

Attention: Dr Caralee McLiesh

Dear Caralee,

Disclosure of the cost of off-shore mitigation of the Nationally Determined Contribution (Our OIA 2021/09)

The McGuiness Institute has read and prepared a submission in response to the Climate Change Commission's *2021 Draft Advice for Consultation*.

We are in the process of completing a working paper exploring how to report the emerging off-shore mitigation costs in a transparent manner through the existing financial reporting framework. The working title is: *Working Paper 2021/04: Reporting the off-shore mitigation costs of the Nationally Determined Contribution*. To this end, we have included below excerpts from the Draft Advice that are relevant to this OIA overleaf:

The Institute strongly advocates the TCFD reporting framework and for the New Zealand Treasury (in addition to publishing a whole-of-government set of financial statements) to also produce a whole-of-government annual report. This is normal practice for entities that have a public good disclosure requirement (e.g. NZX listed companies).

We suggest the potential cost of off-shore mitigation now deserves to, at least, be a note in the financial statements, as it is now less than 10 years away. To not include it, in our view, would not be in the public interest. We also suggest the annual report should disclose climate-related financial disclosures in the form of a full TCFD report.

To help us complete the working paper, we would appreciate answers to the following questions:

1. Is the New Zealand Treasury considering publishing a TCFD report for the New Zealand Treasury? Please explain with reasons.
2. Is the New Zealand Treasury considering publishing a TCFD report for the whole-of-government? Please explain with reasons.
3. Is the New Zealand Treasury considering publishing an annual report for the whole-of-government? Please explain with reasons.
4. Is the New Zealand Treasury considering publishing a note or placing a liability in the financial report for the whole-of-government on the emerging cost of off-shore emissions mitigation? Please explain with reasons. Our working paper explores the accounting-related reasons for why this approach is necessary (given existing financial reporting standards). We focus in particular on materiality and prudence.
5. Is it correct to interpret the liability (as outlined in Table 8.4 of the Climate Change Commission's Draft Advice) as being 564mt CO₂e x \$10b (between 5.8b and 11.5b). If yes, would this mean a liability of approximately \$564,000,000,000? Can you provide the range of liability the New Zealand Treasury estimates and a range of figures.

Thank you in advance for considering a response to the above questions. We would also appreciate the opportunity to meet with you in person at a time of your convenience.

Best wishes,

Wendy

Wendy McGuinness
Chief Executive

Relevant excerpts from the *Climate Change Commission's Draft Advice*:

Question 23: Do you support our recommendations on reporting on and meeting the NDC? Is there anything we should change, and why? – p. 166

Table 8.4 – p. 158

Table 8.4: Possible economic costs of offshore mitigation used to meet an enhanced NDC

	Price (\$/tonne)		
Multiplier for terms of trade	\$30	\$50	\$100
<i>No multiplier</i>	\$1.9b	\$3.2b	\$6.4b
<i>1.8 multiplier</i>	\$3.5b	\$5.8b	\$11.5b

Note: Estimates of the possible multiplier to account for terms of trade effects vary. Here we have used 1.8 based on work done by Infometrics to assess the impact of possible NDCs in 2015 – *A general equilibrium analysis of options for New Zealand's post-2020 climate change contribution*.

This raises concerns that the Government may fail to adequately plan for obtaining offshore mitigation, adding to regulatory uncertainty and increasing the risk that a potentially large amount of offshore mitigation will need to be purchased towards the end rather than spread across the entire target period. This in turn increases the chance that the NDC may not be achieved. – p. 165

There appears to be a domestic reporting gap. Given that the Government intends to require a range of businesses to disclose climate change risks in their financial reports, it is not unreasonable to expect the Government to do the same. We therefore consider that the Government should hold itself accountable for meeting the NDC through regular transparent reporting, including the disclosure of any fiscal risks that may arise from the purchasing offshore mitigation and its strategy for managing those risks. – p. 165