



# Cabinet

CAB Min (02) 26/16

## Minute of Decision

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Convenor, Ministerial Group on Climate Change

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## Climate Change I: Confirmation of Preferred Policy Package

On 7 October 2002, following reference from the Cabinet Policy Committee (POL), Cabinet:

- 1 **noted** that stakeholders generally supported the preferred policy approach agreed to by Cabinet on 20 April 2002 [CAB Min (02) 13/10], although some businesses, farmers and farm foresters expressed concern about the time of ratification, emissions charge and the Government's intention to retain sink credits;
- 2 **confirmed** the policy for meeting New Zealand's obligations under the Kyoto Protocol as set out in the Cabinet minute CAB Min (02) 13/10, with the following changes or clarifications:
  - 2.1 **agreed** that the deforestation cap be increased to 21 million tonnes of CO<sub>2</sub> equivalent [paragraph 24 of CAB Min (02) 13/10];
  - 2.2 **agreed** that in the unlikely event that significant deforestation may occur at levels above expectations, the Government will consider its policy options to manage emissions within the cap, including addressing issues such as:
    - 2.2.1 how deforestation rights within the cap will be allocated;

- 2.2.2 how to monitor and enforce the deforestation cap;
  - 2.2.3 what actions the Government will take in the event the cap is exceeded;
- [paragraph 24 of CAB Min (02) 13/10]
- 2.3 **agreed** that there should be a mechanism to encourage the establishment of permanent protection forest sinks by allowing land owners to receive returns in proportion to the carbon sequestered, provided landowners consent to protect the land and maintain a permanent forest cover and are subject to all costs and risks associated with the mechanism [paragraph 26 of CAB Min (02) 13/10];
  - 2.4 **agreed** that the design principle for the emissions charge is that it will include: emissions from fossil fuel supply and use; process emissions and fugitive energy emissions, subject to feasibility and cost-effectiveness, unless these emissions are exempted in whole or in part (or receive an equivalent rebate) through a Negotiated Greenhouse Agreement (NGA) [paragraph 9 of CAB Min (02) 13/10];
  - 2.5 **noted** that further work is required to determine whether the emissions charge will be applied to emissions from domestic bunker fuels used in shipping and aviation, and that officials will report back on the outcome of this work by mid February 2003;
  - 2.6 **noted** that further work on the design and application of the emissions charge will be undertaken, including legislative requirements;
  - 2.7 **agreed** the following policy for synthetic gases:
    - 2.7.1 voluntary handling, education and recovery programme for refrigeration and insulation uses of HFCs and PFCs, linked with Montreal Protocol programmes [paragraph 17 of CAB Min (02) 13/10];
    - 2.7.2 no requirements for HFCs in aerosols, including aerosol cans, asthma puffers and fire extinguishers, for health and safety reasons [paragraph 17 of CAB Min (02) 13/10];
    - 2.7.3 industry will work together and share information to limit leakage of SF<sub>6</sub>. A full industry proposal will be provided to Government by mid February 2003 [paragraph 18 of CAB Min (02) 13/10];
  - 2.8 **agreed** that the primary issue for negotiation with each emitter seeking an NGA will be the pathway and timeline to achieve international best practice in emissions management in return for a full or partial exemption from emission charges;
  - 2.9 **agreed** that there could be a range of situations where a partial exemption from emissions charges might be negotiated, including the degree of risk to competitiveness faced by an emitter and the nature of the targets agreed through negotiation;
- 3 **noted** that further work will be undertaken, in consultation with the Minister of Commerce and Minister for Small Business, on any further policy that may be required to encourage small and medium size businesses to participate in emissions reduction and whether additional policy is needed to mitigate possible effects on small businesses of an emissions charge;

- 4 **noted** that decisions on further details, work programmes and budgets for developing and implementing the elements of the policy are in the associated minutes, CAB Min (02) 26/17-19;
- 5 **noted** that the policy package provides a framework and it will be important to regularly review and continue to monitor innovative policy measures in other jurisdictions and assess how these may be relevant to New Zealand;
- 6 **noted** that the Convenor of the Ministerial Group on Climate Change and the Minister for the Environment would publicly announce the confirmed policy approach;
- 7 **authorised** New Zealand ratification of the Kyoto Protocol, if possible by the next UNFCCC Conference of the Parties (COP8) in mid to late-October 2002 but subject to enactment of the Climate Change Response Bill;
- 8 **directed** officials to report to POL on the WTO implications of policies as design details are developed;
- 9 **noted** the advice of the Convenor, Ministerial Group on Climate Change that this issue will be the subject of consultation with other parties represented in Parliament.

Secretary of the Cabinet

Reference: CAB (02) 394; POL Min (02) 15/5

***Secretary's Note:** For ease of reference Annex 1 sets out in full the approved policy package – the decisions made by Cabinet in April 2002, (CAB Min (02) 13/10) as modified by the decisions in this minute.*

## Climate Change: Confirmed Policy Package

Decisions made by Cabinet on 22 April 2002 [CAB Min (02) 13/10], incorporating the modifications and clarifications agreed by Cabinet on 7 October 2002 [CAB Min (02) 26/16]

### Background

- 1 **noted** that existing policy foundations will result in approximately one third of the emissions reductions required for New Zealand to meet its Kyoto Protocol (the Protocol) target. However, New Zealand will still be required to account for around 50 million tonnes of excess emissions over 1990 levels during the first commitment period 2008-12;
- 2 **noted** that the success of existing policy foundations is dependant on funding being made available for them;

### New Policies

- 3 **agreed** that new climate change policies for the first commitment period will not be implemented until the Protocol comes into force;
- 4 **agreed** that for the purposes of climate change policy, the economy should be separated into three groups: the not-at-risk group, the at-risk group and the 'other' group (which includes the agricultural sector, the waste sector and the synthetic gases sector), and that different policy be applied according to each group's specific needs;
- 5 **agreed** that the policy package needs to ensure that each group contributes to emissions reductions and is exposed to the opportunities that the Protocol represents;

### Not-at-risk industries and companies

- 6 **agreed** that, given the emission reductions that the foundation policies plus Projects and Negotiated Greenhouse Agreements can achieve, assuming that they are adequately funded, there will be no price measure before 2007;
- 7 **agreed** that the Government's preferred position for the first commitment period is an emissions charge, approximating the international price of emissions, with a price cap of \$25 per tonne of CO<sub>2</sub> equivalent but retaining the option of private sector emissions trading if the international market is functional and the international price of emissions is reliably below the price cap, and the administration costs of establishing such a market do not outweigh the benefits;
- 8 **agreed** that the design principle for the emissions charge is that it will include: emissions from fossil fuel supply and use; process emissions and fugitive energy emissions, subject to feasibility and cost-effectiveness, unless these emissions are exempted in whole or in part (or receive an equivalent rebate) through a Negotiated Greenhouse Agreement;
- 9 **noted** that further work is required to determine whether the emissions charge will be applied to emissions from domestic bunker fuels used in shipping and aviation and officials will report back on the outcome of this work by mid February 2003;
- 10 **noted** that further work on the design and application of the emissions charge will be undertaken including legislative requirements;

### **At-risk industry and companies**

- 11 **agreed** that Negotiated Greenhouse Agreements (NGAs) with the Government be offered to the at-risk group;
- 12 **agreed** that the primary issue for negotiation with each emitter seeking an NGA will be the pathway and timeline to achieve international best practice in emissions management in return for a full or partial exemption from emission charges;
- 13 **agreed** that there could be a range of situations where a partial exemption from emissions charges might be negotiated, including the degree of risk to competitiveness faced by an emitter and the nature of the targets agreed through negotiation;
- 14 **noted** that further work will be undertaken, in consultation with the Minister of Commerce and Minister for Small Business, on any further policy that may be required to encourage small and medium size businesses to participate in emissions reduction and whether additional policy is needed to mitigate possible effects on small businesses of an emissions charge;
- 15 **agreed** in the event that emitters in the at-risk category fail to negotiate an NGA they will revert to the not-at-risk category;

### **Agricultural non-CO<sub>2</sub> emissions**

- 16 **agreed** that given the current inability of the sector to make reductions in emissions without further technology development, increased agriculture sector research will be implemented through a negotiated partnership approach with sector groups;
- 17 **agreed** that if the sector is unwilling to work with Government to invest in a sustained research effort aimed at identifying and developing technologies to reduce agricultural emissions, and encouraging their uptake, a levy will be imposed on the agriculture sector for research into emission reductions;
- 18 **agreed** that so long as an adequate research effort is undertaken, the non-CO<sub>2</sub> emissions from the sector will not face any additional price measures prior to or during the first commitment period;

### **Waste sector**

- 19 **agreed** that in the immediate future policy will rely on the waste strategy and will be reviewed coincident with a review of the performance of the Waste Strategy that will be taking place in 2005;

### **Synthetic gases sector**

- 20 **agreed** the following policy for certain uses of synthetic gases, for pre-2008 and for the first commitment period:
  - 20.1 voluntary handling, education and recovery programme for refrigeration and insulation uses of hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs), linked with Montreal Protocol programmes;
  - 20.2 no requirements for HFCs in aerosols, including aerosol cans, asthma puffers and fire extinguishers, for health and safety reasons;

20.3 industry will work together and share information to limit leakage of sulphur hexafluoride (SF<sub>6</sub>). A full industry proposal will be provided to Government by mid February 2003;

- 21 **agreed** that, in addition, for both HFCs and SF<sub>6</sub>, Projects are proposed to provide further incentives for improved management practice;

### **Carbon sinks**

- 22 **agreed** that the policy for managing Kyoto Forests is that the Government retain all sink credits and their associated liabilities, at least for the first commitment period;
- 23 **agreed** that the Government retain deforestation liabilities, provided these remain within a cap equal to 21 million tonnes of CO<sub>2</sub> equivalent, the carbon that would be released by the deforestation of 10% of the area of forest reaching maturity during the first commitment period;
- 24 **agreed** that in the unlikely event that significant deforestation may occur at levels above expectations, the Government will consider its policy options to manage emissions within the cap, including addressing issues such as:
- 24.1 how deforestation rights within the cap will be allocated;
  - 24.2 how to monitor and enforce the deforestation cap;
  - 24.3 what actions the Government will take in the event the cap is exceeded;
- 25 **agreed** that the Government assign a proportion of the credits (or an equivalent value) to provide incentives for the establishment and enhancement of sinks;
- 26 **agreed** that there should be a mechanism to encourage the establishment of permanent protection forest sinks by allowing land owners to receive returns in proportion to the carbon sequestered, provided landowners consent to protect the land and maintain a permanent forest cover and are subject to all costs and risks associated with the mechanism;
- 27 **agreed** that New Zealand should use the upper limit of each of the allowable ranges provided under the Protocol to set the definition of a “forest”;
- 28 **agreed in principle**, subject to further consideration before 2007, that with respect to accounting for activities under Article 3.4, New Zealand should not account for forest management or for other land use activities, as provided for in the Protocol;

### **Use of Projects in general**

- 29 **agreed** that Projects:
- 29.1 are a key cross economy measure that will be used in both pre-2008 and 2008-2012 in support of the other elements of the preferred policy outline;
  - 29.2 will focus during the first commitment period on sectors where an efficient price signal is absent or blunted;

- 29.3 where the full price exists, will only be used in circumstances where market failure exists, where other responses are not superior and the use of a Project provides a net benefit;
- 29.4 will utilise a contestable approach to accessing Project support where feasible;
- 29.5 will include additionality criteria so as to avoid supporting Projects that would have occurred anyway;

## Review

- 30 **noted** that the policy package provides a framework and it will be important to regularly review and continue to monitor innovative policy measures in other jurisdictions and assess how these may be relevant to New Zealand;
- 31 **agreed** that there be annual reports to POL setting out progress with existing policy, assessment of new information to date, and assessment of the relevance of the policy proposed and that, in addition, there are some key dates where more comprehensive reviews might be needed:
  - 2005** in line with the requirement to report demonstrable progress to the international community under the Protocol and to confirm that New Zealand's policies will ensure it is positioned to meet its commitments;
  - 2007** just prior to the first commitment period, to review the success of pre-2008 policies and assess the possible implications of the first commitment period policies given new information to hand;
  - 2010** to prepare for the next commitment period, to trace progress with commitment period policies, to assess effects on the economy of the policies and to identify the extent to which New Zealand is likely to meet its obligations for the first commitment period without purchases of emissions units by the Crown.