

In Confidence

Office of the Minister for Climate Change

Chair, Cabinet Environment, Energy and Climate Committee

Report back on the Climate Implications of Policy Assessment framework

Proposal

1. When approving the Climate Implications of Policy Assessment (CIPA) framework in 2019, Cabinet invited the Minister for Climate Change and the Minister of Finance to report back to Cabinet Environment, Energy and Climate Committee (ENV) on the operation of the CIPA requirement by July 2020 [CAB-19-MIN-0509 refers], including:
 - the emissions threshold requirement;
 - the resourcing impact of CIPA on agencies;
 - the inclusion of indirect impacts as a voluntary option; and
 - how to ensure government policy and investment decisions are resilient to future climate change impacts, and existing investments, policies and regulatory systems are well-prepared to meet the potential challenges of these impacts.
2. I bring this paper on behalf of myself and the Minister of Finance in response to the invitation to report back to Cabinet. It seeks agreement to lower the emissions threshold for the CIPA requirements to ensure the framework is able to effectively capture relevant policies.

Executive Summary

3. Since 1 November 2019, central government agencies have been required to undertake and report on a greenhouse gas (GHG) emissions analysis, referred to as a “climate implications of policy assessment” (CIPA), for all policy proposals that go to Cabinet and meet certain qualifying criteria.
4. From January 2020, agencies have engaged with the CIPA process for approximately 110 Cabinet papers. Nineteen were noted as having an emissions impact and a qualitative statement was provided. Two proposals met the emissions threshold and had quantified emissions impacts disclosed. A further two did not meet the threshold but had emissions impacts disclosed under the CIPA process, one voluntarily and one because it was intended to reduce emissions.
5. New Zealand has an international emissions target of 30 per cent reduction below 2005 gross emissions for the period 2021-2030. Our domestic targets under the Climate Change Response Act are:
 - net zero emissions of all GHGs other than biogenic methane by 2050; and

- 24 to 47 per cent reduction below 2017 levels of biogenic methane emissions by 2050, including 10 per cent reduction by 2030.
6. Understanding the emissions impact of policy proposals and decisions is critical to informing the development of policies to meet these targets. The CIPA framework must be fit for purpose, being the key tool to ensure impacts are accurately disclosed to Cabinet as decisions are made. This is particularly relevant as we look towards making further decisions following the COVID-19 pandemic, both for the immediate economic recovery and beyond.
 7. The current emissions threshold for applying the CIPA requirements is where the impact on GHG emissions is likely to be equal to or above 250,000 tonnes CO₂-e (carbon dioxide equivalent) per year. This threshold was deliberately set high to address resourcing concerns of agencies having to comply with a new requirement.
 8. The initial intent with the introduction of CIPA was to review the threshold and operation of the requirements over time, and make adjustments as we develop a better understanding of agencies' capacity to consider emissions. It will be increasingly important to consider emissions impacts as we make progress towards our international and domestic targets.
 9. Now that agencies have had some time to become familiar with the CIPA framework, I propose to adjust the emissions threshold to more effectively capture likely policies while also considering the capability of agencies to undertake emissions analysis. As with the original intent in introducing CIPA, an updated threshold should still be sufficiently high as to not impose an undue compliance cost on agencies preparing proposals with minimal emissions impact.
 10. I propose to amend the emissions threshold so CIPA will apply if the impact on GHG emissions is likely to be equal to or above 500,000 tonnes CO₂-e over the first ten years of the proposal period, or, for forestry-related proposals, three million tonnes over the first 30 years. I do not expect this will greatly increase the volume of Cabinet papers that meet the threshold, but it will ensure the requirements are robust enough to capture the relatively small number of potential proposals that will have a significant emissions impact. From January 2020, two additional proposals would have met this amended threshold.
 11. In practice, the resourcing implications of CIPA for agencies have been low. Only four Cabinet papers have been accompanied by a full CIPA disclosure, and the underpinning analysis for CIPA is often completed by the relevant agency as part of its business-as-usual policy development. I do not anticipate that altering the emissions threshold will substantially increase demands on the capability and capacity of agencies developing policies, or of the Ministry for the Environment in its technical support role.
 12. Alongside the mitigation framework, the Ministry for the Environment and Treasury are developing advice on ways to consider the effects of climate change in decisions about new investment and policy, and in reviewing existing investments, policies, and regulatory systems. I propose to report back to Cabinet on this work in November 2020.

Context

13. Under CIPA, agencies are required to undertake an assessment of, and report, the expected GHG emissions for all decisions going to Cabinet where either:
 - 13.1 an objective of the policy proposal is to decrease GHG emissions; or
 - 13.2 the impact on GHG emissions is likely to be equal to or above 250,000 tonnes CO₂-e per annum.¹
14. CIPA's objective is to ensure that decision-makers understand the expected climate change implications of Cabinet decisions. Its aim is to encourage agencies to consider impacts on GHG emissions in all relevant policy advice going to Ministers in a robust and consistent manner across government.
15. The initial implementation of CIPA was intended to further incentivise agencies to build capacity and improve practices to consider and measure emissions impacts of policies. The emissions threshold was deliberately set high to address compliance and resourcing concerns of introducing a new requirement. The intention was for this threshold to be adjusted over time as agencies developed a better understanding of their capacity to consider emissions impacts.
16. Agencies are required to report only the direct emissions impacts of policies. Direct impacts are effects expected to flow automatically from the implementation of the proposed policy. These emissions are controlled by the proposal and are connected and influenced by what the proposal is.
17. An example of a proposal that would have a direct emissions impact would be the development of a funded programme to plant trees, such as the *One Billion Trees* programme. This proposal would have a direct impact on emissions as the baseline planting rate of trees, which sequester CO₂, will increase. The likely scale of the impact on emissions will be influenced by the settings and details of the policy.
18. Conversely, indirect impacts are the second or third order impacts on emissions arising from a policy, but are less easily attributed directly to it. Under the current CIPA framework it is voluntary to report on the indirect impacts of policies. These impacts are often too far removed from the policy to calculate a reliable emissions projection, and the impacts could be highly speculative.
19. An example of a proposal that could have an indirect emissions impact would be the creation of a new research and development fund that may lead to increased innovation. New lower-emitting technologies may be developed as a result of this fund over the course of many years. The potential future emissions reduction due to technological advances could be considered an indirect impact of the original proposal.
20. Cabinet also requested officials to consider:
 - how to ensure future government policy and investment decisions are resilient to future climate change impacts;

¹ The CIPA requirement only applies to the GHG emissions identified and defined in New Zealand's Greenhouse Gas Inventory. This covers carbon dioxide, methane, nitrous oxide and fluorinated gases.

- how to ensure existing government investments, policies and regulatory systems are well-prepared to meet the potential challenges of future climate change impacts.
21. The National Climate Change Risk Assessment, to be published and tabled in Parliament later in 2020, will identify the most significant risks New Zealand faces from climate change.
 22. Overseas, many countries use tools to consider both GHG associated with decisions and also the implications for resilience to climate change in the future.

CIPA in the context of COVID-19 response and recovery decisions

23. It is critical we ensure that upcoming investments create employment, support wellbeing, stimulate economic activity and support New Zealand's environmental objectives and commitments. Combining these imperatives (as opposed to trading them off) will ensure future generations will benefit from the significant, necessary and costly stimulus package, and do not face the double burden of increased debt and greater environmental challenges.
24. While immediate economic stimulus is needed, future generations of New Zealanders will be paying for the costs of this economic recovery. It is critical that this investment, much of which is likely to be in long-lived infrastructure and development, also addresses the underlying challenges and opportunities of transitioning to a more productive, sustainable and inclusive economy.
25. In the short term, it is important that a climate change lens is applied to decisions made for directing spending from the COVID-19 Response and Recovery Fund. Officials from the Treasury and the Ministry for the Environment are working together to ensure investments made through this Fund help to achieve our climate change objectives.
26. As we look beyond the direct impact of COVID-19, it is important for Cabinet to be fully informed of the climate change impacts of their decisions through CIPA. The change proposed in this paper will further support our transition to a low emissions, climate resilient economy.

Review of the CIPA requirement

Summary of Cabinet papers assessed

27. From January 2020 to June 2020, approximately 110 Cabinet papers have been screened through the CIPA process. An early assessment was made that the CIPA requirements did not apply to the vast majority, as the proposals did not have a significant emissions impact. Generally, agencies will receive notice within two working days on whether CIPA requirements apply.
28. For nineteen of these Cabinet papers, Ministry for the Environment officials provided a high-level qualitative statement on emissions impacts. For these proposals, no formal CIPA disclosure sheet was completed as the CIPA requirement was deemed not to apply for one or more of the following reasons:

- the proposals had a likely emissions impact considerably below the emissions threshold;
 - the proposals were likely to have a significant impact only indirectly; and
 - the proposals had a likely significant impact that was impractical to accurately quantify.
29. From January 2020, four full CIPA disclosures have been provided for their relevant Cabinet papers.
30. Two proposals have met the current emissions threshold – the *Action for Healthy Waterways* package proposal and the *New Zealand Emissions Trading Scheme (ETS) settings regulations* proposal. Both these proposals were developed by the Ministry for the Environment. The NZ ETS Settings proposal had quantitative analysis completed under the CIPA technical support function. The *Action for Healthy Waterways* package had emissions estimates developed by inputting economic analysis outputs, provided by the officials developing the proposal, into the CIPA excel tool.
31. Two proposals had full CIPA disclosures provided but did not meet the current emissions threshold. The Clean Car Standard proposal developed by the Ministry of Transport is captured by the requirement that an objective of the proposal is to reduce emissions. This proposal has not yet been considered at Cabinet. The final proposal for extension of the Waste Disposal Levy was presented with a full CIPA disclosure as some of the initial options and scenarios analysed exceeded the threshold, although the modelled results for the final proposal did not. In this case, the disclosure was made voluntarily (it was not required under CIPA). This proposal was developed at the Ministry for the Environment.

Resourcing impact of CIPA on agencies

32. Under the current framework, the resourcing impact on agencies has been low due to the limited number of proposals meeting the CIPA requirements.
33. The process of establishing whether a CIPA disclosure is required or not is generally able to be completed quickly, particularly where activity data or emissions impacts are already quantified. Where these impacts are direct but not already quantified, the time taken to evaluate whether a CIPA is required is highly dependent on the details of the proposal and limitations of information and data.
34. For the nineteen Cabinet papers containing a qualitative CIPA statement, there was no significant resource impact on agencies as no additional quantitative analysis was required. There was only a minor additional consultation step for officials developing these proposals.
35. For two of the proposals with full CIPA disclosures, emissions analysis was included in the economic analysis commissioned as part of the usual policy development process.
36. Additional work required of agencies engaging on CIPA is largely due to further consultation as a result of the quality assurance process. This process is not particularly resource intensive on the agencies developing proposals, and are usually able to be resolved quickly. However, there is potential risk of time delay

and further modelling resource required if significant issues are identified with the emissions analysis.

37. Where agencies engage early, the Ministry for the Environment is able to provide support and analysis as part of the established CIPA technical support function. Where there is very limited capacity for agencies to undertake comprehensive quantitative emissions analysis, case-specific analysis can be provided where practical. Where timeframes are short, estimates are able to be developed and disclosed under the technical support function to provide a sense of size and scale of impact. The exact process and methodology used is determined on a case-by-case basis in collaboration with agencies.

Lowering the emissions threshold

38. Analysis from proposals screened through the CIPA framework suggests the current emissions threshold is too high to support the CIPA objectives. Since January 2020, only two proposals have met the threshold of 250,000 tonnes of CO₂-e per annum.
39. The emissions threshold is included to capture proposals that do not specifically intended to impact emissions, but nevertheless could have a significant impact. The requirements need to also capture proposals that could significantly increase emissions, and those where emissions reductions are a co-benefit that is considered but not necessarily an explicit objective. For instance, changes to the waste disposal levy and the *Action for Healthy Waterways* package will contribute to significant emissions reductions within their respective sectors, but emissions reductions are not a primary objective of these proposals.
40. The threshold was deliberately set high to address concerns from agencies and Ministers around the potential resource cost of the CIPA requirement. The current threshold (250,000 tonnes CO₂-e per annum) is equivalent to the emissions produced by approximately 90,000 light petrol vehicles in a year, which is 2.7 per cent of the 2018 light passenger fleet. This represents 0.31 per cent of New Zealand's gross annual emissions.
41. The current threshold is represented as a single average annual threshold. An accumulative approach would be more appropriate to capture significant proposals as the impact over time is generally more important to consider than an annual one-off impact.
42. Implementing a two-stage threshold will help capture significant long-term and short-term options. It can be more difficult for a policy to achieve immediate emissions reductions (in the next ten years) than longer-term reductions (over the next thirty years), either because of a lag between policy implementation and its impact on emissions, or because of a need to manage the pace of change to avoid disruptive impacts. However, longer term impacts are inherently more difficult to predict accurately. Decision makers will need to continue to be aware of these impacts as we approach key milestones in meeting our emissions targets.
43. In light of the above, an alternative lower threshold that takes an accumulative approach will help CIPA meet its objectives more effectively.
44. I propose that the current threshold requirement is replaced with the following:

- 44.1 the impact on greenhouse gas emissions is likely to be equal or above 0.5 million tonnes CO₂-e within the first ten years of the proposal period; or
- 44.2 for forestry-related proposals, the impact on greenhouse gas emissions is likely to be equal or above 3 million tonnes of CO₂-e within the first 30 years of the proposal period.
45. This threshold would come into effect once the Cabinet Office Circular for CIPA is updated.
46. These thresholds represent a yearly average of 50,000 and 100,000 tonnes CO₂-e respectively. This approach is more flexible, but will still only capture proposals with significant emissions impacts. These thresholds are reflective of our climate change targets and current progress towards meeting them. The primary threshold of 0.5 million tonnes CO₂-e represents 0.25 per cent of the reduction in gross emissions required to meet New Zealand's nationally determined contribution for 2030.
47. The second threshold aligns more closely with New Zealand's 2050 target of net zero emissions, being a larger scale of impact over of a longer time period. Projections of emissions from proposals beyond the first ten years of the proposal period are subject to a high level of uncertainty. However, emissions from forestry are often more practical to project over long periods due to the long periods of time that carbon sequestration occurs in planted trees. Where non-forestry proposals meet the second threshold only, the Ministry for the Environment will work with agencies to determine if a voluntary CIPA disclosure is practical and appropriate.
48. All four proposals that have had CIPA disclosures completed would meet the amended threshold, whereas only two met the existing threshold. It is unlikely any of the other proposals screened through the CIPA process would have met this lowered threshold.
49. Lowering the threshold as proposed will ensure the CIPA framework is robust enough to capture potential proposals with a significant emissions impact, and more effectively disclose GHG impacts to Ministers in the context of our 2030 and 2050 targets. This will effectively support the implementation of the Climate Change Response Act 2002 (as amended by the Zero Carbon legislation), as was originally envisioned [ENV-18-MIN-0011 refers].

Resourcing implications of lowering the emissions threshold

50. I do not anticipate that lowering the emissions threshold will change how the CIPA framework functions, or require significant additional resource from agencies. This change should not have any effect on the policy development process of any proposals with no significant emissions impact.
51. An annual average impact of 50,000 tonnes of CO₂-e is a significant change in emissions. This is equivalent to the annual emissions of approximately 18,000 light petrol vehicles. For proposals likely to have a direct impact of this scale for ten years, it is likely that the relevant agency would quantify these emissions, or at least the activity changes that would result in these emissions, as part of their business-as-usual policy development.

52. As a relatively small number of proposals will have emissions impacts to the scale of either the current or proposed threshold, the resource implications of these new requirements will be minimal. The intent of the proposed approach is not to capture every proposal with an emissions impact. The amended threshold will ensure the CIPA framework captures the packages and policies of significance in the context of New Zealand's international and domestic emissions targets.
53. Agencies will be expected to apply the new threshold once the Cabinet Office circular on the CIPA requirements has been updated, and the Ministry for the Environment will support them to do this. However, under certain exceptional circumstances, the CIPA requirement will not apply. The Minister for Climate Change will consider any proposals that seek an exemption of the CIPA requirement due to exceptional circumstances and will grant these on a case by case basis.
54. While the quality assurance process will potentially require additional consultation to resolve issues or questions surrounding a given proposal's emissions analysis, I do not anticipate that changing the threshold will have a significant impact on agencies' modelling resources.
55. The risk that some agencies will not have accounted for emissions analysis will remain. This risk is mitigated as agencies continue to become more aware of CIPA and its technical support function.

Indirect impacts

56. Indirect impacts are the second or third order impacts on emissions that arise from a policy. Though often difficult to accurately predict, indirect impacts are important to consider as they are potentially very significant in scale. Reporting the indirect emissions impacts of policy proposals was trialled as a voluntary option under the current CIPA framework.
57. Since January 2020, two proposals were presented with a quantification of indirect impacts. For both of these proposals, upon quality assurance, it was noted that the calculations were subject to a high level of uncertainty and based on subjective assumptions. Quantified emissions impacts were not disclosed to Cabinet, as the impact was so far removed from the policy it was impractical to accurately quantify the emissions impact.
58. Indirect impacts are resource-intensive to calculate. Agencies generally disclose this information if they have it, but they often lack the capacity or resource to cost the impacts themselves. Including quantification of indirect impacts in the CIPA requirements would require much more resource-intensive modelling in some instances. As such, I propose to continue the voluntary approach to disclosing indirect impacts.
59. Where voluntary disclosures are made, my officials will work with agencies on a case-by-case basis to develop the appropriate level of analysis and disclosure under the established CIPA technical support function.

Providing more context in CIPA disclosures by associating a dollar value to emissions

60. To complement the disclosure of the projected emissions impact of policies in carbon dioxide-equivalent, officials at the Ministry for the Environment are working with a number of other departments to determine the best approach for associating a dollar value with emissions and emissions reductions over time.
61. A dollar value amount could further help decision makers to understand the significance of a given quantity of emissions over time. This work will likely include developing interim prices for this calculation, and agreeing to guidelines around how the prices are updated over time.
62. The calculated emissions valuations could be incorporated into CIPA disclosures to help provide more relevant information to decision makers. I propose to report back to Cabinet on the progress of this work in due course.

Progress towards a framework to assess the resilience implications of decisions

63. Following Cabinet decisions in 2019 [CAB-19-MIN-0509 refers], officials at the Ministry for the Environment and Treasury are developing advice on ways to consider the effects of climate change in investment and policy decisions (both new and existing) and in regulatory system reviews.
64. The National Climate Change Risk Assessment, to be published and tabled in Parliament later in 2020, will identify the most significant risks New Zealand faces from climate change.
65. Many countries are using tools to consider both the GHG emissions associated with decisions and also the implications for resilience to climate change in the future.
66. Such tools and processes would assist agencies with doing this thinking up-front. I would like to explore what existing mechanisms are available to draw from and will consider options to test some of these on a pilot basis.
67. In my capacity as Associate Minister for Finance I have asked officials from the Ministry for the Environment and the Treasury (in consultation with other agencies) to:
- consider proposals for processes or tools to assess the resilience implications of existing and proposed investments and Cabinet policy decisions
 - consider how departments could undertake an initial stocktake of their own existing regulatory systems to identify how those regulatory systems might be impacted by climate change.
68. I propose to report back to Cabinet on this work in November 2020.

Te Tiriti o Waitangi Implications

69. While this Cabinet paper does not seek any decisions to implement or fundamentally change the existing CIPA framework, lowering the emissions threshold for CIPA will be a positive step in helping the Crown fulfil its Treaty obligations, in particular the principle of the Crown making informed decisions and

the principle of active protection. By more effectively disclosing emissions impacts to decision makers, more informed decisions can be made by the Crown which are cognisant of the rights and interests of Māori as they relate to the environment and climate.

70. Climate change will disproportionately affect certain iwi, hapū and whānau, for example through loss of coastal whenua, pā and urupā, and effects on taonga species. Development of advice on ways to consider the effects of climate change in investment and policy decisions and in regulatory system reviews will require continued consideration of the Crown's obligations as a Treaty partner. This work aims to enable better decision-making, leading to positive outcomes for all New Zealanders, including Māori, enabling the Crown to better fulfil its Treaty obligations. More detailed advice around the specific Treaty impacts of a CIPA for resilience will be provided in due course.

Consultation

71. The following departments were consulted: the Energy Efficiency and Conservation Authority, the Ministry of Business, Innovation, and Employment, the Ministry for Housing and Urban Development, the Ministry for Primary Industries, the Ministry of Transport, the State Services Commission and the Treasury. The Department of the Prime Minister and Cabinet has been informed.

Financial Implications

72. There are no new financial implications from the proposals in this paper.

Legislative Implications

73. There are no legislative implications from this proposal.

Impact Analysis

74. Regulatory impact analysis requirements do not apply.

Climate Implications of Policy Assessment

75. This proposal will help to improve the effectiveness of CIPA. However, the CIPA requirements do not formally apply to this proposal.

Population Implications

76. There are no population implications from this proposal.

Human Rights

77. There are no inconsistencies between the proposal and the Human Rights Act 1993.

Communications

78. No publicity is planned for the proposal in this paper.

Proactive Release

79. I propose to proactively release this paper, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister for Climate Change recommends that the Committee:

1. **note** the importance of monitoring and disclosing the impact on greenhouse gas emissions of policy proposals and decisions
2. **note** that the Climate Implications Policy Assessment (CIPA) has been operative since 1 November 2019
3. **note** that the current emissions threshold above which the CIPA requirement applies (250,000 tonnes CO₂-e per annum) is too high to capture likely future proposals that will have a significant impact on emissions
4. **agree** that the emissions threshold for the CIPA requirement is amended to:
 - 4.1. the impact on greenhouse gas emissions is likely to be equal to or above 0.5 million tonnes CO₂-e within the first ten years of the proposal period; or
 - 4.2. for forestry related proposals, the impact on greenhouse gas emissions is likely to be equal to or above three million tonnes of CO₂-e within the first 30 years of the proposal period
5. **agree** that the Cabinet Office circular on the CIPA requirements is updated to reflect the new threshold
6. **note** agencies will be expected to apply the new threshold once the Cabinet Office circular on the CIPA requirements has been updated, and the Ministry for the Environment will support them to do this
7. **note** that under certain exceptional circumstances, the CIPA requirement will not apply. The Minister for Climate Change will consider any proposals that seek an exemption of the CIPA requirement due to exceptional circumstances and will grant these on a case by case basis
8. **note** that Ministry for the Environment officials will continue to provide quantitative analysis support under the established CIPA technical support function
9. **note** that the disclosure of indirect impacts will continue as a voluntary option
10. **note** that work is underway to develop an approach to associate a dollar value with emissions and emission reductions over time, which could be incorporated into CIPA disclosures to provide additional information to decision makers. I will report back to Cabinet on this work in due course
11. **note** that work is underway to develop a tool or methods to consider the effects of climate change in investment and policy decisions and in regulatory system reviews. I will seek Cabinet decisions on these proposals in November 2020

Authorised for lodgement.

Hon. James Shaw

Minister for Climate Change

Proactively released