



# Cabinet Business Committee

## Minute of Decision

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### New Zealand Emissions Trading Scheme: Introduction of Averaging Accounting

Portfolio                      Forestry/Climate Change

On 25 March 2019, the Cabinet Business Committee, having been authorised by Cabinet to have Power to Act [CAB-19-MIN-126]:

- 1        **agreed** that averaging accounting be the compulsory accounting approach for all rotational post-1989 forests that apply for registration under the New Zealand Emissions Trading Scheme (ETS) after 31 December 2020;
- 2        **agreed** that existing ETS forestry participants with post-1989 forests registered in the ETS after 31 December 2018 will have the ability to use the averaging accounting approach;
- 3        **directed** officials to report back before the end of May 2019 on whether existing forests registered before 1 January 2019 should be made eligible to transition to averaging accounting;
- 4        **noted** that the Minister of Forestry and the Minister for Climate Change (the Ministers) intend to report back to Cabinet in May 2019 with further detail on the design of averaging for newly established and existing post-1989 forestry as part of a package of improvements to the incentives for forestry in the ETS;
- 5        **noted** that the Minister of Forestry and the Minister for Climate Change have discussed design details of averaging for newly established and existing post-1989 forestry with officials, and are confident that these proposals are well progressed;
- 6        **noted** that over the period 2019 to 2050, the total estimated net fiscal impact of introducing averaging accounting for newly registered and existing post-1989 forests would be \$1,004 million;
- 7        **noted** that over this same period, introducing averaging accounting for newly registered and existing post-1989 forests would provide a benefit of \$1,275 million in the form of additional carbon sequestration to meet New Zealand's climate change objectives;
- 8        **noted** that allowing existing ETS forestry participants with post-1989 forests the option to transition from the stock change accounting approach to averaging accounting will increase unit supply to the ETS by approximately 13.3 million New Zealand Units (NZUs), at an approximate fiscal cost of \$332.5 million across 10 years through less income from harvest liabilities;

- 9 **authorised** the Minister of Forestry and the Minister for Climate Change to make a public announcement on the decision to introduce averaging accounting for new and existing forests, in line with the decision taken in paragraph 2 above;
- 10 **invited** the Minister for Climate Change, in consultation with the Minister for Forestry as appropriate, to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above paragraphs;

### Financial implications

- 11 **approved** the following changes to appropriations to give effect to the policy decision in paragraph 1 above, with a corresponding impact on the operating balance:

Vote Environment Minister for Climate Change	\$m – increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & outyears
Non-Departmental Other Expenses Allocation of New Zealand Units	(0.017)	(0.118)	(0.427)	(1.469)	(3.858)

- 12 **agreed** that the changes to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 13 **agreed** that the expenses incurred under paragraph 11 above be charged against the between-Budget contingency established as part of Budget 2018;
- 14 **noted** that the information technology systems to implement paragraph 1 above will cost \$3 million, and that ongoing administrative costs will be \$2.1 million per annum from 2022/23 onwards;
- 15 **noted** that the implementation of averaging accounting relies on an upgrade to the Climate Change Information System that is expected to cost approximately \$20 to \$25 million;
- 16 **noted** that the funding to give effect to paragraphs 15 and 16 above will be sought in Budget 2020.

Vivien Meek  
Committee Secretary

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**Present:**

Rt Hon Jacinda Ardern (Chair)  
Rt Hon Winston Peters  
Hon Kelvin Davis  
Hon Grant Robertson  
Hon Phil Twyford  
Hon Dr Megan Woods  
Hon Chris Hipkins  
Hon Andrew Little  
Hon Carmel Sepuloni  
Hon Dr David Clark  
Hon David Parker  
Hon Nanaia Mahuta  
Hon Damien O'Connor  
Hon Tracey Martin  
Hon Shane Jones  
Hon James Shaw

**Officials present from:**

Office of the Prime Minister  
Department of the Prime Minister and Cabinet

**Hard-copy distribution:**

Minister of Forestry  
Minister for Climate Change

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