



# Cabinet

CAB Min (02) 4/3

## Minute of Decision

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Convenor, Ministerial Group on Climate Change

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Secretary, POL

## Climate Change: Setting the Direction for Future Domestic Policy Options and Ratification of the Kyoto Protocol

On 11 February 2002, following reference from the Cabinet Business Committee, Cabinet:

### Consultation

- 1 **noted** that phase one of the consultation on the ratification of the Kyoto Protocol and options for domestic policy measures has been completed. Major messages from the consultation included:
  - 1.1 a strong message from some affected stakeholders that the Government is moving ahead with ratification too fast. There was a desire for more clarity about the potential costs and benefits of policies that might be put in place to meet New Zealand's obligations, and the opportunities that the Protocol brings;

- 1.2 concern about the international competitiveness of some of New Zealand's sectors when not all countries have the same requirements under the Kyoto Protocol;
- 1.3 general support for ratification from the survey of the general public, although there was a low level of real understanding within the wider community about what the Kyoto obligations entail;

### **Directions for policy approach following consultation and analysis**

- 2 **noted** that the Kyoto Protocol is only the first binding step in the control of greenhouse gases. It signals a long-term change in the way the world will think about key resources. Because of this the Government needs to indicate that it is serious about aiming for real reductions in emissions;
- 3 **noted** that consultation and economic modelling indicate that policy options that impose a high cost on emissions have the potential to significantly affect certain sectors of the New Zealand economy, and at the same time increase overall global greenhouse gas emissions;
- 4 **noted** that the following goal is proposed for a preferred climate change policy response: "New Zealand should have made significant greenhouse gas reductions on business as usual and be set towards a permanent downward path for total gross emissions by 2012";
- 5 **noted** that the above goal and principles for a preferred climate change policy response, set out in Annex I attached to this minute:
  - 5.1 provide direction for future policy development and implementation;
  - 5.2 recognise the need to move towards long-term reductions in emissions while protecting the economy;
- 6 **agreed** that the goal and principles for policy, set out in Annex I attached to this minute, drive the development of the preferred climate change policy response;
- 7 **noted** that further work is underway to develop the preferred climate change policy response and officials will report to Cabinet Policy Committee on this by 31 March 2002;

### **National Interest Analysis and Ratification of the Kyoto Protocol**

- 8 **noted** that the draft National Interest Analysis in support of the ratification of the Kyoto Protocol is set out in Annex IV to CAB (02) 24;
- 9 **noted** that broad acceptance by some affected stakeholders of an in principle decision to ratify the Kyoto Protocol can not be expected before policy decisions confirm that their concerns about costs and benefits of policies will be addressed;
- 10 **noted** that as the preferred policy package is developed there will be further occasions to assess the cost and benefits, as well as the risks and opportunities of ratification, so as to maximise New Zealand's interests;

- 11 **agreed in principle** to ratify the Kyoto Protocol prior to or at the World Summit on Sustainable Development beginning 26 August 2002, **subject** to select committee consideration of the National Interest Analysis, passing of the necessary legislation for ratification and final decisions on the preferred policy approach consistent with the principles in Annex I attached to this minute;
- 12 **noted** that a further Cabinet decision authorising ratification will therefore be required before ratification can take place;
- 13 **noted** that ratification will require deposit of the ratification instrument at the United Nations in New York by 23 August 2002, or at the World Summit if a depository function is to be provided;
- 14 **noted** that the Kyoto Protocol comes into force only when sufficient nations (and, separately, sufficient Annex B nations) have ratified, and comes into effect on 1 January 2008 only if it is in force by then;
- 15 **noted** that the Government's policy response to the Kyoto Protocol is predicated on its coming into force;
- 16 **authorised** the Convenor of the Ministerial Group on Climate Change, in consultation with the Ministerial Group on Climate Change, to approve the final text of the National Interest Analysis attached in Annex IV to CAB (02) 24;
- 17 **approved**, subject to the final editing changes referred to in paragraph 16 above, the immediate presentation in the House of the Kyoto Protocol and the National Interest Analysis attached in Annex IV to CAB (02) 24, in accordance with the international treaty examination process;
- 18 **noted** that drafting instructions were issued in December 2001 to Parliamentary Counsel Office for the minimum legislation required to enable ratification, in accordance with Cabinet's directions [POL Min (01) 32/14];

### Future timetable

- 19 **noted** the timetable for future climate change work attached in Annex III to CAB (02) 24.

Secretary of the Cabinet

Reference: CAB (02) 24; CBC Min (02) 3/1

*Secretary's Note: Cabinet amended paragraph 15. This minute therefore amends CBC Min (02) 3/1.*

## **ANNEX I – Goal and principles for a preferred climate change policy approach**



## Annex I to CAB Min (02) 4/3

**ANNEX I – Goal and principles for a preferred climate change policy approach**

*Goal: New Zealand should have made significant greenhouse gas reductions on business as usual and be set towards a permanent downward path for total gross emissions by 2012.*

This goal means that:

- New Zealand will be on a path to reshaping its energy use;
- there will be an increased rate of technology uptake on renewables, energy efficiency, lower emissions production;
- all sectors will be addressing emissions and positioning themselves greenhouse-wise on world markets;
- research findings to date will have been transferred to agricultural practice;
- new buildings dwellings, plant, vehicles and machinery will be at the optimal edge of efficiency;
- there will be a population knowledgeable about greenhouse gases and taking responsibility for them.

**Key principles for future policy development**

*Policies must result in permanent reductions in emissions over the long term*

- ⇒ Policies must achieve real and sustainable reductions in emissions across all commitment periods – both to protect New Zealand's international credibility and to ensure that we are prepared for future commitment periods.
- ⇒ Policies should avoid carbon leakage. This will protect the objectives of the Protocol pending the creation of a truly global emissions regime.
- ⇒ Policies will aim for long-term permanent changes in behaviour.

*Policies need to be responsive to the changing international context*

- ⇒ The policy approach needs to recognise the uncertainty about future changes up to 2012, including changes in our emissions profile, in technology, and the international environment.
- ⇒ Policy development will be incremental, building from low cost policies now to policies that expose emitters to the full emissions price as factors such as knowledge and certainty increase and as countries currently without emissions targets take on targets and expose their economies to the international price of carbon.
- ⇒ Policies therefore will be adaptable and flexible, recognising the need for businesses and other stakeholders to be able to accept and respond to policy changes. They should allow for a transitional, staged approach to give affected emitters time to adjust.
- ⇒ Policies must be simple and comprehensible in order to effect the necessary behavioural changes.

## Annex I to CAB Min (02) 4/3

- Policies will be increasingly globally focused as targets under the Kyoto Protocol become increasingly globally based.
- > Policies will be developed in close consultation with stakeholders, and will include processes for partnership and cooperation with key affected stakeholders.
- The policy package will include regular reviews of progress with emission reductions and effectiveness of policies, and criteria or milestones for when policy changes or new policy might need to be set in place. This includes periodic review of the goal, having regard to our domestic actions and the evolving international market situation.

### *Policies need to be consistent with a growing and sustainable economy*

- > Policies will recognise that competitiveness now and tomorrow is important for all our industries (including new entrants).
- Policies will move progressively to a full cost on emissions when competitiveness issues have been addressed by a full global targets regime.
- > Policies should avoid inappropriate distortionary effects on investment
- Policies will promote economic opportunities in climate change.

### *Policies will not disadvantage the vulnerable in our society*

- > Policies should aim to ensure that lower socioeconomic groups are not disadvantaged as a result of Kyoto commitments