



Cabinet

CAB Min (01) 31/12

Minute of Decision

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Convenor, Ministerial Group on Climate Change

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Climate Change: Paper 2: Domestic Policy Options

On 8 October 2001, following reference from the Cabinet Policy Committee, Cabinet:

Background: Consultation

- 1 **noted** that as part of the timeline for ratification of the Kyoto Protocol previously agreed by Cabinet [CAB Min (01) 27/5A] there are two rounds of consultation on domestic policy, the first before Christmas 2001 on policy options, and the second in early 2002 on a preferred policy package, taking into account the outcomes of the first round;

Scope of Consultation and Linkage to Non-price Measures

- 2 **noted** that, because regulatory and non-price measures are primarily covered under different work streams such as the National Energy Efficiency and Conservation Strategy (NEECS), market-based policy options will be the primary focus of upcoming consultation and policy development on climate change;

- 3 **noted** that any decisions on market-based policy options will need to be considered alongside decisions on regulatory and non-price measures, and vice versa, when decisions are considered on the overall policy package;

Use of the Resource Management Act

- 4 **noted** that controls or mechanisms under the Resource Management Act (RMA) are not seen by officials as cost-effective for the control of greenhouse gases because of the risk of inconsistencies and the time and cost of implementing and managing requirements set under them;
- 5 **agreed** that the Government clearly signal that the RMA is not viewed as a vehicle for managing greenhouse gases for climate change reasons, and that consultation will include examining the options for providing guidance to local government on the appropriate use of the RMA;

New Zealand's Circumstances

- 6 **noted** that New Zealand's obligation under the Kyoto Protocol is to reduce its emissions to 1990 levels on average under the 2008-2012 commitment period or to take responsibility for any emissions over these levels;
- 7 **noted** that, given the projected growth in emissions and in the absence of technological breakthroughs or the use of sink credits, it is likely that New Zealand will need to purchase emission units on the international market to meet its Kyoto commitments in a cost effective way;

Objectives and Dimensions for Evaluating Policy Options

- 8 **noted** Cabinet's earlier decision that "policies be developed that aim to broadly establish comparable incentives to reduce emissions across different sectors" and that, in the context of considering policy options, "comparable incentives" means that everyone faces at the margin a similar encouragement to reduce emissions or enhance sinks [CAB (00) M 25/4A];
- 9 **noted** that previous Cabinet decisions on aims and objectives for climate change policy suggest five dimensions for evaluating policy options:
- 9.1 environmental integrity;
 - 9.2 economic efficiency;
 - 9.3 equity;
 - 9.4 competitiveness; and
 - 9.5 feasibility;
- 10 **agreed** that the five dimensions set out in paragraph 9 be incorporated into the policy options consultation document, and guide future policy development;

Key Issues for Consultation and Policy Options

- 11 **agreed** that the key policy issues for consultation include:
 - 11.1 who will take responsibility for emissions under the Kyoto framework, including whether the Government should take on all or part of the responsibility for “abate or buy/abate and sell” decisions, or whether it should devolve all or some of this responsibility directly to private firms or sectoral bodies;
 - 11.2 the division of the emissions management task between sectors (or subsectors) – sometimes referred to as “broad sectoral allocation of responsibility” – particularly where the Government decides to take responsibility for some sectors and not others, or chooses to set aside a reserve;
 - 11.3 the nature of competitiveness concerns in international and domestic markets arising from the potential application of market-based policies, including how these concerns affect potential new investments in export sectors, and the further approaches that need to be considered for addressing these concerns while aiming to maintain broadly comparable incentives;
 - 11.4 the applicability and feasibility of the market-based policy options in sectors;
 - 11.5 the linkages between market-based policies and regulatory and non-price measures, as part of an overall package;
 - 11.6 whether the Government should introduce any market-based measures prior to 2008, such as a carbon charge or emissions trading, to add to non-price policies, and the costs and benefits of implementing incentives for abatement action prior to 2008;
- 12 **noted** that officials will consult with the agriculture sector in particular on the long lead times required for research into abatement options and appropriate levels of investment in such research;
- 13 **agreed** that the range of market-based policy options that will be consulted on include:
 - 13.1 the Government retaining full responsibility for emissions;
 - 13.2 charges on all emissions, or on activities leading to all emissions;
 - 13.3 emissions trading (where responsibility is devolved);
 - 13.4 levies on activities that are not directly related to (all) emissions;
 - 13.5 project-based initiatives including project-based trading;
 - 13.6 hybrids of the above, or the above plus other programmes, eg negotiated greenhouse agreements (NGAs), levies for research;
- 14 **agreed** that issues and options for sink credits and debits from land use and forestry also be the subject of consultation, including the allocation of sink credits, treatment of deforestation emissions and treatment of agricultural soils;

- 15 **agreed** that a preliminary evaluation of the market-based policy options and key issues be described in a consultation document;
- 16 **noted** that Cabinet's decisions on the release of a discussion document as the basis for consultation are set out in CAB Min (01) 31/13.

Secretary of the Cabinet

Reference: CAB (01) 572; POL Min (01) 26/8