

**SENSITIVE**

## Office of the Minister for Climate Change Issues

**Chair**

**Cabinet Economic Growth and Infrastructure**

### **Paris Agreement on Climate Change: Approval to Begin the Parliamentary Treaty Examination Process**

#### **Proposal**

1. I propose that Cabinet:
  - 1.1. agree to present the Paris Agreement and the national interest analysis for the Paris Agreement to the House of Representatives for Parliamentary treaty examination;
  - 1.2. agree to New Zealand's first nationally determined contribution; and
  - 1.3. agree to New Zealand ratifying the Paris Agreement subject to satisfactory completion of the Parliamentary treaty examination process and New Zealand taking into account ratification by major economies.

#### **Executive summary**

2. The Paris Agreement is a multilateral treaty on climate change that was adopted on 12 December 2015 by the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), including New Zealand. New Zealand became a signatory to the Paris Agreement on 22 April 2016.
3. Cabinet has approved the text of the Paris Agreement, considered a draft national interest analysis, and directed officials to begin work to enable New Zealand to ratify the Paris Agreement by the end of 2016.
4. I now seek agreement to present the text of the Paris Agreement (Appendix 1) and the national interest analysis (Appendix 2) to the House of Representatives for Parliamentary treaty examination.
5. The Paris Agreement requires Parties to communicate nationally determined contributions to the United Nations. I propose that Cabinet agree that New Zealand's first nationally determined contribution will communicate New Zealand's target to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030 (Appendix 3).
6. Following Parliamentary treaty examination, I propose to report back to Cabinet, after consultation with the Minister of Foreign Affairs, on when to deposit New Zealand's instrument of ratification for the Paris Agreement with the Secretary-General of the United Nations.
7. I also propose that New Zealand's first nationally determined contribution be formally communicated to the UNFCCC Secretariat at an appropriate time.

## Background

8. The Paris Agreement is the global response to addressing climate change after 2020. The Paris Agreement aims to strengthen the global response to climate change by:
  - 8.1 keeping the increase in global average temperature to well below 2°C above pre-industrial levels, and pursuing efforts to limit temperature increases to 1.5°C;
  - 8.2 increasing the ability to adapt to the impacts of climate change, foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
  - 8.3 making finance flows consistent with a pathway to low emissions and climate-resilient development.
9. Following public consultation, Cabinet agreed to a provisional intended nationally determined contribution (INDC) which communicated a target to reduce New Zealand's emissions to 30 per cent below 2005 levels by 2030 [CAB min(15)23/10 refers]. This was communicated to the UNFCCC as New Zealand's first INDC during negotiation of the Paris Agreement. New Zealand's INDC was made provisional, pending confirmation that New Zealand would have access to international carbon markets and could apply its preferred approach to accounting for forestry emissions and removals.
10. On 12 December 2015, the Paris Agreement was adopted by the Conference of the Parties to the UNFCCC, including New Zealand.
11. On 6 April 2016, Cabinet approved the text of the Paris Agreement and considered a draft national interest analysis [CAB-16-MIN-0145 refers].
12. I signed the Paris Agreement on behalf of New Zealand in New York on 22 April 2016 [EGI-16-MIN-0053 refers]. I also endorsed the 'High-level statement on promoting the early entry into force of the Paris Agreement'.
13. On 11 July 2016, the Cabinet Business Committee, having been authorised by Cabinet to have Power to Act, directed officials to begin work to enable New Zealand to ratify the Paris Agreement by the end of 2016 [CBC-16-MIN-0004 refers].

## Comment

### *Key obligations under the Paris Agreement*

14. On 6 April 2016, Cabinet approved the text of the Paris Agreement and noted the Agreement will require New Zealand to:
  - 14.1 submit five-yearly updates of nationally determined contributions;
  - 14.2 participate in a transparency regime (through reports and reviews, such as national inventory reports);
  - 14.3 engage in planning to adapt to the effects of climate change; and

- 14.4 continue to provide and mobilise financial support for developing countries' climate change mitigation and adaptation efforts (referred to as climate finance), and support their implementation of the Agreement.

*Costs and benefits of the Paris Agreement*

15. A national interest analysis for the Paris Agreement is attached for presentation to the House of Representatives (Appendix 2).
16. The two key benefits of New Zealand joining the Paris Agreement are that it:
- represents the best chance to effectively address climate change on a global scale; and
  - will send a clear signal to assist in New Zealand's transition to a low-emissions and climate-resilient economy. This transition will help make New Zealand become more economically competitive and productive in the long-term.
17. Meeting the obligations and expectations under the Agreement (including implementing our nationally determined contribution) will impose some additional financial and economic costs on New Zealand.<sup>1</sup> Economic costs of subsequent contributions are expected to be higher because New Zealand will need to meet progressively more ambitious emission reduction targets. New Zealand will also need to increase the amount of climate finance provided and mobilised from a variety of sources compared to previous levels.
18. Extensive modelling and analysis undertaken at the time New Zealand agreed its provisional INDC estimated economic costs of meeting the target to be a reduction in Real Gross National Disposable Income (a measure of net welfare or purchasing power) of \$14 billion to \$37 billion over 2021-2030 (in 2012 prices).<sup>2</sup> These costs were presented to Cabinet in 2015 when New Zealand's provisional INDC was approved [CAB min (15) 23/10 refers].
19. The upper bound of this range was revised down to \$36 billion (2012 prices) for the period 2021-2030 to incorporate New Zealand's preferred forestry approach. The revised cost was presented to Cabinet when it authorised the signing of the Paris Agreement on New Zealand's behalf [CAB-16-MIN-0145 refers].
20. New Zealand's provisional INDC was agreed after consideration of a range of international and domestic factors and was concluded to be in New Zealand's national interests. Cabinet noted that the Paris Agreement represents the best, coordinated, global effort to reduce risks from climate change. New Zealand was prepared to take on these costs because the provisional INDC was:
- fair and comparable to other countries' contributions;
  - able to demonstrate progression beyond New Zealand's current target; and

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<sup>1</sup> New Zealand's nationally determined contribution is not strictly part of the Paris Agreement.

<sup>2</sup> This assumed the availability of international markets, a carbon price reaching \$50 by 2030 and excluded removals from forests.

- had regard to New Zealand's national circumstances.
21. At the time Cabinet set the provisional target, officials anticipated that it would be several years before New Zealand would ratify the Paris Agreement and therefore finalise our first nationally determined contribution [CAB min (15) 23/10 refers]. This timeframe is now considerably shorter. Analysis on how New Zealand's preferred approach to accounting for forestry emissions would impact the New Zealand Emissions Trading Scheme (NZ ETS) and on linkages with other carbon markets is still ongoing, and some uncertainties remain. It is possible some of these uncertainties could have either positive or negative impacts on cost. To manage these uncertainties, New Zealand's nationally determined contribution will signal the possibility that the proposed approach to accounting for forestry may be adjusted in the future.
  22. The Paris Agreement provides legal access to international carbon markets but countries need to develop and build these themselves. Without development of deep and efficient carbon markets, the cost of participating in the Agreement will be significantly higher for New Zealand. To mitigate this risk, New Zealand will work with others to develop these markets over the coming years and Cabinet has approved additional resources for this work [CBC-16-MIN-0004].
  23. In the short and medium term, New Zealand will incur costs in meeting emission reduction targets included in nationally determined contributions. These costs are expected to be higher for New Zealand compared to other developed countries because New Zealand has a unique emissions profile where agricultural emissions make up 49 per cent of our gross emissions and 80 per cent of our electricity production already comes from renewable sources.
  24. The estimated economic cost of meeting our target ranged from \$14 billion to \$36 billion for the period 2021-2030. The figure of \$36 billion is at the high end as the modelling assumed no carbon price applied to the agricultural sector, no technological development beyond business-as-usual in any sector, and conservative forestry growth rates.
  25. This figure can substantially change depending on the domestic policies put in place. For example, domestic policies such as the electric vehicles package, funding for agricultural research, and different prices for carbon may mean the actual economic costs may not be as high.
  26. We have recently phased out the one-for-two transitional measure from the NZ ETS. This is a big change that has seen a significant impact on the price of emissions in New Zealand.
  27. A number of technical groups in the areas of agriculture, forestry, energy and adaptation will support future domestic policies.
  28. Domestic climate change policies to meet targets may result in adjustments to the economy such as job creation in some industries (eg, renewable electricity generation and forestry) which may offset job losses in other industries (eg, fossil fuel industries).

29. The Paris Agreement presents opportunities for New Zealand's future in a world moving towards low-emissions economies. This transition may provide economic opportunities for New Zealand, for example:
- New Zealand has an abundance of renewable energy resources and can take advantage of low carbon energy opportunities;
  - it may help inspire innovation and create new jobs and markets; and
  - moving faster than other countries can help New Zealand become more internationally competitive in low-emissions goods and services.
30. Although political momentum for ratification and early entry into force is strong, this does not eliminate the risk that some major economies may not join the Paris Agreement, thereby reducing its effectiveness. I am advised that there is no evidence of this at the moment. To mitigate this risk, I propose that the Minister for Climate Change Issues, in consultation with the Minister of Foreign Affairs, report back to Cabinet after the Parliamentary treaty examination process about when to deposit the instrument of ratification for the Paris Agreement.

#### *Legislative changes*

31. On 11 July 2016, the Cabinet Business Committee noted that amendments to the Climate Change Response Act 2002 (CCRA) are not legally required in order for New Zealand to ratify the Paris Agreement, but that amendments will be legally necessary before 2020 [CBC-16-MIN-0004 refers].

#### *New Zealand's first nationally determined contribution*

32. The Paris Agreement requires Parties to submit nationally determined contributions to the United Nations, and to update them every five years. The requirement to communicate nationally determined contributions is binding. However, the content of our contribution will be decided by New Zealand within agreed parameters. These include expectations it will cover our entire economy and be more ambitious than the previous contribution.
33. In 2015, Cabinet approved New Zealand's INDC under the Paris Agreement, which set a provisional target to reduce New Zealand's greenhouse gas emissions to 30 per cent below 2005 levels by 2030.
34. Cabinet set New Zealand's target at the agreed level because it was considered to appropriately balance New Zealand's national interests. It balanced managing costs to the economy with the requirements to show progression from the current target, being comparable with other countries' targets, and being perceived as credible internationally. New Zealand's INDC was communicated to the UNFCCC during negotiation of the Paris Agreement.
35. Cabinet agreed to an INDC that was provisional pending confirmation that New Zealand would have access to international carbon markets, and could apply a preferred approach to accounting for forestry emissions and removals.
36. I am comfortable that these requirements have been met. The Paris Agreement provides a clear legal basis for countries to use international carbon markets.

There is nothing in the Paris Agreement that prevents New Zealand from using its preferred approach to accounting for forestry in its first nationally determined contribution. Therefore, New Zealand has no need to communicate its first nationally determined contribution on a provisional basis.

37. I recommend that New Zealand's first nationally determined contribution communicate a target to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030. I propose New Zealand's first nationally determined contribution:
  - 37.1 contains no statements about provisionality relating to access to carbon markets because the Paris Agreement recognises countries can use carbon markets to meet targets; and
  - 37.2 signals that we may need to adjust our approach to accounting for forestry emissions and removals, while recognising that moving away from our preferred approach must not reduce the ambition of our nationally determined contribution. This signal will help manage any adverse reactions to changes we may make to address impacts of the preferred approach on the operation of the NZ ETS, or in response to international forestry guidelines that are still being developed.
38. The national interest analysis signals that New Zealand will communicate the same target as its INDC as its first nationally determined contribution. Therefore, this information will be public before New Zealand's first nationally determined contribution is finalised (ie communicated to the UNFCCC Secretariat). New Zealand will officially submit its first nationally determined contribution after the Parliamentary treaty examination process, at my discretion (this is subject to Cabinet's approval of recommendation 12 which proposes the Minister for Climate Change Issues communicate New Zealand's first nationally determined contribution to the UNFCCC).
39. While I expect the final form of the first nationally determined contribution to be substantively the same as that appended to this paper (Appendix 3), I propose that Cabinet:
  - 39.1 agree to New Zealand's first nationally determined contribution which will communicate a target to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030;
  - 39.2 authorise the Minister for Climate Change Issues to make minor or technical changes before New Zealand communicates it to the UNFCCC Secretariat; and
  - 39.3 invite the Minister for Climate Change Issues to authorise communication of New Zealand's first nationally determined contribution after satisfactory completion of the Parliamentary treaty examination process at or before the time New Zealand's instrument of ratification for the Paris Agreement is deposited.

### *Next Steps*

40. Standing Order 397 requires the Government to present the Paris Agreement and the national interest analysis to the House of Representatives for treaty examination. The Paris Agreement and the national interest analysis will be automatically referred to the Foreign Affairs, Defence and Trade Committee for consideration and to report back to the House.
41. After satisfactory completion of this process and taking into account ratification by major economies, I propose to report back to Cabinet, after consultation with the Minister of Foreign Affairs, on when to deposit New Zealand's instrument of ratification for the Paris Agreement with the Secretary-General of the United Nations.
42. I also propose to submit New Zealand's first nationally determined contribution to the UNFCCC Secretariat at an appropriate time.
43. The Paris Agreement will enter into force 30 days after a minimum of 55 Parties to the UNFCCC, accounting in total for at least an estimated 55 per cent of total global greenhouse gas emissions, have deposited their instruments of ratification, acceptance, approval or accession with the Secretary-General of the United Nations.
44. The Paris Agreement will be legally binding in international law for New Zealand once the Agreement has entered into force and New Zealand has ratified it. However, even if entry into force occurs before 2020, New Zealand's mitigation commitments (our nationally determined contribution) would only apply from 2021. Other obligations, for example reporting, are expected to take effect from 2020.

### **Consultation**

45. The Ministry for the Environment prepared this Cabinet Paper and consulted with the following agencies: Ministry of Foreign Affairs and Trade; the Treasury; Ministry for Primary Industries; Ministry for Business, Innovation and Employment; Ministry of Transport; and Te Puni Kōkiri. The Department of the Prime Minister and Cabinet was informed.

### **Human rights implications**

46. The proposals contained in this paper do not appear to create any inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

### **Financial implications**

#### *Departmental impacts*

47. The departmental impacts associated with implementing proposals in this paper are expected to be absorbed within existing baselines.

### *Crown Impacts*

48. Officials advise that the 2030 target should not be reflected in the Crown accounts at this time. This is because the target itself is not internationally binding so there is no legally enforceable obligation on the Crown to spend resources to meet it. However if future governments choose to make the target legally binding domestically (e.g. by legislating New Zealand's first nationally determined contribution) the liability would need to be reflected in Crown accounts.

### *Climate Finance*

49. Consistent with New Zealand's obligations under the Paris Agreement to increase the amount of climate finance provided and mobilised, support provided by New Zealand is expected to be higher than current levels.<sup>3</sup> This funding will come from a range of public and private sources. In the current Budget cycle, Votes Official Development Assistance, Foreign Affairs and Trade, Environment and Primary Industries contribute to New Zealand's public climate finance efforts. The quantum of future climate finance contributions from New Zealand, and the relevant Votes from which contributions will come from, will be considered as part of future Budget cycles, but will likely be a modest progression beyond pre-2020 climate finance contributions.
50. Delivering on the Agreement's broader objective of making finance flows consistent with a pathway towards low emissions and climate-resilient development and the obligation to mobilise climate finance to support the needs of developing countries will also have financial implications, though it is difficult to say what the likely costs and benefits will be at this stage.

### **Regulatory impact analysis**

51. The regulatory impact analysis requirements apply because legislative amendments will be required before 2020. An extended national interest analysis for the Paris Agreement (Appendix 2) is attached and meets the requirements for a regulatory impact analysis.
52. The Regulatory Impact Analysis Team at the Treasury (RIAT) has reviewed the national interest analysis produced by the Ministry for the Environment. The reviewers consider that, given the high-level nature of the decision to be made at this point, the information and analysis summarised in the regulatory impact statement **meets** the quality assurance criteria for regulatory impact analysis.
53. As the national interest analysis notes, further analysis will be needed on proposals for specific actions to help New Zealand to deliver on its greenhouse gas emissions reduction targets.

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<sup>3</sup> New Zealand currently provides climate finance through bilateral development assistance, the Climate Change Development Fund, and through the financial mechanism of the UNFCCC. At COP21, PM Key announced that New Zealand would provide up to \$200m in climate-related support over the next four years, most of which will benefit the Pacific. New Zealand also provides \$300,000/year via the Ministry for the Environment's Climate Change Development Fund to assist developing countries deal with climate change challenges. New Zealand has committed \$7.4m to the Global Environment Facility (GEF) for its current four year replenishment round, and has made an initial contribution of \$3m to the Green Climate Fund. New Zealand contributed \$45m out to June 2016 to support the Global Research Alliance on Agricultural Greenhouse Gases (GRA), some of which was delivered as part of New Zealand's Fast Start Finance commitment. PM Key also announced at COP21 a further \$20m contribution to the GRA over the next four years from New Zealand.

## Publicity

54. On 11 July 2016 the Cabinet Business Committee noted that I intend to announce the Government's intention to ratify the Paris Agreement in 2016, at an appropriate time [CBC-16-MIN-0004 refers].
55. A communications plan will be prepared by officials to support the Parliamentary treaty examination process and announcement of the Government's intention to ratify the Paris Agreement.

## Recommendations

56. The Minister for Climate Change Issues recommends that the Committee:

### *Start the Parliamentary treaty examination process*

1. note that on 6 April 2016, Cabinet approved the text of the Paris Agreement (Appendix 1)
2. note that on 11 July 2016, the Cabinet Business Committee, having been authorised by Cabinet to have Power to Act, directed officials to begin work to enable New Zealand to ratify the Paris Agreement by the end of 2016
3. agree to present the text of the Paris Agreement and the national interest analysis (Appendix 2) to the House of Representatives in accordance with Standing Order 397 for Parliamentary treaty examination

### *Finalise New Zealand's first nationally determined contribution*

4. note that on 6 July 2015, Cabinet approved New Zealand's provisional intended nationally determined contribution which communicated a target to reduce New Zealand's greenhouse gas emissions to 30 per cent below 2005 levels by 2030
5. note the statements about provisionality relating to international carbon markets and forestry accounting, communicated in New Zealand's intended nationally determined contribution are not required in New Zealand's first nationally determined contribution
6. note that while access to international carbon markets has been secured in legal terms, New Zealand will need to work actively with other countries to ensure these markets provide a sufficient supply of emissions reductions for New Zealand to purchase to help achieve its nationally determined contribution
7. note Cabinet agreed to additional resources to do further work to develop and build access to international carbon markets [CBC-16-MIN-0004 refers]
8. agree New Zealand's first nationally determined contribution will communicate a target to reduce New Zealand's greenhouse gas emissions to 30 per cent below 2005 levels by 2030 (Appendix 3)
9. note that the national interest analysis, which will be available to the public, will signal New Zealand's final target, prior to the official submission of the

nationally determined contribution to the United Nations Framework Convention on Climate Change Secretariat

10. agree that New Zealand's first nationally determined contribution under the Paris Agreement will signal the possibility New Zealand will review the proposed approach to accounting forestry emissions and removals, while recognising that moving away from this approach must not reduce the ambition of our nationally determined contribution
11. authorise the Minister for Climate Change Issues to approve any necessary minor or technical amendments to New Zealand's first nationally determined contribution prior to submitting it to the United Nations Framework Convention on Climate Change Secretariat
12. authorise the Minister for Climate Change Issues to approve communication of New Zealand's first nationally determined contribution, subject to satisfactory completion of the Parliamentary treaty examination process, at or before the time New Zealand's instrument of ratification for the Paris Agreement is deposited

*Ratify the Paris Agreement*

13. agree to New Zealand ratifying the Paris Agreement by depositing an instrument of ratification with the Secretary-General of the United Nations, subject to satisfactory completion of the Parliamentary treaty examination process
14. invite the Minister for Climate Change Issues, in consultation with the Minister of Foreign Affairs, to report back to Cabinet after the Parliamentary treaty examination process about when to deposit the instrument of ratification for the Paris Agreement
15. note that the Paris Agreement will enter into force 30 days after a minimum of 55 Parties to the United Nations Framework Convention on Climate Change, accounting in total for at least an estimated 55 per cent of total global greenhouse gas emissions, have deposited their instruments of ratification, acceptance, approval or accession with the Secretary-General of the United Nations
16. note that the Paris Agreement will enter into force for New Zealand once New Zealand has ratified the Paris Agreement in accordance with recommendations 13 and 14 above, and the Paris Agreement enters into force generally as set out in recommendation 15 above

Hon Paula Bennett  
Minister for Climate Change Issues