



JOINT BRIEFING

Work programme to manage the impacts of climate policies - next steps

Date:	12 February 2024	Priority:	Low
Security classification:	In Confidence	Tracking number:	MBIE: 2324-1653 MSD: REP/24/1/079

Action sought		
	Action sought	Deadline
Hon Louise Upston Minister for Social Development and Employment	Agree to confirm your preference (subject to Cabinet agreement) not to continue work on an Equitable Transitions Strategy.	19 February 2024
Hon Melissa Lee Minister for Economic Development	Agree to meet with the Minister of Climate Change to inform them of your decision, and to discuss the implications of this decision on broader Government obligations to manage the impacts of climate policies.	

Contact for telephone discussion (if required)				
Name	Position	Telephone		1 st contact
Hayley Hamilton (MSD)	General Manager, Housing, Employment and Climate Change	Privacy of natural persons		✓
Privacy of natural persons	Manager, Climate and Economic Policy	Privacy of natural persons		✓

The following departments/agencies have been consulted
Ministry for the Environment

Minister's office to complete:

<input type="checkbox"/> Approved	<input type="checkbox"/> Declined
<input type="checkbox"/> Noted	<input type="checkbox"/> Needs change
<input type="checkbox"/> Seen	<input type="checkbox"/> Overtaken by
<input type="checkbox"/> See Minister's Notes	<input type="checkbox"/> Withdrawn

Comments

Work programme to manage the impacts of climate policies – next steps

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Purpose

You have indicated a preference to not continue work on the development of an Equitable Transitions Strategy or plan. This paper asks you to confirm that decision and outlines the implications for the Government's wider climate work programme, risks, and next steps.

Executive summary

Under the first Emissions Reduction Plan (ERP1), responsibility for different aspects of the plan was allocated by Cabinet to Ministers who held relevant policy levers. This saw responsibility for the Equitable Transitions chapter allocated to the Minister for Social Development and Employment and Minister for Economic Development.

A key action within the Equitable Transitions chapter was to develop and publish an Equitable Transitions Strategy. The focus of the Strategy was intervening early to minimise the long-term fiscal and social costs that would arise from reducing emissions and maximise available opportunities. Without action to manage the impacts of climate policies, it is likely that some of these costs will fall on the income support system.

We have previously advised you on options for progressing this work, and you have indicated a preference to not continue work on the Strategy and return any remaining time limited funding that was allocated to MBIE and MSD for this work.

Legal professional privilege

We also note that Cabinet approval is needed to finalise the decision to not continue work on an Equitable Transitions Strategy. We will identify options for a streamlined approach with other relevant Cabinet decisions to make this happen.

MBIE are also seeking the Minister for Economic Development's agreement to continue an adaptation research project to model the economic impacts of a changing climate on regional economies, with a focus on land-based primary industry. This research needs approval to continue as it is separate from the Equitable Transitions Strategy but is funded from the same budget bid. This project will support the Government's objectives of increasing exports by enabling decision-makers to better manage climate risks and opportunities. The Minister of Climate Change has also indicated an interest in building the Government's climate data infrastructure to support better decision-making.

Recommended actions

Minister for Social Development and Employment and Minister for Economic Development

The Ministry of Social Development and the Ministry of Business, Innovation and Employment recommend that you:

- a **Agree** to confirm your preference (subject to Cabinet agreement) not to continue work on an Equitable Transitions Strategy.

Minister for Social Development and Employment: Agree / Disagree

Minister for Economic Development: Agree / Disagree

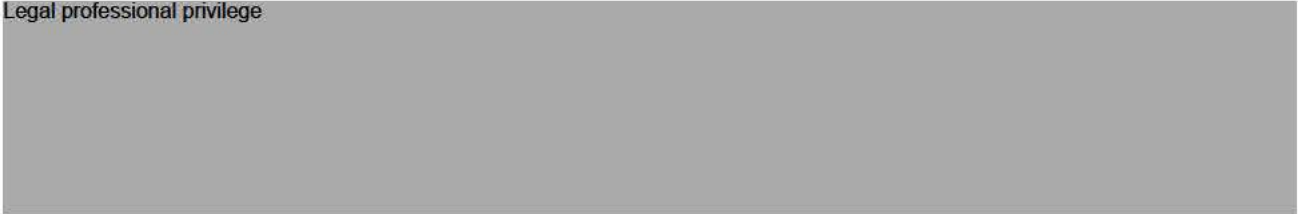
- b **Agree** to meet with Hon Simon Watts, Minister of Climate Change, to inform them of your decision not to continue work on an Equitable Transitions Strategy, and discuss the implications of this decision on broader Government obligations to manage the impacts of climate policies.

Minister for Social Development and Employment: Agree / Disagree

Minister for Economic Development: Agree / Disagree

- c **Note** that Cabinet approval is needed to finalise the decision to not continue work on an Equitable Transitions Strategy, and that officials will identify options for a streamlined approach to gain this approval alongside other relevant Cabinet decisions.

Noted

- d Legal professional privilege
- 

Noted

e

[Redacted]

Legal professional privilege

a.

[Redacted]

b.

Noted

Minister for Economic Development only

f **Agree** to continue the research project to identify the economic impacts of a changing climate on regional economies, as this aligns with broader governmental priorities to improve climate data infrastructure.

Agree / Disagree

Simon MacPherson
Deputy Chief Executive
Policy, MSD

..... / /

Hon Louise Upston
Minister for Social Development and
Employment

..... / /



Terry Genet
Manager, Climate and Economic Policy
Te Waka Pūtahitanga, MBIE

..... / /

Hon Melissa Lee
Minister for Economic Development

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Background

1. Responsibility for the development and implementation of different sections of the first emissions reduction plan (ERP1) was allocated to Ministers who held relevant levers for the actions and policies. The Ministers for Economic Development and Social Development and Employment were given responsibility for the Equitable Transitions chapter.
2. The commitment to develop an Equitable Transitions Strategy was one of several key actions within the 'Equitable Transitions' chapter of the Government's first emissions reduction plan (ERP1). This chapter meets legislative requirements under the Climate Change Response Act 2002 (CCRA) for ERPs to contain measures to manage the impacts of climate policies, including for iwi and Māori (among other specified groups). The Strategy is referenced in the 'Empowering Māori' chapter of ERP1, which discusses the important role of Māori in the transition to a low-emissions economy.
3. This commitment was also a response to the Climate Change Commission's (the Commission) first advice to the government to ensure a 'fair, inclusive and equitable transition'. The Commission has re-iterated this in its second advice to the Government in December 2023, to inform ERP2 - noting the urgent need for a strategy to ensure the impacts of climate policy are considered. The Commission also recommended expanding the scope of this work to cover climate adaptation alongside emissions reduction.
4. The development of an Equitable Transitions Strategy was also intended to support the development of content for ERP2 related to managing the impacts of climate policy.
5. We have previously provided you with an overview of the equitable transitions strategy work programme and options for progressing this work [MBIE 2324-0756; MSD REP/23/12/990 refers].
6. The equitable transitions work considered how people would be affected by policies to reduce emissions and looked to develop a strategy for an equitable transition. The Strategy was intended to intervene early and deliberately to minimise the long-term fiscal and social costs that would arise and maximise available opportunities. Without planning for and managing the impacts of climate policies, the effect of some of these increased costs for those most impacted may fall more on the income support system.
7. We previously identified three options for your consideration:
 - a. continue with the development of a Strategy (or a scaled back Strategy)
 - b. publish a draft policy-oriented action plan, focused on your priorities, for public consultation
 - c. do not publish a specific document, with the option to progress specific policy initiatives if you choose.
8. Following this advice, you indicated a preference to not continue work on a Strategy. This approach includes the return of remaining funding for the development of the

Equitable Transitions Strategy. Any further MSD and MBIE input for any alternative work to address the impacts of climate policies (including, for example, the development of ERP2) will need to be funded from organisation baselines, in alignment with your objectives for your portfolios.

Implications of not continuing work on the Equitable Transitions Strategy

Legal professional privilege

The CCRA requires that each ERP include a strategy to consider the impacts of climate policies on specific groups

12. The CCRA explicitly requires an ERP to include a strategy to mitigate the impacts of climate policies on employees and employers, regions, iwi and Māori, and wider communities, including the funding for any mitigation action¹. The Equitable Transitions Strategy was the key action in the chapter in the first ERP that responded to this legislative requirement, and is also referenced in the 'Empowering Māori' chapter of ERP1, which discusses the important role of Māori in the transition to a low-emissions economy.
13. The CCRA sets out that any substantive deviations from the objectives and actions set out in ERP1 requires the Government to undergo the same process as required for preparing the plan – that is, an adequate consultation process with (at minimum) sector representatives, affected communities, and iwi and Māori².

¹ Section 5ZG(3)(c), Climate Change Response Act 2002.

² Section 5ZI(3)(a), Climate Change Response Act 2002.

Broader Government priorities and obligations will also be impacted by a decision not to continue work on the Equitable Transitions Strategy

16. The Minister of Climate Change is required to consider the impact of emissions prices on households, the economy, and inflation, when updating price control settings for the New Zealand Emissions Trading Scheme each year³.
17. The Minister of Climate Change must consider the Commission's recommendations for unit limits and price control settings⁴. Last year, in its advice to the Minister of Climate Change, the Commission emphasised that the Government needed to ensure an equitable transition and referenced the Equitable Transitions Strategy as an example and opportunity for the Government to address inequitable impacts of emissions prices on households and the economy, as identified through emission pricing modelling from the Treasury⁵.
18. In March, the Commission will publish its 2024 advice on unit limit and price control settings, and we expect that it will continue to advocate for a fair, inclusive, and equitable transition.
19. Cabinet is likely to take final decisions on Emissions Trading Scheme settings in the middle of 2024, following public consultation. Where the requirements of the CCRA previously may have been fulfilled by the implementation of an Equitable Transitions Strategy, the Minister of Climate Change will now need to consider a separate approach for considering impacts on households, the economy, and inflation. We recommend that you discuss this with the Minister of Climate Change when you meet.

The second emissions reduction plan also requires the consideration of options to mitigate climate policy impacts

20. The Ministry for the Environment (MfE) is currently leading the development of the Government's ERP2. It is due to be released for public consultation in May 2024, with final publication before the end of 2024.
21. As noted above, the CCRA requires each ERP to include a strategy to mitigate the impacts of emissions reduction policies on specific groups.
22. The Minister of Climate Change has indicated that ERP2 should align with climate policies outlined in the Government's 100-day plan. These four key areas are:
 - a. doubling renewable energy resource within New Zealand
 - b. supercharging New Zealand's EV charging network
 - c. reducing agricultural emissions through technology
 - d. forestry price stability and restricting land-use change of highly productive land.


³ Section 30GC(6), Climate Change Response Act 2002.

⁴ Section 30GC(5), Climate Change Response Act 2002.

⁵ [2023-advice-on-NZ-ETS-unit-limit-and-price-control-settings.pdf](#)
(climatecommission.govt.nz)

23. Officials previously identified that the development of an Equitable Transitions Strategy could support the development of content for ERP2 related to managing the impacts of climate policy. Not continuing work on the Equitable Transitions Strategy will require the development of a new approach to managing the impacts of climate policy in ERP2 to meet the legal requirements of the CCRA. This new approach will need to be discussed with the Minister of Climate Change, but could include embedding the intervention framework developed for the Equitable Transitions Strategy in ERP2.
24. A decision will be needed on which Ministers and agencies take responsibility for this section of ERP2 to prepare for public consultation in May. The most appropriate roles and responsibilities for Ministers will depend on the Government's preferred approach to managing distributional impacts and the Ministers and agencies with responsibility for the relevant levers.
25. The Ministry for the Environment will soon advise the Minister of Climate Change on the approach for developing ERP2 and recommend a meeting with you.

Legal professional privilege



Public consultation resulted in extensive insights and significant feedback

27. MSD and MBIE undertook national consultation in early 2023, to identify the challenges and opportunities that emissions reduction policies are likely to bring for different population groups and regions⁶. This resulted in significant feedback from a diverse range of people and communities across New Zealand. These insights into the challenges and opportunities can be used to inform the work to manage the impacts of ERP2 climate policies.
28. National consultation raised public and stakeholder awareness of this work and set an expectation that the feedback and insights received would be reflected in an Equitable Transitions Strategy planned to be published in 2024. Once decisions have been made, we will create a communications plan to inform stakeholders about the decision to not continue work on an Equitable Transitions Strategy, how their views will be incorporated into ERP2, and to manage risks.

MBIE recommend the continuation of the Adaptation research project

29. MBIE is also seeking agreement from the Minister for Economic Development to continue funding an adaptation research project to model the economic impacts of a changing climate on regional economies. We are including this recommendation in this briefing given the project was funded from the same budget bid as the Equitable Transitions Strategy.

⁶ National consultation consisted of 41 public meetings across the country, with a further 68 targeted meetings with specific groups such as iwi/Māori, Pacific peoples, ethnic and migrant communities, disabled people, businesses and workers.

30. The findings from this project will support an evidence-based approach to economic development, through better understanding the impacts of a changing climate on regional economies, as these impacts will vary significantly across the country. The modelling is focused on land-based primary industries because of their importance to regional economies and vulnerability to climate change, and includes exploring the flow on impacts for GDP, employment, and broader regional economic activity. Further climate-exposed sectors, such as fisheries, tourism, and energy, could be modelled in the future.
31. The project will support the Government's objective of increasing exports by enabling economic decision-makers to better manage climate risks and identify opportunities at a regional level, such as crops and forest species that are better suited to a changing climate. The Minister of Climate Change has also indicated an interest in building the Government's climate data infrastructure to support better decision-making. This reflects the specific goal in 'Blueprint for a Better Environment' to gather and share high-quality information so that property owners and insurers can properly understand climate risks.
32. The contract is funded from the Equitable Transitions Strategy budget but it is a separate project that contributes to action 10.9 in the first National Adaptation Plan (*Identify impacts of climate change on regional economies*). The work is largely being delivered by Crown Research Institutes (Manaaki Whenua – Landcare Research, Scion, and Plant and Food Research) reflecting their specialist knowledge and modelling capabilities. One component of the work will be delivered by an independent consultancy, the New Zealand Institute of Economic Research. Initial payments for this project of ^{Commercial information} [redacted] have already been paid, with ^{Commercial information} [redacted] remaining ^{Commercial information} [redacted].
33. MBIE and the Ministry for Primary Industries have oversight of the research project. MBIE will ensure the project continues to align with Government's expectations and will update you on the substantive findings and broader regional economic development implications as results become available.

Next steps

34. Following your joint agreement to this briefing, we recommend that you inform the Minister of Climate Change of your decision.
35. We recommend you meet with Hon Simon Watts, Minister of Climate Change to discuss the implications of not continuing work on the Equitable Transitions Strategy, and the Government's approach to managing the impacts of climate policies under ERP2. Officials will provide material (including talking points) to support this discussion. ^{Legal professional privilege} [redacted]
36. As the original decision to develop an Equitable Transitions Strategy was agreed by Cabinet, you will need Cabinet agreement to rescind the decision to not continue work on a Strategy. Your decision regarding the Equitable Transitions Strategy is one of a number of changes to actions included in ERP1. Accordingly, officials will work

with other agencies to identify a streamlined approach to Cabinet decisions regarding changes to work that was agreed to as part of ERP1.

37. Once decisions regarding the Equitable Transitions Strategy have been finalised, officials will create a communications plan to inform stakeholders.
38. For MSD, cost savings associated with the direction to not continue work on an Equitable Transitions Strategy will be included as part of the Budget 2024 process.
39. For MBIE, cost savings associated with the direction to not continue work on an Equitable Transitions Strategy will be included in the fiscal savings submission to the Minister of Finance in mid-February.