

Weekly update - Minister for Climate Change

For the week starting 13 November 2017

No meeting scheduled

Actions from previous meeting

- 1. Information on the Air New Zealand announcement on 21 November** – we will provide you with a joint briefing on the MoU and announcement next week.
Please refer item 1.1 of this report
- 2. Coastal hazards guidance meeting with authors** – we will arrange a meeting with authors ahead of Christmas
- 3. Timeframe for Zero Carbon Act** – we will provide you with a timeline setting out the key decisions and approvals required to deliver the Zero Carbon Act
The timeline will be included in the briefing accompanying the draft Cabinet paper on the Zero Carbon Act on Thursday 9 November
- 4. Cabinet paper on Zero Carbon Act** – we will provide you with a draft Cabinet paper on 9 November setting out the process for establishing a Zero Carbon Act, options for a Climate Commission and a Chief Executives Board
Provided to your office on Thursday 9 November
- 5. Separate weekly meeting on Zero Carbon Act** – we will work with your office to schedule a weekly progress meeting on the Zero Carbon Act
These will be scheduled from the week starting 20 November
- 6. List of discussion topics** – we will provide you with a forward schedule of topics for possible 'deep dive' discussions ahead of Christmas
We will provide this when you return from Bonn

Upcoming meetings

- 1. Conference of the Parties, Bonn, Germany 10 – 19 November**
- 2. Air New Zealand Annual Parliamentary Function, Parliament Buildings, 21 November**

1. Key decisions for you to make this week

1.1. MOU with Air New Zealand to develop a business case for a Private Afforestation Fund [COMMERCIAL IN-CONFIDENCE]

Air New Zealand is proposing to announce a Memorandum of Understanding (MoU) with the Government on establishing a Private Afforestation Fund at their Annual Parliamentary Reception on Tuesday 21 November 2017. This is the day after you return from your meetings at COP23.

We are working with the Ministry for Primary Industries (MPI) to finalise the MoU with Air New Zealand (Air NZ). The MoU will set the terms for the development a business case to scope and feasibility of a private afforestation fund, which would be piloted by Air NZ.

Air NZ approached MPI and MfE at the end of 2016 to explore options for how they could work with government to meet their New Zealand Emissions Trading Scheme (NZ ETS) obligations using New Zealand emission units (NZUs) generated through forestry carbon sinks.



[withheld under section 9(2)(b)(ii)]

Through follow up discussions, options were narrowed to the possibility of establishing a private afforestation fund. The MoU between Air NZ, MPI and MfE will allow further development of a business case for this pilot. Once signed, Air NZ wishes to announce basic details of this MoU at their Annual Parliamentary Reception. This will be held on the evening of Tuesday 21 November.

We are currently drafting a joint briefing with MPI to provide you and Hon Shane Jones with further detail and background. This briefing will also seek your approval to continue work with Air NZ and confirm if you will speak at the announcement of it at the event on 21 November. We expect you will need to discuss this with your ministerial colleagues ahead of the event. We will work with your office to identify a suitable time for this to occur, and to draft speaking points for you, noting that the time available for such discussions is tight given your travel schedule over the next 10 days.

Ahead of the event on 21 November, you are also scheduled to meet with Christopher Luxon, AirNZ CEO. We will provide you with a separate meeting brief providing you with background detail and talking points by 16 November.

2. Material for you to be aware of this week

2.1. Recent NZU price rise [COMMERCIAL IN-CONFIDENCE]

The price of New Zealand units (NZUs), the unit of trade in the NZ ETS, has risen over the last few weeks and reached \$19.20 on 6 November, which is the highest it has been since 2011. The average NZU price from November 2013 through to October 2015 was around \$5.00, and it has steadily increased following the review of the NZ ETS in November 2015. Over the last year, prices have ranged between \$16.50 and \$18.50. The most recent rise in the NZU price likely reflects NZ ETS participants' expectations about future policy settings.

[COMMERCIAL IN-CONFIDENCE]

One of the main messages we heard from stakeholders during the NZ ETS review was the importance of policy stability in the NZ ETS to support good decision making in their investment decisions to reduce emissions. Historically, the NZ ETS has seen a number of sudden changes to its settings which has undermined confidence in the market. Price volatility (rapid price movements either up or down) makes it more difficult for participants to anticipate the future price of NZUs. This greater price uncertainty increases risk, which causes the cost of investments to rise and can delay emission reductions.

We consider the recent price rise a natural response to statements about the government's intended higher ambition on climate change. It is important that policy changes continue to be well-signalled to support stable price development.

2.2. New Zealand wins carbon pricing leadership award

The International Emissions Trading Association and the Climate Markets and Investments Association have recognised the successful and positive review of the NZ ETS. At COP23, both associations presented the New Zealand Government with an award for championing emissions pricing. The membership of these organisations includes business participants in emissions trading schemes from around the world.

In the past the award has been given to the Governments of Ontario and Quebec, and officials in California and the European Commission, for their work on carbon markets.

A two-stage review of the NZ ETS was completed in July 2017, and included a decision to phase-out a transitional measure that will ensure all participants face the same price of carbon, as well as a package of in-principle decisions that will make the NZ ETS fit-for-purpose for the Paris Agreement. Work is now ongoing to implement these decisions and for changes to be introduced to the NZ ETS in advance of 2021.

2.3. Motu releases a public video to explain the NZ ETS

Motu Economic and Public Policy Research has released a short video ([here](https://www.youtube.com/watch?v=1GtMJEPCHk)¹) that explains New Zealand's emissions trading scheme (NZ ETS) and how it can support New Zealand's transition to a successful low-emission economy. The video addresses a series of questions, including why the NZ ETS has not reduced New Zealand's emissions in the past, and what differentiates an ETS and a carbon tax. Dr Suzi Kerr and Catherine Leining from Motu point out that an ETS and a carbon tax have a lot in common. They argue that there is no need to change emission pricing instruments for New Zealand to progress toward net-zero emissions, and that both instruments can target the same emitters and generate effective price signals. They also point to low prices in the NZ ETS in the past as a key reason for the NZ ETS not delivering emission reductions, but note that limiting the number of units available domestically will help drive down emissions.

This video is a useful tool to explain the NZ ETS, an instrument that can be difficult for the general public to understand. We will provide a detailed briefing note on the NZ ETS upon your return from COP23.

Motu is an independent economic research institute in New Zealand and in 2017, it was rated tenth in the world for climate change work internationally and second for think

¹ <https://www.youtube.com/watch?v=1GtMJEPCHk>

tanks outside of Europe and North America in the standardised Think Tank Rankings by the International Center for Climate Governance.

2.4. The World Bank releases the State and Trends of Carbon Pricing 2017

The World Bank Group, in partnership with Vivid Economics and Ecofys, have released their annual report: *State and Trends of Carbon Pricing 2017* ([here](#)²). The report takes stock of the latest developments in carbon pricing initiatives worldwide. Carbon pricing will play a prominent role in climate change mitigation strategies as 81 countries have indicated that they intend to use carbon pricing to drive down emissions to meet their Paris climate change targets. There are now 47 carbon pricing initiatives either implemented or scheduled for implementation in 67 jurisdictions, which represent a quarter of global emissions.

The report finds that more action is necessary for carbon pricing to make a substantial contribution to the Paris Agreement and the authors recommend the following priorities:

- Greater coverage of carbon pricing initiatives – this includes developing new initiatives and broadening coverage in existing programmes
- Increasing carbon prices so that they send a stronger price signal and trigger more investments in low-carbon technologies
- Ensuring greater coherence of policies, including alignment of carbon pricing and other domestic policies
- Encouraging domestic carbon pricing schemes to link and enabling the use of international carbon markets
- Using climate finance in a more strategic way to support the development of carbon markets, as they can help mobilise resources for low-carbon investments

The World Bank's annual State and Trends of Carbon Pricing report is a useful resource to assess the extent of emissions trading schemes and carbon taxes around the world. Figures from the most recent report have been included in briefings provided to you ahead of COP23.

2.5. Contribution of livestock emissions to actual warming

Andy Reisinger of the NZ Agricultural Greenhouse Gas Research Centre (NZ AGRC) is expected to publish a study shortly on the contribution of livestock emissions to actual warming (we will advise you of actual publication date once confirmed). This contributes to the debate around different treatment of short-lived livestock emissions (methane).

The key conclusion of this paper is that although livestock emissions account for less than 10% of global greenhouse gas emissions (using the United Nations standard method for equivalency: 100-year Global Warming Potential), their contribution to actual current warming is closer to 20 percent. The study reinforces earlier work indicating that reducing livestock emissions has the most impact on future warming, if there is already global action to reduce carbon dioxide emissions to near or below zero by 2100, consistent with the goal of limiting warming to well below 2°C.

² <http://documents.worldbank.org/curated/en/468881509601753549/pdf/120810-WP-PUBLIC-wb-report-171027.pdf>

The conclusions of this report were presented to the NZ AGRC annual conference in March this year, but publishing the study is likely to reach a wider audience and generate publicity both in New Zealand and internationally. We will provide you with talking points to respond to any questions on the report.

2.6. International Maritime Organisation: Emissions Reduction Strategy

A working group of the International Maritime Organisation (IMO) met 23-27 October in London to further develop the IMO's strategy to reduce greenhouse gas emissions from international shipping. While progress was made, there remains a deep rooted division about how ambitious the strategy should be. The proponents of importing the principle of common but differentiated responsibilities into the IMO context remain [REDACTED] (i.e. that developed and developing countries be subject to different levels of obligations).

[withheld under s9(2)(g)(i)]

[withheld under s9(2)(j)]

[REDACTED] New Zealand and Australia submitted a paper on guiding principles for the strategy, arguing among other things for the primacy of the IMO's founding principles of non-discrimination. This was well received.

Relatively few measures to reduce emissions in the short term have been identified. All proposed measures remain on the table for inclusion in the initial strategy, including speed reduction, despite misgivings towards the latter on the part of geographically remote countries. The next, and final, formal meeting of the working group will take place in April 2018.

2.7. Marsden Fund grants \$6.8 million for climate-related research

The Royal Society Te Apārangi recently announced grants for 10 climate-related research projects, totalling \$6.8 million. The annual award supported 133 projects totalling \$84.6 million.

Successful climate-related projects in 2017 include:

- Whether plants can evolve fast enough to keep pace with climate change (\$925,000)
- A study to investigate carbon dioxide uptake by Fiordland's forest (\$300,000)
- Two geological studies of ancient climate to investigate how carbon dioxide removal stabilises climate on long timescales (\$960,000), and whether a previous collapse of the Antarctic Ice Sheet caused abrupt climate change in the Southern Hemisphere (\$960,000).

The Marsden fund is managed by the Royal Society Te Apārangi on behalf of the government, and supports New Zealand's best investigator-initiated research in the areas of science, engineering, maths, social sciences and the humanities.

2.8. Motu expert roundtable events on achieving a net-zero emissions economy

We have agreed with Motu Economic and Public Research to contribute funding to their upcoming series of expert roundtable events on issues related to New Zealand achieving a net-zero emissions economy. The Productivity Commission and the Aotearoa Foundation are also contributing.

Motu are arranging four half-day roundtable events between November and April that will bring together a range of experts from academia, society, business and government, as well as invited international experts. The roundtables will consider big picture policy issues such as the case for transformational change in agriculture, low emissions investments and the Emissions Trading Scheme reform, how to align climate change with wider government objectives, and institutions and tools that would support a low emissions transition. This work is being taken forward as part of the research commissioned by the Transition Hub as it looks to provide advice on policies to meet our future emissions reduction targets. The first three roundtables will be by invitation only, with the final roundtable in April open to the public as part of the Productivity Commission's engagement on their draft report. This process should help support engagement and dialogue alongside progressing the Zero Carbon Act.

3. Upcoming briefings with advice and decisions 13– 24 November

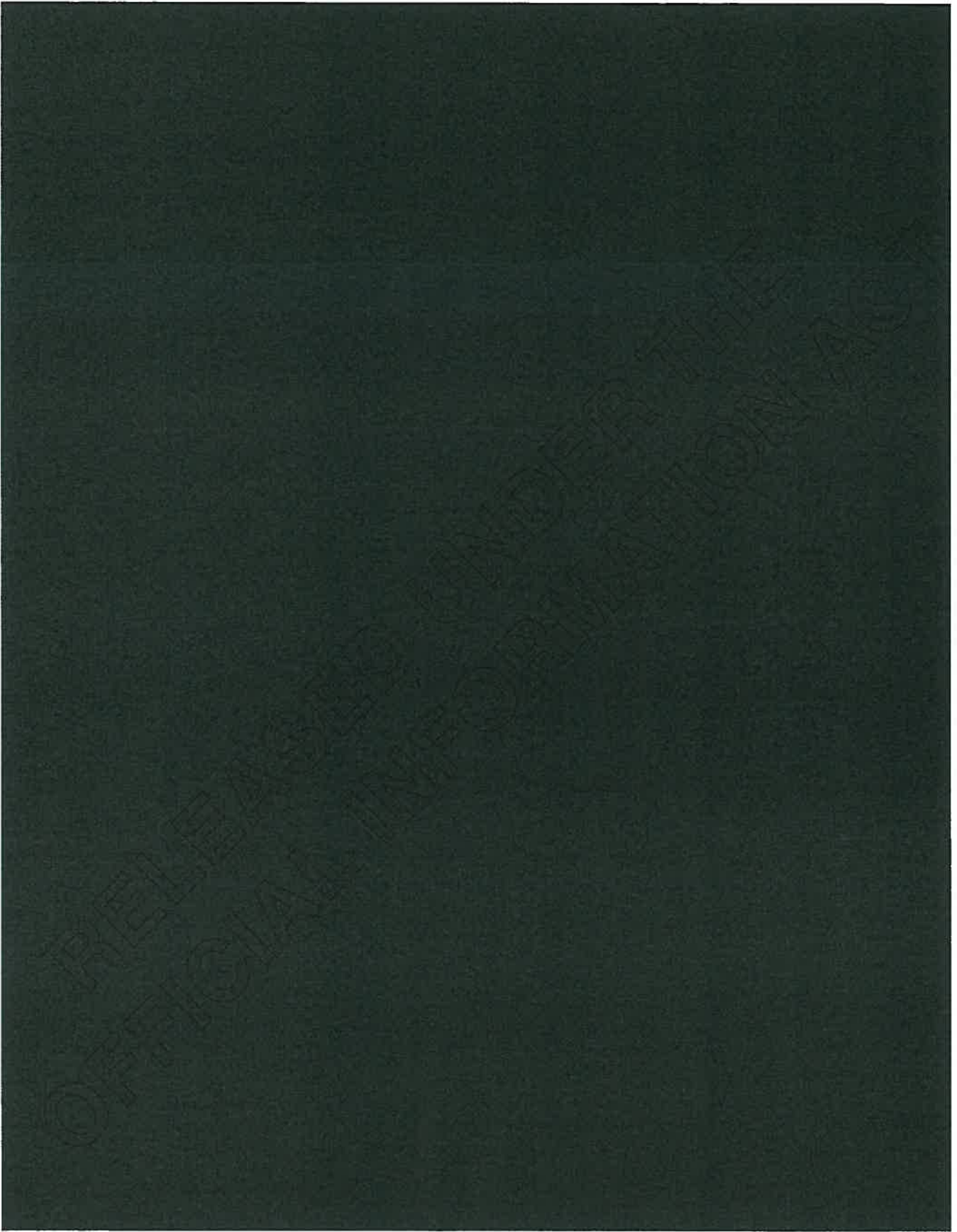
Issue or event	Lead agency	Further information
23rd Conference of Parties (COP23) to the UNFCCC, Bonn, Germany	MFAT MfE (for international carbon markets)	Fiji will preside over this COP, which is the major annual negotiation on climate change. It includes a high-level segment in the second week (13-17 November). At this meeting you are likely to have opportunities to meet with leaders from some high integrity carbon markets to discuss the possibility of access to their markets. We need to secure options to buy from such international carbon markets if we are to supplement domestic action and meet our 2030 target cost-effectively.
Climate change partnerships AirNZ	MfE/MPI	We will provide advice on approving and announcing proposed partnerships with Air New Zealand (afforestation fund)
Fonterra partnership	MfE (lead) MBIE Transpower	We will provide you with a draft media release to announce the partnership with Fonterra's Roadmap to a Low Emissions future.
Per farm cost of agriculture greenhouse gas emissions pricing	MPI	<p>You have been forwarded a briefing from MPI to Minister O'Connor on the per-farm cost of pricing biological greenhouse gas emissions. The briefing provides estimates of the costs only and does not provide policy options on pricing agricultural emissions.</p> <p>We raised some concerns with MPI on the costs provided in the briefing, which were unable to be addressed in the timeframe provided. These include:</p> <ul style="list-style-type: none"> - the costs are calculated at an on-farm level. Current NZ ETS design has a processor level point of obligation. If we proceeded with a processor level future cost calculations could be different to those presented in the paper. - calculating the costs using the 2015/16 season, which had a low pay-out for dairy farms, rather than using an average of the five previous years.
Forestry and the NZ ETS briefing	MPI (lead) MfE	<p>You will be copied into a briefing on forestry and the NZ ETS, which MPI are currently preparing for Hon Shane Jones, Minister of Forestry.</p> <p>The briefing will provide an overview of forestry in the NZ</p>

[COMMERCIAL IN-CONFIDENCE]

Issue or event	Lead agency	Further information
		<p>ETS and outline barriers preventing higher rates of afforestation for carbon. It will also provide an update on and seek direction on timing and how to progress work to address these barriers. This includes NZ ETS related work currently underway, as well as other complementary options, such as carbon forestry finance options, that could be further explored.</p> <p>We expect the briefing will be sent during the week of 27 November.</p>
Call for data to update NZAS electricity allocation factor	MfE	<p>A Gazette notice of a call for electricity related data from New Zealand Aluminium Smelters needs to be published by early December. We will provide you with a briefing on the electricity allocation factor used to determine the provisional (forward looking) and final (adjusting a previous provisional number) allocation and Gazette notice for your signature. You will be asked to respond to this briefing by 8 December.</p> <p>The NZAS electricity allocation factor is amended each year. The process starts in December with the Gazette notice and concludes in March with amendment regulations.</p>
October Baseline Update	Climate Change	<p>Vote Environment baselines have to be updated in October to include Cabinet decisions, confirmation of in-principle expense transfer, technical changes and forecasting changes. The Treasury sets timeframes for this and the update is due to the Minister of Finance by 14 November. We will provide you with a draft letter to sign and a background briefing.</p>

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[COMMERCIAL IN-CONFIDENCE]

5. Engagement

5.1. Key issues in the media and social media

Syria to join Paris agreement

- Syria is preparing to sign the Paris agreement leaving the US as the only country not part of the agreement.

Winter is one month shorter, NIWA data shows

- NIWA data has shown that the length of NZ winters has been slashed by a third, as a result of climate change.

World Meteorological Organization predicts 2017 will be third hottest year

- Climate scientists say the impact of climate change is being felt in NZ with major flood events and rising sea levels. They are calling for progress at the COP23 in Bonn.

Effects of sea level rise in NZ

- A new coastal hazards report in Christchurch has outlined the projected flooding and erosion risk to properties in Christchurch and the Banks Peninsula. The report has sparked concern among coastal property owners.

China's climate change action

- China under President Xi Jinping is moving to shape the consensus on how to rein in greenhouse gases after President Donald Trump decided to scale back US involvement.

Law student loses case against previous government's climate policy

- Law student Sarah Thomson welcomed the judgment and said it put the onus on the new Climate Change Minister to amend the targets. Some reports suggest she will appeal against the court's decision.

5.2. Key upcoming engagements

FYI only: NZI Sustainable Business Network Awards, 30 November, Auckland

- Penny Nelson from MfE is attending this event, which celebrates the sustainability achievements of New Zealand's leading organisations and individuals.

6. OIA requests

6.1. Ministerial

[withheld under section 9(2)(a)]

Request	Correspondent	Reference	Due at your office/current status	Date due to send
2. Advice to Cabinet and decisions made by Ministers in respect of this policy; [Crown Conservation Contracts on any Crown land]	[REDACTED]	17-O-01288	This was provided to the previous Minister on 3 October. MfE are currently consulting on your behalf with Cabinet Office regarding the release of previous administration Cabinet papers. MfE provided your office with an update for [REDACTED] on 9 November, which has been sent.	10 October
a copy of the interim report from the Climate Change Technical Advisory Group, which has been provided to the office of the Minister for Climate Change. The report is referred to in the group's terms of reference, here: http://www.mfe.govt.nz/climate-change/what-government-doing/adapting-climate-change/climate-change-adaptation-technical	[REDACTED]	17-O-01361	27 November	4 December
I understand from correspondence with the former minister's office the report had been received in May. Cabinet material captured by the following request: Please provide any discussions, emails, correspondence, memos, meeting notes, phone records, and reports relating to the timing for public release of the draft report "Coastal Hazards and Climate Change: Guidance for Local Government" 3rd edition.	[REDACTED]	17-O-01346	This was provided to the previous Minister on 11 October. MfE are currently consulting on your behalf with Cabinet Office regarding the release of previous administration Cabinet papers. We recommend extending this OIA until 11 December to allow for this consultation.	13 November

[COMMERCIAL IN-CONFIDENCE]

6.2. Departmental

[withheld under section 9(2)(a)]

Request	Correspondent	Reference	Date due to send
The names of companies that are emitting SF6 and recorded in the greenhouse gas inventory.	[REDACTED]	17-D-01353	27 November
Please provide any discussions, emails, correspondence, memos, meeting notes, phone records, and reports relating to the timing for public release of the draft report "Coastal Hazards and Climate Change: Guidance for Local Government" 3rd edition.	[REDACTED]	17-D-01291	11 December

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