English  
**Minister of Finance**

**IN-CONFIDENCE****Treasury Report: Emissions Trading Scheme Review: Release of Discussion Document**

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**Purpose of Report**

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1. This report explores the potential impacts of the changes that will be considered through the upcoming ETS review and highlights the key choices around the ETS that Ministers will need to make in 2016 after the consultation.
2. The report sets out the context for the review and then explores the costs and benefits of the key proposal, removing 'one-for-two', at a high level. No decisions on the removal of one-for-two are being taken at this stage.

**Context and drivers for the ETS Review**

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3. New Zealand will be part of any new climate change agreement concluded at the United Nations climate change conference in Paris in December 2015. This agreement would apply from 2020. The Government has decided that New Zealand's emissions reduction target under the new agreement will be 30% below 2005 levels by 2030, if countries conclude the new global agreement in Paris. This target applies to all gases. In the short term, New Zealand is on track to meet our 2013-2020 emissions target.
4. New Zealand's post-2020 target will be more challenging to meet than previous targets. Other countries are also taking more ambitious targets, which will create tighter global constraints on greenhouse gases. Even if the Paris negotiations are not successful, global action on climate change is likely to increase over time. The ETS review is an opportunity to ensure that the ETS will help New Zealand to meet this target at least cost.
5. There have been calls from a range of stakeholders for more certainty about future ETS settings to help firms plan for the future. The ETS has been subject to significant changes in recent years, often at short notice due to changing international circumstances.

**The 2011 ETS Review**

6. The ETS was last reviewed in 2011 by a Crown appointed panel. The panel recommended phasing out one-for-two over three years, slowly increasing the price cap and reducing free allocation levels. It also recommended including agricultural emissions in the ETS from 2015. The Government chose not to change these settings, and instead to consider them again in the next ETS review.
7. Cabinet agreed in 2012 that the next ETS review would be in 2015 and will consider both the entry of agriculture into the ETS and the continuation of the one-for-two and fixed price transitional measures.

**Current announcements about the 2015 ETS Review**

8. Public statements by Hon Groser have confirmed that the ETS review will begin this year, and that it will consider removing transitional measures, particularly the one-for-two provision. ETS participants also know that the Government has been considering whether an auctioning mechanism needs to be introduced to the scheme, and that the Government previously committed to consider agricultural emissions in the next review.

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Scope and process for the 2015 ETS Review

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9. s9(2)(f)(iv)

10.

Key Decisions in 2016

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11. The **key issues** Ministers will have to decide in 2016 after consultation is complete are:

- when to remove one-for-two,
- whether to manage the increased costs to households and firms from removing one-for-two by phasing it out gradually, reducing the price cap, or introducing auctioning, and
- whether to commit to increase free allocation rates or to remove the price cap after 2020, when New Zealand will face a more stringent emissions target

[Information not relevant to request]



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[Information not relevant to request]

## Other ETS Policy Issues

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38. There are a number of other policy issues around climate change policy that Ministers should consider when they make decisions around the ETS Review.
39. The treatment of **agricultural emissions** is excluded from the ETS review. The discussion document mentions why agriculture is excluded, but it could also describe the action the Government is already taking on these emissions (e.g. significant amounts of research).
40. There will be an increasing focus on the Government's actions to reduce agricultural emissions, because New Zealand has taken an ambitious new target that includes these emissions. This would be a good time to assess the Government's actions and strategy for reducing agricultural emissions, even if it is not part of the review. For instance, officials could consider how the current investments in research to reduce agricultural emissions are aligned, and whether industry is funding the right portion of this spending. This work could also consider how policies to improve water quality interact with goals to reduce agricultural greenhouse gas emissions.
41. New Zealand is planning to take a different approach to accounting for **forestry emissions** in the next agreement. These new accounting rules will not be confirmed until at least 2016, but they may mean that significant changes to forestry settings in the ETS should be considered.

42. [Information not relevant to request]

## Risks

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43. [Information not relevant to request]

- 44.

**IN-CONFIDENCE****Communications**

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45. [Information not relevant to request]



46. The discussion document also includes a section on the benefits and costs of adding a price floor to the ETS. Treasury understands that Ministers have discussed the option of a price floor and may not have wanted to consider this option further.

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OFFICIAL INFORMATION ACT

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## Review of the New Zealand Emissions Trading Scheme 2015-16

**Responsible Person:** Ben Parker (917 6017)

**First Contact Person:** [Withheld under s9(2)(g)(i)]

### Purpose

1. This paper seeks approval to release a discussion document on the review of the Emissions Trading Scheme (ETS). The paper also includes the proposed terms of reference and process for the review.
2. Treasury supports this Cabinet Paper. Treasury Report T2015/2558 provides detailed advice on the review.

### Comment

3. The first stage of the review will consider whether to remove the 'one-for-two' transitional measure that effectively halves the carbon price for all sectors except forestry. It will also consider whether to reduce the price cap to manage the additional costs from removing one-for-two.
4. The second stage will consider other matters that could be progressed over a longer timeframe.
5. [Information not relevant to request]

### Treasury Recommendation

6. We recommend that you **support** the recommendations in this paper.

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			15/16	16/17	17/18	18/19	Out years	
Review of the New Zealand Emissions Trading Scheme 2015-16		Support	Operating					This paper seeks agreement to release a discussion document on the ETS review.
			-	-	-	-	-	
			Capital					
			-	-	-	-	-	