

Hon James Shaw  
Minister of Climate Change  
Parliament Buildings  
Wellington

Email: [james.shaw@parliament.govt.nz](mailto:james.shaw@parliament.govt.nz)

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Tēnā koe James

The authors of the Climate Change Response Act recognised that the Government of the day will from time to time take decisions that differ from the Climate Change Commission's recommendations.

Should the Government choose to not follow the Commission's recommendations, the Act seeks to ensure transparency and accountability by requiring the Minister of Climate Change to prepare a report of the reasons for the difference and present it to the House. This is a key element of the architecture for clear, stable climate policy in Aotearoa New Zealand.

I recognise that you welcomed the Commission's recommendations on unit limits and price control settings for the New Zealand Emissions Trading Scheme and advised Cabinet prior to Christmas last year that our advice be followed. However, Cabinet largely chose not to adopt our recommendations.

To meet legal requirements, you presented your report on the reasons for this departure from the Commission's advice to the House of Representatives on 14 December 2022. It was the first real test of this element of the Act and could therefore set a precedent.

As Chair of the Commission, my hope was that your report would clearly set out the reasons for departing from any recommendation and provide enough information to allow the Commission, Members of Parliament and members of the public to be able to make an informed assessment of the implications of the decision.

In the Commission's view the level of detail that should be delivered in response to departing from the Commission's advice was not in the report. The report should have provided a reason for each of the key points where the Government chose to depart from the Commission's advice. Specifically, no reasons were provided for not accepting the Commission's recommendation to implement a two-tier structure of the cost containment reserve, nor for rejecting the Commission's recommendation to increase the auction reserve price.



The advice of the Commission informs the Government and the decisions of the Government inform how the Commission approaches its advice. The cycle of advice and policy response needs a fair and frank flow of information to work.

Your report did not provide enough detail for the Commission to properly consider the Government's judgements and the reasons for them, and their implications, as we develop our next advice, due to be delivered to you at the end of March 2023.

For transparency and accountability, as well as the Commission's own work, an explanation of how the Government's decisions fulfil requirements in the Act around according with emissions budgets, the nationally determined contribution, and the 2050 target, or how discrepancies might be managed over time to address the implications of the decisions should have been provided.

Alternative settings to the Commission's recommendations can possibly accord with these budgets and targets, and your response should describe how the Government's decisions meet this requirement.

The report says that the Government's equitable transition strategy and associated policies to address the distributional impacts of potentially higher NZU prices in the future are still being developed. However, there is no information on the progress and likely timing of these policies. Again, these details should have been included.

The Commission understands the need to ensure that any potential impacts of climate policies on households are well managed. I would caution however that deferring decisions during times of adverse economic conditions, which climate change is only likely to exacerbate, is not sustainable in the long run and will greatly compromise our chance of meeting the climate change targets set out in the Act. The price of emissions must reward producers, consumers and investors making choices that reduce emissions in line with budgets and targets. The price of products and services produced with high emissions must be able to change relative to other prices in the economy to reflect business practices, new technologies and consumer behaviour.

While the Commission supports the need for an equitable transition strategy, the process of developing one should not deter the Government from using its current suite of tools to manage economic impacts on households so the ETS can best play its part in assisting New Zealand to achieve its Statutory targets and emissions budgets.

Both the Commission and you, as Minister of Climate Change, have responsibilities under the Climate Change Response Act that are in place to help guide the country to meeting its emissions reduction targets and achieving a climate resilient future.

While a report on a decision to depart from the Commission's advice might not be the most pivotal document in reaching net zero, it is nevertheless important that it provides the level of transparency and accountability the Act intended.

Having put on record the Commission's view that the response to our 2022 advice on ETS Settings fell short of meeting the intentions of Parliament and the requirements of the Act, our intention is for this feedback to influence future reports in response to our advice rather than to seek to have the past report remediated.

Ngā mihi



Dr Rod Carr  
**Chairperson of He Pou a Rangi Climate Change Commission**