

The Chair
CABINET POLICY COMMITTEE

McGuinness Institute title:
[POL Sub (02) 15/7] Climate Change
III: Work Programme, Budget and
Institution for Climate Change Project

**CLIMATE CHANGE III: WORK PROGRAMME, BUDGET AND
INSTITUTION FOR CLIMATE CHANGE PROJECT**

PURPOSE

1. This paper seeks Cabinet approval of the ongoing work programme and budget for the next phase of the policy development work to support the Government’s decision to ratify the Kyoto Protocol. It also discusses institutional arrangements for Climate Change, in particular the future of the Climate Change Project Team.

EXECUTIVE SUMMARY

2. This paper, which should be read with the first two of the series of four Cabinet papers on climate change, sets out a brief outline of the work programme in each of the key climate change work areas:
- foundation policies
 - new policies
 - legislation
 - national systems and science
 - international programme
 - communications and consultation
3. A series of report backs by officials on key issues requiring further guidance and decisions are scheduled in November 2002 and February and March 2003. The work programmes also include efforts to identify outyear funding needs that will be requested in next year’s budget round, both for the Climate Change Project and for programmes that will remain the responsibility of other Departments.
4. The Climate Change Project was established under the Department of Prime Minister and Cabinet in December 2001. It brought together resources and personnel from a range of departments involved in the New Zealand Climate Change Programme with the immediate objective of developing and consulting on the policies and legislation necessary for New Zealand to meet its obligations under the Kyoto Protocol. It is now recommended that a permanent climate change “office” is established by the beginning of 2003 that will operate in an existing department with a separate identity from that department. The “office” will have responsibility to the Convenor of the Ministerial Group on Climate Change who will have delegated authority for that portion of the departmental vote dedicated to climate change, and will have clear lines of accountability to the CEO of its host department. It is proposed to take a decision by November 2002 on the location of the new “office”... ..
... ..

5. A budget for 2002/03 for the work of the Climate Change Project/Office ofmillion is proposed. The staff costs associated with present secondment arrangements are not included in this budget. Contributing to this figure is carryovers from 2002/03 and department contributions totalling million. Additional funding ofmillion for the 2002/2003 financial year is sought.

BACKGROUND

6. Papers I and II of this series confirm the policy that will be used to meet New Zealand's obligations under the Protocol. Climate change will increasingly become a core element of the public policy framework. It will continue to have significant economic and environmental issues associated with it. The next phase of the work programme will increasingly focus on the detailed design and implementation of policies set out in the confirmed policy package, and in developing the necessary inventory and management arrangements for measuring and reporting our greenhouse gases, national registry for recording and verifying emission units and for the government to ensure that it effectively optimises the flow of emissions assets and liabilities. Other departments will continue to have a role in key areas of this work programme including MED in the development of the national registry and MAF, MfE and MED in the further development of inventory systems.

7. Climate change policy will also need to continue to contribute in the following areas:

- international co-operation and negotiations on climate change
- science, research and monitoring
- adaptation policies and measures
- legislative requirements
- communications and consultation.

FORWARD WORK PROGRAMME

8. Set out below are the areas of work for the Climate Change Project (CCP) over the coming year:

- foundation policies
- new policies
- legislation
- national systems and science
- international programme
- communications and consultation

9. A brief outline of the work programme in each of these areas is set out below.

Foundation policies

Monitoring existing foundation policies

10. Work will include monitoring and assisting with further development of existing foundation policies managed by other agencies, including: the Transport Strategy, the Waste Strategy, the Growth and Innovation Framework and the NEECs strategy. A particular focus will be a continuing assessment of likely greenhouse gas emissions outcomes of these strategies and determining what programmes under these strategies can provide support to small and medium size enterprises.

Local Government partnership

11. Paper II of this series sets out the management structure of the local government partnership. Key tasks in the coming months for climate change officials are to:

- Implement and manage the contract with Local Government New Zealand to administer the local government partnership.
- Represent central government interests in the day-to-day operation of the partnership
- Take part in the preparation of action plan for building the elements of the partnership
- Implement the action plan

Public awareness and education programme

12. Paper II of this series sets out the elements of the public awareness and education programme. This is briefly summarised as:

- Part One - Research and Planning (October 2002 – March 2003):
- Part Two – Low Key Awareness Raising (November 2002 – April 2003)
- Part Three – High Profile Awareness Activities (July 2003 onwards)

Business opportunities programme

13. Paper II of this series sets out the elements of the business opportunities work. The work programme for business opportunities for the next year is:

- Investigate the role of government in assisting the development of the climate change support industry
- Identify sectors where improved coordination between private and public sector initiatives assist the uptake of opportunities and developing proposals
- Review programmes currently available to firms across government and investigate how these can be better integrated
- Support the establishment of a Pew Centre in New Zealand to promote voluntary emission reduction initiatives by businesses.

New policies

Carbon charge and revenue recycling

14. The carbon charge will be implemented in 2007. A work programme for developing and implementing the charge will be developed over the next months. This will set out all the key design tasks and a timetable for completing them. It would need to fit with the work programme for development of Negotiated Greenhouse Agreements (NGAs) and Projects and be consistent with the Government's overall revenue strategy.

15. Further work is similarly required to develop a strategy for the use of revenue derived from climate change policies. This would cover issues such as the likely size and duration of revenue, the objectives for revenue recycling and possible methods of recycling including recycling through the tax system, benefit adjustments and climate change programmes. The outcomes of this work will affect other policy agreements – for example, assessment of competitiveness at risk status for NGAs.

16. This work will be jointly carried out by officials from Treasury, the Department of Inland Revenue and the Climate Change Project.

NGAs

17. The forward work programme for NGAs includes:

By 30 November 2002

- finalising the competitiveness-at-risk (CAR) criteria for determining whether a firm is eligible to negotiate an NGA and the process for this, following discussions with interested parties
- determining the appropriate institutional arrangements for NGAs
- preparing an analysis of the resourcing requirements

By mid February 2003

- finalising the NGA model, following discussions with interested parties
- developing a standard process for negotiating NGAs
- developing a legislative framework for NGAs

18. The above timeframes are predicated on the fact that the Government will need to be ready to respond as soon as possible to requests by likely major NGA contenders who seek to progress negotiations so as to remove uncertainties surrounding potential major capital investments.

Projects

19. The forward work programme for Projects will include:

By 30 November 2002

- Undertaking a review of how Project programmes are implemented in other countries, to determine best practice (to inform targeted consultation late 2002 - early 2003);
- Determining the appropriate institutional arrangements for Projects
- Preparing an analysis of the resourcing requirements

By mid February 2003

- Developing the detail of a Projects programme on matters like dollars or units, additionality, eligibility, etc. (This would include targeted discussions with interested parties)
- Reviewing the need for legislation if any (beyond the requirement to amend the Climate Change Response Act to make provision for entity-held emission units in the national registry)

By 30 June 2003

- Developing a model Projects agreement, including payment schedules, monitoring, timing and penalties for non compliance
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Research on Agricultural emissions

20. The preferred policy approach so far is for the vast majority, if not all of the research to be funded by the sector organisations to avoid the need for separate farmer levies and significant additional government expenditure in this area of research.

21. Progress is being made on a negotiated partnership approach with sector groups. Senior representatives from the Meat, Wool and Game Industry Boards, Fonterra, Dairy Insight and Federated Farmers met with the Ministers of Agriculture and Research, Science and Technology early in July 2002. The work programme for agricultural research has been developed building on those discussions:

- Industry and Government will jointly engage external reviewers to review recent and existing research efforts (domestic and international), convene an international conference to consider research options, and develop a prioritised research strategy
- MAF will reprioritise up to \$50,000 out of its baseline to fund Government's share of this work.
- The Minister Responsible for Climate Change and the Minister of Agriculture, following the completion of a prioritised research strategy and industry negotiations will report back to Cabinet by mid March 2003 on:
 - the proposed research strategy;
 - the proposed funding, ownership and governance arrangements, including Government oversight and review arrangements, for implementing the research; and
 - any proposed Government contributions to the research, including the mechanism to fund any contributions.

Forest Sinks

22. Government has agreed to develop mechanisms to encourage the establishment and enhancement of forest sinks and the creation of new permanent protection forest sinks. Officials have been investigating a number of potential policy measures to encourage and enhance planted forest sinks. Three potential measures are the inclusion of forest sinks in a contestable Project mechanism; generic measures (e.g. improved market access and market development) and direct Government investment. Officials will report to Cabinet by 31 March 2003 (including any relevant budgetary recommendations) on, inter alia,

- possible generic initiatives relating to sinks that would improve the returns from forestry and lead to positive climate change outcomes by reducing the Crown's risk arising from deforestation and generating new sink credits for the Crown.
- options to establish additional forests on 'Kyoto compliant' Maori land, through a joint venture investment approach.

In paper I of this series of papers, Cabinet was asked to agree to a mechanism to encourage permanent protection forest sinks in which landowners would receive returns in proportion to the carbon being sequestered in their regenerating forest (Option 1). Officials will report back on details for the implementation of such a mechanism in 31 March 2003. Cabinet also noted that a further option to encourage permanent protection forest sinks would be to provide additional resources to support the voluntary retirement of marginal land. Officials will report back on options for such a mechanism, including a preferred option and budgetary implications as appropriate by 31 March 2003.

Synthetic Gases

23. The work programme for synthetic gases is as follows:

- Continue dialogue with electricity industry on the development of an industry proposal to the Government to minimise the leakage of SF6. Once completed, assess the efficacy of the proposal in minimising leakage and make recommendations to the Government by 31 March 2003
- Investigate current and expected future use of synthetic greenhouse gases in the insulation and refrigeration industries, including a review of current industry programmes for minimising leakage and availability of suitable alternative gases by 31 March 2003.

Policy assessment

24. The work programme in this area will involve:

- Undertaking further analysis on implications of the policy package for small to medium size enterprises and reporting back by 31 March 2003
- Ongoing assessment of implications for Treaty and Maori of policies
- Ongoing analysis of fiscal implications of policies

Science and Information needs for carbon monitoring

25. Ratification of the Kyoto Protocol creates new obligations on the Government to supply information on carbon fluxes in New Zealand. Examples include accounting for the carbon released from deforestation and the carbon absorbed in new Kyoto forests. New Zealand must be able to track (indefinitely) carbon changes on that land from which sink credits have been claimed. New Zealand must also continue to meet its reporting obligations under the UNFCCC and have reliable data upon which to base future policy decisions. Failure to provide such information could result in New Zealand being ineligible to trade emission units on the international market and/or claim sink credits from its Kyoto forests.

26. While New Zealand has robust systems to capture and report much of the information, there are a number of significant gaps that, if not addressed, put New Zealand's ability to claim and trade sink credits at risk. Further, ongoing funding to maintain current systems and scientific capability is not assured. Finally, for historic reasons the carbon monitoring programme is dispersed amongst a wide range of Crown agencies.

27. I propose officials review current carbon monitoring systems, capability and information against future needs assuming ratification. The review should identify, prioritise and cost those areas that should be addressed. The review should also include options for ongoing funding and management of a New Zealand carbon monitoring programme that will meet New Zealand's needs and obligations under the UNFCCC and its Kyoto Protocol. Officials should work with other Crown agencies with an interest in this area including the Ministry for the Environment, Ministry of Agriculture and Forestry, Ministry of Research Science and Technology, Foundation for Research Science and Technology, Ministry for Economic Development, Treasury, and science providers as appropriate. Officials should report to Cabinet by March 2003.

Legislation

28. Work on the Climate Change Response Bill and amendments includes:

- Select Committee servicing for the Climate Change Response Bill 2002 (September/October 2002)
- Identify/analyse legislative requirements for implementation of the preferred policy package
- Develop an amendment to the Climate Change Response Act 2002 to meet identified legislative requirements

29. Work on the RMA amendment includes:

- Preparing drafting instructions by 30 November 2002 for an amendment to the RMA that will remove Regional Councils' ability to directly control discharges of greenhouse gas emissions for climate change reasons
- Reporting back to Cabinet with the proposed amendment once work by MfE that is currently underway to assess the role of the RMA in encouraging new renewable energy generation is completed. If there is a proposed amendment under this work programme, then the two amendments will be linked.
- Monitoring and providing a climate change perspective to the following work that may lead to RMA changes as necessary, particularly:
 - the Transport Strategy (particularly urban form programme). An interdepartmental steering group is nearing the completion of the first of a four stage programme on identifying sustainable settlements and the barriers (including legislative) to achieving more sustainable urban forms.
 - the adaptation programme - which may result in recommendations about the role of the RMA

National systems and science

National systems

30. Work in the national systems area includes ongoing development, refinement and implementation of New Zealand's national system for the collection and reporting of greenhouse gases consistent with our obligations under the UN Framework Convention on Climate Change and with enhanced methods required under the Kyoto Protocol. It also includes the development of the national emission units registry. This work involves a number of departments in addition to the CCP, in particular significant efforts by MfE, MAF and MED.

31. Work for 2002/03 by the CCP includes investigation and consultation on New Zealand entity level greenhouse gas foot-printing schemes; upgrading methodologies for the energy sector; review of the industrial processes sector; designing and implementing a data management system for reporting; upgrading agricultural methodology; and implementing new forest inventory methodology. MED will undertake work in 2002/03 on developing the national registry and associated international technical standards.

32. The budget for this item also covers a funding shortfall for work necessary to produce the annual sinks inventory.

Science

33. Work in the science area includes support for New Zealand involvement in international science activities such as IPCC and related work; liaison with science groups in NZ including attendance of conferences; and science outreach/public awareness through presentations, workshops, and seminars.

Adaptation

34. Work in the adaptation area includes ongoing work preparing New Zealand for the effects of climate change, including:

- Carry out work proposed work on costs of extreme events and guidance and assistance to local government as noted in Cabinet paper *[CAB Min (02)13/12 refers]*
- Explore options for a legal mandate, including National Policy Statements, RMA amendment, and changes to other existing legislation by June 2003.
- Produce public awareness material (including public and sector-group presentations and workshops as required)
- Do background work to scope further risk and opportunity areas, undertake pilot studies work, and publicise the outcomes of such work.

International programme

35. Work in the international programme will involve effective New Zealand participation in climate change negotiations. This requires ongoing attendance at international meetings where key issues for New Zealand are being discussed. New Zealand also has recognised expertise in a number areas and is often asked to contribute to proceedings at workshops and to be part of expert country review teams. The proposed budget for 2002/03 includes participation at the Umbrella Group meeting in Honolulu in late-September, at COP8 in New Delhi in October/November, at subsidiary body meetings in Bonn next June, in a country review of Norway and in a range of IPCC and UNFCCC meetings and workshops throughout the year.

Communications

36. The forward work programme for communications will include:

- Finalising and distributing consultation feedback and submission reports for external and internal audiences following the completion of the last consultation.
- Launch and promotion of the "Climate Change 2" document for young New Zealanders at school.
- Development and implementation of a post-consultation and post-ratification communications strategy for the new climate change entity.
- Development of a strategy for communicating with the Crown's treaty partner on climate change issues
- Establishment of information-sharing networks and mechanisms with government and local government agencies involved in the climate change and sustainability areas (including, where possible, the promotion of linked publications)
- Upgrading and re-launching the government's climate change website to be more user-friendly, accessible and informative; developing and launching a website for young New Zealanders; preparing websites for increased traffic from public awareness advertising and information activities; maintaining the websites
- Implementation of a media programme including active promotion of climate change articles and further climate change seminars for journalists and editors.

- Writing, production and marketing/promotion of key climate change publications including a foundation climate change information booklet to be supported by targeted press and internet advertising.
- Provision and promotion of an active programme of public communications events and activities including speeches, seminars, briefings and addresses to key public and stakeholder groups (including local government, business, farmers, etc) and support for climate change personnel involved in such activities including providing advice, speech notes, presentations, media support etc
- Response to public inquiries via web, 0800 and other vehicles
- Development of a comprehensive communications database.
- Provision of presentation and media training for climate change officials.

Consultation

37. While it is not envisaged that there will be large scale national consultation as occurred in 2001/02, a number of policy areas will require targeted consultation on implementation details, e.g. NGAs and Projects.

INSTITUTIONAL ARRANGEMENTS

38. In December 2002, Cabinet approved both the establishment of the Climate Change Project (CCP) located in the Department of the Prime Minister and Cabinet and a budget until end-2001/02 financial year [POL Min (01)34/9 refers]. The CCP brought together resources and personnel from a range of departments involved in the New Zealand Climate Change Programme – from MfE's Climate Change Group, from MED, Treasury, MAF, MFAT and some staff from outside. Although, the immediate objectives were to develop and consult on the policies and legislation necessary for New Zealand to meet its obligations under the Kyoto Protocol, the possible duration of the CCP was then indicated to be through to mid-2003 when "Act II" policy legislation was put in place. This was because the preferred policy package would need to be developed further into detailed policy for implementation.

39. However, I believe that decisions should now be taken to put the climate change policy process on a more permanent footing. The reasons for this include:

- The ongoing nature of climate change policy work which will require a continuous focus on New Zealand's greenhouse gas emissions task
- The shift from ratification to policy implementation requires a different mix of personnel and skills
- The secondment basis of current staffing of the Project is now becoming unsatisfactory for meeting ongoing staff management and development needs
- The dedicated Climate Change Project model has proven to be successful in dealing with climate change policy issues in an interdepartmental setting
- The need to create an effective "portal" for interested parties to interface with Government policy.

40. There is a range of options that could be chosen for permanent institutional arrangements including:

- A return to the previous inter-departmental arrangements that existed prior to the formation of the Project Team involving personnel within individual departments being co-ordinated under a nominated official
- Establishing an identified and dedicated body within an existing department. This would involve the location of a function (hereafter referred to for working purposes as the climate change “office”) with a separate identity within that department, working to the convenor of the Ministerial Group for climate Change and with its manager reporting directly to the CEO of that department. Its operation would be similar to that of the Climate Change Project within DPMC
- Establishing a new stand-alone Crown entity responsible for climate change
- Expanding the role of an existing agency, e.g. EECA, to take on responsibility for climate change policy and implementation.

41. Based on past experience, I do not believe that we can return to the previous status quo, nor can we justify setting up new government bodies. I propose that:

- We agree to the establishment of a climate change “office” by the beginning of 2003.
- The “office” will operate as a branch of an existing department, but will have a separate identity, will have responsibility to the Convenor of the Ministerial Group on Climate Change who will have delegated authority for that portion of the departmental vote dedicated to climate change, and will have clear lines of accountability to the CEO of its host department.
- We take a further decision by November 2002 on the location of the new “office” following the assessment by relevant Chief Executive Officers of an proposal to be the host department. The assessment would include whether has the necessary institutional capacity to take on the role and whether satisfactory linkages and working processes have been devised for other parts of government.

BUDGET

2002/03 Financial Year

42. As with the budget for the Climate Change Project for 2001/02, the following budget includes items for policy development (the work programme outlined above), ongoing work associated with national systems for greenhouse gas inventories, science and monitoring, communications and consultation and continued engagement in international negotiations. The budget applies to the Climate Change Project for the remainder of calendar year 2002 but can equally apply to a new Climate Change “office” for the remainder of fiscal year 2002/03.

Climate Change Project Budget 2002/03
\$'000s (incl. GST)

[illegible]

Funding profile in immediate outyears

43. The following provides an indicative assessment of areas where necessary funding is expected to differ significantly to the funding levels above:

- **NGAs.** A considerably higher level of external advice will be required once the Government enters into actual negotiations with firms to cover the costs of the Government negotiator plus consultants providing technical and financial advice.
- **Projects.** A considerably higher level of external advice will be required once the Government enters into formal contestable bidding rounds to cover the costs of the Government review panel plus consultants providing technical and financial advice.
... ..
... ..
... ..
- **Local Government Partnership.** The costs are expected to reduce in years two and three to... ..
- **Public Awareness and Education.** From 2003/04 this is expected to step up into a full all-media programme intended to change public behaviours in the

medium to long term.
... ..

- **National systems (inventory and registry).** There are significant costs for the implementation of the IPCC good practice guidelines to our full national inventory. In particular the programme to fully implement the full system to monitor carbon in all lands, soils and forests requires a considerable increased level of annual funding... ..
... ..
... ..
... ..
- **Forest Sinks programme.** The programme to create incentives for additional forest sinks has a combination of policy costs (e.g. consultant work to better understand opportunities in marginal land and scrub) and the costs of any incentives themselves. Like the Projects programme, any direct incentives may be in the nature of tradeable promissory notes for future units, but generic incentives may be in the form of funds. An estimate for the necessary increased level of funds in the sinks programme is yet to be developed.

44. These indicative outyear funding levels include additional work that may be done in the CCP as well as other departments, most notably MfE, MAF and MED. The work programmes in 2002/03 for all these elements include efforts to identify actual outyear funding needs that will be requested in next years budget round. This work will also assess synergies and efficiencies that can be achieved by the departments involved, and in particular between the climate change “office” and its host department.

CONSULTATION

45. The following departments have been consulted in the preparation of this paper: Ministry of Agriculture and Forestry, Ministry of Consumer Affairs, Ministry of Defence, Ministry of Economic Development, Ministry of Education, Ministry for the Environment, Ministry of Fisheries, Ministry of Foreign Affairs and Trade, Ministry of Health, Ministry of Justice, Ministry of Social Development, Ministry of Research, Science and Technology, Ministry of Transport, Te Puni Kokiri, The Treasury, the Department of Internal Affairs, the Department of Conservation, the Department of Statistics. The Energy Efficiency and Conservation Authority (EECA) and Local Government New Zealand have also been consulted in the development of this paper.

SPECIFIC MÄORI /TREATY OF WAITANGI ISSUES

46. Treaty of Waitangi and Maori issues associated with this preferred policy have been summarised in CAB MIN (02) 13/10.

FISCAL IMPLICATIONS

47. Department of Prime Minister and Cabinet estimate the total fiscal implications of the climate change work programme for the climate change “office” in 2002/03 is \$6.124 million. Contributing to this figure:

- million is currently rolled over from 2001/2002
- million is available from the climate change baseline of MfE
- million is available from the climate change baseline of MED.

48. Therefore, the shortfall requiring new funding is estimated to be \$4.130 million including GST.

49. It should be noted that a total of \$2.6 million in extra money was approved for the ratification process and the operation of the Climate Change Project Team for 2001/02. While this budget was million underspent, the new money sought for 2002/03 for the further development and implementation of the policy package is of a similar order. Less money is required for consultation but new money is now required to set up and make operational the Government's new policy measures, in particular for the Projects and NGAs programmes by mid-2003. Additional money is also now required for new "foundation" programmes relating to public awareness and education, local government partnership and adaptation which is reflective of the decision to implement these policies in advance of price measures.

50. It should be noted that the figure in paragraph 47 excludes costs of staff seconded by MfE, MED, MAF and Treasury. The costs of staff currently seconded, including any overhead portion, will need to be reassessed for the period 1 January – 30 June 2003 once the institutional arrangements of the climate change "office" have been clarified. This may result in adjustments to the fiscally neutral transfers identified in this paper.

51. It should also be noted that the fiscal cost of the climate change policy package in outyears is likely to increase considerably, if the policy package discussed in this suite of papers is approved. The possible magnitude of these increases is outlined in paragraph 43. These cost pressures will be considered as part of the 2003 Budget.

LEGISLATIVE IMPLICATIONS

52. There are no legislative implications arising from this paper. Some elements of the proposed work programme may lead to legislation in the future. Officials will report on any legislative requirements when they report back to Cabinet.

RECOMMENDATIONS

It is recommended that Cabinet:

1. **direct** officials to report back by 30 November 2002 on:
 - 1.1. the institutional arrangements for the Climate Change Project and climate change policies such as Projects and Negotiated Greenhouse Agreements (NGAs).
 - 1.2. final competitiveness-at-risk criteria for determining whether a firm is eligible to negotiate an NGA and the process for this.
 - 1.3. a work programme to develop and implement a carbon charge and revenue recycling policy (this will be a joint report back by Treasury, IRD and Climate Change Project officials)
2. **direct** officials to report back by 28 February 2003 on:
 - 2.1. the details of the NGA policy, including final NGA model, a standard process for negotiating NGAs and a legislative framework for NGAs
 - 2.2. the details of the Projects policy, including a process for Projects and necessary legislation for Projects
 - 2.3. progress with industry on proposals for managing and reducing synthetic gas emissions.

- 2.4. recommendations on the Government role in climate change business opportunities and options for improved co-ordination of private and public sector initiatives at both industry and firm levels.
3. **direct** officials to report back to Cabinet by 31 March 2003 on
 - 3.1. a proposed research strategy for agricultural emissions, including funding needed for research, the mechanisms for funding, research ownership, Government contribution to the funding and governance arrangements for implementing the research
 - 3.2. any additional policies for small and medium sized businesses
 - 3.3. a review of New Zealand's current carbon monitoring programmes, capability and information against likely future needs following ratification of the Kyoto Protocol
 - 3.4. the review referred to in 3.3 above should identify, prioritise and cost areas that should be addressed and include options for ongoing funding and management of a New Zealand carbon monitoring programme that will meet New Zealand's needs and obligations under the UNFCCC and its Kyoto Protocol
 - 3.5. mechanisms to incentivise forest sinks, including:
 - 3.5.1. possible generic initiatives relating to sinks that would improve the returns from forestry and lead to positive climate change outcomes
 - 3.5.2. options to establish additional forests on 'Kyoto compliant' Maori land, through a joint venture investment approach
 - 3.5.3. details of a mechanism in which landowners receive returns in proportion to the carbon sequestered in a regenerating forest where the landowner covenants that forest for permanent protection
 - 3.5.4. options for encouraging the voluntary retirement of land for permanent protection forests including a preferred option as appropriate.
4. **direct** officials to report back to Cabinet by 30 June 2003 on
 - 4.1. options for improving planning by councils for adaptation to impacts of climate change
 - 4.2. a model Projects agreement, including payment schedules, monitoring, timing and penalties for non compliance
 - 4.3. overall progress on climate change policy, including the Local Government partnership, implementation of the education strategy, the adaptation programme and any other relevant policy development.
5. **agree** to the establishment of a climate change "office" by the beginning of 2003 that will operate in an existing department with a separate identity from that department. The office will have responsibility to the Convenor of the Ministerial Group on Climate Change who will have delegated authority for that portion of the departmental vote dedicated to climate change, and will have clear lines of accountability to the CEO of its host department.
6. **direct** officials to report back by 30 October 2002 on the location of the new "office" following the assessment of an proposal to be the host department.
7. **approve** the following changes to appropriations to fund the Climate Change project and implementation of climate change policy, with a corresponding impact on the Government's operating provisions:

	\$m – increase/(decrease)					
	2002/03	2003/04	2004/05	2005/06	Outyears	GST
Vote Prime Minister and Cabinet Departmental Output Class: Policy Advice and Secretariat and Co-ordination Services (funded by revenue Crown)	5.524	-	-	-	-	Incl.
Vote Energy Departmental Output Class: Policy Advice on Energy and Resource Issues (funded by revenue Crown)	(0.100)	-	-	-	-	Incl.
Vote Environment Departmental Output Class: Environmental Policy Advice (funded by revenue Crown)	(1.294)	-	-	-	-	Incl.
Total Operating Impact	4.130	-	-	-	-	

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9. **note** that at the funding levels set out in recommendation 7 above, additional funding for the 2002/03 financial year would not need to be sought, should the new “office” in recommendations 5 and 6 be located in the
10. **note** that the fiscal implications of the policy package for 2003/04 and outyears will be considered as part of the 2003 Budget, once further work has been done to refine the policy measures
11. **agree** to incorporate the changes in the appropriations into the 2002/03 Supplementary Estimates and, until these are enacted, approve the expenditure under Imprest Supply; and
12. **note** that an appropriation ofmillion (GST inclusive) was transferred from 2001/02 to 2002/03 in Vote Prime Minister and Cabinet in the 2002 Budget.
13. **note** that the costs of staff currently seconded to the Climate Change Project from MfE, MED, MAF and Treasury, including any overhead portion, will need to be reassessed for the period 1 January – 30 June 2003 once the institutional arrangements of the climate change “office” have been clarified, and this may result in adjustments to the fiscally neutral transfers identified in recommendation 7).
14. **note** that in immediate outyears there are projected to be considerable increases in necessary funding levels, both for the Climate Change Project and for programmes that will remain the responsibility of other Departments, as climate change policies and enhanced national systems for the emissions inventory and units registry are fully implemented, and that the current work programme

includes developing the funding levels for consideration in next years budget round.

Hon Pete Hodgson
Convenor, Ministerial Group on Climate Change