

Reference: 20220022

16 February 2022



Barry Brill
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Dear Barry

Thank you for your Official Information Act request, received on 18 January 2022. Your request was:

The Treasury paper dated 7/10/21 calculated \$2.56 billion as the annual cost of offshore carbon credits required to meet New Zealand's emissions reduction target of 41% by 2030.

However, the paper stated that: "These costs would be in addition to costs associated with domestic mitigation, international climate finance, supporting a just transition, and costs to government related to adaptation, meaning that the overall climate transition costs are likely to be much larger."

The Treasury will have had to budget for these four additional cost categories. Please advise your best estimates for average annual expenditure (until F2030) on:

- domestic mitigation through ETS*
- non-ETS mitigation*
- supporting a just transition*
- climate adaptation*
- international climate finance (including climate AID)*

Please also provide your best estimates of the annual economic cost of compliance with climate policy regulation (ie non-government expenditure).

Response to your request

The Treasury publishes our current forecasts for all government expenditure, where it can be estimated, as part of our twice yearly Economic and Fiscal Updates. We also provide an assessment of longer-term fiscal issues periodically as part of the Statement on the Long-term Fiscal Position. We have highlighted below how the costs you mention are currently reflected in this reporting.

Domestic mitigation through ETS

The Emissions Trading Scheme (ETS) does not involve government spending. It currently generates around \$600 million per annum in revenue, though this figure can change. Recently, forecasted ETS revenue over the period from 2022/23 to 2025/26 has been allocated to a “Climate Emergency Response Fund”, which currently has an envelope of \$4.5 billion over the next four years. This fund will be used to support spending related to the first Emissions Reduction Plan, to be released in May this year.

Non-ETS mitigation and climate adaptation

The Treasury’s core forecasts look out over a four-year period. Past this time, we do not have average annual expenditure estimates due to increasing uncertainty. We reflect the current state of our understanding of risks to these forecasts in the “Fiscal Risks” published at each Economic and Fiscal Update. The Treasury’s latest Economic and Fiscal Update, available at <https://www.treasury.govt.nz/system/files/2021-12/hyefu21.pdf>, provides our most recent analysis relating to the fiscal risks of climate change.

Longer term analysis of fiscal impacts is included in the most recent Statement on the Long-term Fiscal Position, available at <https://www.treasury.govt.nz/system/files/2021-09/lvfs-2021.pdf>. Chapter 1.5 “The fiscal impacts of climate change” focuses on the impacts of climate change on the government’s finances, including those that result from the wider impact of climate change and climate change policy. The Statement concludes that the net fiscal impacts of emissions mitigation over the 40-year period of the LTFS are difficult to forecast or predict.

Supporting a just transition

According to the Treasury’s latest Estimates, the Government’s Just Transitions programme has ongoing funding of \$2.5 million per annum. This does not include expenditure on wider programmes with just transition objectives.

International climate finance

The Government has committed \$1.3 billion over four years to support countries most vulnerable to the effects of climate change. This spending is captured by the Treasury’s fiscal forecasts. We do not have forecasts for expenditure on international climate finance beyond this point.

Annual economic cost of compliance with climate policy regulation

The Treasury does not produce estimates of the annual economic cost of compliance with climate policy regulation. However, you may find the Climate Change Commission’s final advice to the Government informative for this question. The Commission’s modelling estimated that meeting the 2050 target by their preferred demonstration pathway would incur a net cost to the economy each year (1.2% of projected GDP in 2050).

Information to be withheld

There is one further document covered by your request that I have decided to withhold in full under the following section of the Official Information Act:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

Item	Date	Document Description	Proposed Action
1.	22 October 2021	Treasury Report T2021/2536: Setting the Level of the Climate Emergency Response Fund	Withhold in full

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 reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



Nicky Lynch
Manager, Climate Change