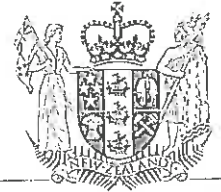


10



Ministry for the Environment
Manatū Mō Te Taiao



THE TREASURY
Kaitiaki Takekōwhiri

To: Hon Tim Groser, Minister for Climate Change Issues
Hon Simon Bridges, Associate Minister for Climate Change Issues
Hon Bill English, Minister of Finance

Accounting by the Crown for the NZ ETS and climate change commitments

| | | | |
|------------------|---------------|-------------------------------|------------|
| Other Dept | TSY | MfE Tracking Number: | 12-B-00746 |
| Tracking Number: | T201212/1091 | MfE Priority: | Urgent |
| Date Submitted: | | Number of Attachments: | Nil |
| Security Level: | IN CONFIDENCE | Response/Signature Needed by: | N/A |
| Action Sought: | Note contents | | |

Ministry for the Environment Contacts

| Position | Name | Telephone | | 1st Contact |
|-------------------------|----------------|--------------|-------------|-------------|
| | | (cell) | (work) | |
| Chief Financial Officer | Glenn Phillips | 027 501 9129 | 04 439 7689 | ✓ |

The Treasury Contacts

| Position | Name | Telephone | | 1st Contact |
|------------------|---------------------------------|-----------|-------------|-------------|
| | | (cell) | (work) | |
| Principal author | Withheld under section 89(2)(a) | | | ✓ |
| Manager | Melody Guy | | 04 917 6059 | |

Executive Summary

- Your offices have asked for information on the accounting treatment of the New Zealand Emissions Trading Scheme (ETS) including; whether ETS units should still be valued in the Crown's financial statements, how the introduction of auctioning would impact on the statements, and how any international commitments would be recognised.

2. []
 out of scope

Out of scope

Situation Analysis

6. Cabinet recently agreed in principle, subject to consultation, a wide range of changes to the ETS, such as extending the transition phase measures and a review of the second tranche of allocation to pre-1990 forest landowners. A public consultation on these proposed changes closed on 11 May 2012. It is expected that Cabinet will make final decisions on these proposals by early July, and that a Climate Change Response Act amendment bill will be passed by the end of the year.
7. To assist Ministers in making final decisions on the changes to the ETS, your offices have requested information on the accounting treatment of the ETS and how this relates to international climate change commitments. This Briefing Note supplements the Briefing Note on the fiscal and economic impacts of potential ETS policy options [see 12-B-00624] and highlights the accounting treatment of the ETS based on existing policy settings and the accounting implications arising from potential changes to the ETS (e.g. auctioning).

Advice

Out of scope

Out of scope

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Out of scope

PREPARED UNDER THE INFORMATION ACT

Question 2: How will auctioning impact on the Crown's financial statements

33. Introducing auctioning of NZUs after 2012 may partially shield the Government from uncertainty over the future value of units it holds. Introducing auctioning will not provide additional revenue over and above the existing fiscal forecasts, but will convert a proportion of the revenue the Government receives as a unit asset (through surrenders) into cash (through the auction). Collecting cash rather than units will reduce net debt, and lessen the impact of carbon price revaluations on the Crown's balance sheet.
34. In substance, auctioning is accounted on a similar basis to revenue in advance. The Government will receive cash up front for the units it sells at auction and recognise an associated liability. When the Government earns the revenue over the period of emissions, the liability will be released as revenue in the income statement.
35. The impact of introducing auctioning will be to reduce the amount of international units surrendered (assuming the prices are relatively similar taking into account compliance costs of purchasing international units) as more NZU's will be available (through the auction and previous allocations) to meet obligations under the ETS.
36. Officials note the policy reasons for introducing auctioning, as it potentially provides an important 'hedge' for government over the value of its unit assets. However, from an accounting perspective introducing auctioning will not lead to an increase in net revenue in the government accounts relative to the current situation.

Out of scope

Out of scope

Risks and Mitigations

Out of scope

Next steps

Out of scope

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Recommended Action

We recommend that you:

Out of scope

Glenn Phillips
Director, Strategic Business Performance (CFO)

Date

Melody Guy
Manager, Natural Resources

Date

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