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Office of the Minister of Foreign Affairs
Office of the Minister Responsible for Climate Change Issues

Chair,
Cabinet Business Committee

Proposal

This paper responds to Cabinet's request of 11 September 2006 for advice on New Zealand participation in the Asia Pacific Partnership on Clean Development and Climate.

Executive summary

1 The Asia Pacific Partnership on Clean Development and Climate ("the Partnership") was formed by Australia, China, India, Japan, Republic of Korea and the United States in July 2005. The Partnership targets major emitters from the Asia-Pacific region and countries with significant technology to contribute to cleaner development. Partnership members have emphasised its complementarity to the Kyoto Protocol; it has nevertheless attracted criticism, seen by some as detracting from emission reduction efforts under the Kyoto Protocol. Further down the track, a wider Asia-Pacific partnership could make good sense as a complement to the Kyoto Protocol.

2 The Partnership is a joint government/industry initiative and is project-based. Senior private sector leaders are engaged and are expected to deliver the work. Eight Task Forces have been established, in the areas of cleaner fossil energy, renewable energy and distributed generation, power generation and transmission, steel, aluminium, cement, coal mining, and buildings and appliances. It is still early days for the Partnership; Task Force Action Plans are expected **[withheld under OIA s 6 (b)]**

3 The New Zealand private sector – mostly companies from the coal sector and large direct emitters whose interests are more closely aligned with the current Task Forces – has expressed interest in the Partnership and the opportunities it could present. Some New Zealand companies are already involved in international technology cooperation. Major New Zealand companies tend to be part of international companies, which provide links into new technology solutions.

4 New Zealand remains committed to meeting its international commitments on climate change under the UN Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol. However, given the scale of the challenge caused by climate change, and our desire to use all possible means to respond to it, New Zealand is willing to explore other mechanisms, such as the Partnership. In this regard, New Zealand is already engaged in several international technology partnerships.

5 The Partnership makes provision for other countries to be invited in as members, by consensus agreement of the current partners. **[withheld under OIA s 6 (a), 6 (b), 9 (2) (g) (i)]**

[withheld under OIA s 6 (a), 9 (2) (g) (i)]

6 The logical avenue for near term engagement by New Zealand in the Partnership is through the individual Task Forces. There is provision for non-member countries to be invited to participate in the work of the Task Forces. Once the Task Force Action Plans are finalised **[withheld under OIA s 6 (b)]** this could be further explored, including through the lens of the New Zealand Energy Strategy.

7 Participation by New Zealand in the work of one or more of the Task Forces would entail, as yet unquantified, financial and resource costs for any interested New Zealand companies and the Government. While the quantum of this is unknown, it is likely to reflect our size and areas of expertise. Should niche opportunities for New Zealand participation be identified, a careful assessment of the costs (including opportunity costs) against the likely benefits would be required. This would need to be a joint assessment with interested New Zealand companies, and it would be important to have a clear idea from the private sector of what they would propose committing to their participation.

8 Should areas of interest be identified, New Zealand would need to mount a credible case for involvement with the Partnership, based on what added value we could bring to the table to help the Partnership succeed in its objectives. To this end, given the present focus of the Partnership, there may be possibilities worth exploring in areas of renewable energy; if the Partnership moved into new areas, such as agriculture, we could explore our potential to contribute there.

9 [withheld under OIA s 6 (a), 6 (b), 9 (2) (g) (i)]

[withheld under OIA s 6 (a), 9 (2) (g) (i)]

10. [withheld under OIA s 6 (a), 9 (2) (g) (i)]

Any public comments on the Partnership should note that New Zealand sees the Partnership as a useful initiative that complements the Kyoto Protocol, that New Zealand will be looking at opportunities for cooperation with the Partnership, and reiterate New Zealand's continued resolve to meet its Kyoto Protocol commitments.

Background

11 Cabinet has decided that New Zealand participation in the Asia Pacific Partnership on Clean Development and Climate would be desirable, and invited the Minister Responsible for Climate Change Issues to seek further advice on how New Zealand should pursue this, and to report back to Cabinet Business Committee on 25 September 2006 [CAB Min (06) 34/3A].

Comment

Background to the Asia Pacific Partnership on Clean Development and Climate

12 Australia, China, India, Japan, the Republic of Korea, and the United States founded the Asia Pacific Partnership on Clean Development and Climate in July 2005. The six partner countries represent about half of the world's economy, population and energy use, and produce about 65 percent of the world's coal, 48 percent of the world's steel, and 61 percent of the world's cement. The first Ministerial meeting of the Partnership took place in Sydney, in January 2006. A second Ministerial meeting is planned for **[withheld under OIA s 6 (b)]** 2007.

13 The Partnership is a voluntary, non-legally binding framework. Its aim is to meet goals for energy security, national air pollution reduction, and climate change in ways that promote sustainable economic growth and poverty reduction. Its focus is on expanding investment and trade in cleaner energy technologies, goods and services in key market sectors. Unlike other intergovernmental partnerships, industry and government are considered equal partners. Private sector companies are at the table for decision-making and are expected to lead and pay for the substantive work under the Partnership.

14 The Partnership's Charter, and individual members, stress that the Partnership will be consistent with and contribute to efforts under the UNFCCC and is intended to complement, but not replace, the Kyoto Protocol. Unlike the Kyoto Protocol, the Partnership does not contain any emission reduction targets, rather it includes cooperation to reduce "greenhouse gas intensities".

15 A Policy and Implementation Committee (PIC), comprising representatives from the partners, and an Administrative Support Group (ASG) facilitate the implementation of the Partnership. The PIC governs the overall framework, policies and procedures of the Partnership, periodically reviews its progress, and directs the ASG. Below the PIC, at the Partnership's core, are joint government/industry Task Forces, chaired by representatives from the six founding members.

16 Eight public-private sector Task Forces have been established, in the areas of cleaner fossil energy, renewable energy and distributed generation, power generation and transmission, steel, aluminium, cement, coal mining, and buildings and appliances. A number of additional sectors, including transport, agriculture and forestry, have been flagged as areas to be explored in the future as the Partnership develops.

17 Each Task Force is charged with fleshing out detailed Action Plans for immediate and long-term actions, including possible flagship projects and indicators of progress. The individual Task Forces are currently working out the details of their Action Plans, to roadmap what needs to be done and the roles for governments and industry in delivery. The Task Forces are expected to complete this work **[withheld under OIA s 6 (b)]** and to submit their Action Plans to the PIC for consideration.

18 There are financial and resource costs for those in the Partnership. For example, the United States Administration has sought US\$52 million, as part of the President's Fiscal Year 2007 Budget, to support the work of the Partnership. And Australia has pledged funding of A\$100 million to the Partnership, including \$25 million for the exclusive development of renewable energy technology. Industry participants also resource the Partnership's work.

19 From most of the partner countries there has been significant private sector interest and engagement – often at CEO level - in the work of the Task Forces. **[withheld under OIA s 6 (a), 6 (b), 9 (2) (g) (i)]**

20 **[withheld under OIA s 6 (a), 9 (2) (g) (i)]**

International Perceptions of the Partnership

21 The future of intergovernmental arrangements on climate change after 2012 remains uncertain. Negotiations on further commitments for Annex 1 Parties **[Annex I of the UNFCCC lists developed countries and Economies in Transition (so called “Annex I Parties”) that have additional commitments in the UNFCCC beyond those for developing countries (so called “non-Annex I Parties”). Annex B of the Kyoto Protocol specifies the individual quantified greenhouse gas emission limitation or reduction commitments agreed to by Annex I Parties for a first commitment period, 2008-2012. Only those Annex 1 Parties who have ratified the Protocol are bound to meet those commitments. New Zealand’s commitment is to maintain emissions at 1990 levels over the period 2008-2012, or otherwise take responsibility for the excess (listed as “100%” in Annex B of the Protocol.)]** in the Kyoto Protocol are underway. A new workshop-based Dialogue on future cooperation under the UNFCCC is a forum for exchanging ideas, but has an uncertain future beyond 2007.

22 One of the underlying sources of tension in intergovernmental negotiations on climate change is a difference of view between those that support “top down” approaches to setting targets for greenhouse gas emission reductions, in frameworks such as the Kyoto Protocol, and those that support “bottom up” approaches that focus on delivering technology solutions to climate change. The Partnership is an example of the latter.

23 Announcement of the Partnership in 2005 was not universally welcomed. **[withheld under OIA s 6 (a)]**

The Partnership was also greeted with scepticism by some observers, including environmental NGOs, which saw it as diverting effort from securing binding emission reduction commitments in the Kyoto Protocol; this despite the Partnership’s claim that it is a complementary process to the Protocol.

[withheld under OIA s 6 (a), 6 (b)]

Japan is the only partner that is also a Kyoto Protocol ratifier with emission reduction targets under the Protocol. Many international observers have withheld judgment on the value of the Partnership, waiting to see to what extent it delivers.

24 **[withheld under OIA s 6 (a), 6 (b), 9 (2) (g) (i)]**

The Canadian government has recently made public comments that signal its interest in the work of the Partnership.

[withheld under OIA s 6 (a), 9 (2) (g) (i)]

[withheld under OIA s 6 (a), 6 (b)]

25 **[withheld under OIA s 6 (a), 6 (b), 9 (2) (g) (i)]**

New Zealand and the Partnership: setting the scene

26 The New Zealand private sector – mostly companies from the coal sector and large direct emitters whose interests are aligned with the current Task Forces - has expressed interest in the Partnership and the opportunities it could present. The New Zealand United States Council and the Wellington Regional Chamber of Commerce have both identified the Partnership as a positive initiative that New Zealand should consider joining. Greenpeace New Zealand, on the other hand, has urged the Government not to support or join the Partnership; they consider it has “no teeth” and is a distraction from binding international agreements.

27 Some New Zealand companies are already involved in international technology cooperation, for example Solid Energy’s participation in the Australian-based CO2 CRC geosequestration project. Major New Zealand companies tend to be part of international companies, which also provides them with links into new technology solutions. For example, New Zealand’s only aluminium smelter, at Tiwai Point, is a wholly owned subsidiary of Rio Tinto.

28 At a government level, New Zealand is currently engaged internationally in several technology partnerships. New Zealand participates in the work of the International Energy Agency (IEA), and the Ministry for Economic Development facilitates public-private consortia involvement in IEA technology agreements. New Zealand is a member of the International Partnership for the Hydrogen Economy, engages in the APEC Energy Working Group, and is actively considering membership of the Carbon Sequestration Leadership Forum. New Zealand also has working level cooperative research projects through bilateral climate change partnerships with the United States and Australia, in place since 2002 and 2003 respectively.

29 New Zealand remains committed to meeting its international commitments on climate change under the UN Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol. We also have important interests – especially in agriculture and forestry – that we need to protect and advance, including in the negotiations now underway on further commitments for Annex 1 Parties in the Kyoto Protocol. **[withheld under OIA s 6 (a), 9 (2) (g) (i)]**

30 More broadly, New Zealand’s international position on climate change is underpinned by the notion that an effective solution requires all major emitters of greenhouse gases – both developed and developing – to contribute as best they can.

[withheld under OIA s 6 (a), 9 (2) (j), 9 (2) (g) (i)]

Given the scale of the challenge caused by climate change, and our desire to use all possible means to respond to it, New Zealand needs to be willing to explore other mechanisms to deliver climate change outcomes, such as the Partnership. As noted above, New Zealand is already engaged in several international technology partnerships.

How might New Zealand pursue participation in the Partnership?

31 New Zealand officials have kept in touch with members of the Partnership about its progress; most recently in the margins of the informal Ministerial meeting on climate change held in Switzerland in mid-September.

[withheld under OIA s 6 (a)]

32 [withheld under OIA s 6 (a), 6 (b)]

33 There is scope for other countries to be invited in as members of the Partnership; the Charter provides for amendment of the Annex governing members, on the basis of consensus by the existing partners. **[withheld under OIA s 6 (a), 6 (b)]**

34 [withheld under OIA s 6 (a), 9 (2) (j), 9 (2) (g) (i)]

35 **[withheld under OIA s 6 (a), 9 (2) (g) (i)]** the most promising avenue for near-term engagement with the Partnership would be through the work of one or more of the individual Task Forces. Where it is judged that involvement from non-partner countries would enhance the effectiveness of the Task Forces' work, there is provision for the Policy and Implementation Committee to approve this.

36 Once the Task Force Action Plans are finalised **[withheld under OIA s 6 (b)]** an assessment could be made, in conjunction with interested New Zealand companies, about whether there are specific niche areas of interest for New Zealand. Given the Partnership's concentration on energy matters, a logical way to focus on possibilities for New Zealand in the Partnership would be to examine how some key areas in the New Zealand Energy Strategy could be relevant.

37 Participation by New Zealand in the work of one or more of the Task Forces would entail, as yet unquantified, financial and resource costs for any interested New Zealand companies and the Government. While the quantum of this is unknown, it is likely to reflect our size and areas of expertise. Before any approach is made to the Partnership, it would be necessary to carry out a careful assessment of the costs (including opportunity costs) and benefits of participation, in consultation with interested New Zealand companies.

38 [withheld under OIA s 6 (a), 9 (2) (g) (i)]

For example, in relation to the Task Force on renewable energy, there may be possibilities in aspects of New Zealand expertise in renewable energy, for example geothermal energy, marine energy, and second-generation biofuels. If it became clear that the Partnership was moving into new areas such as agriculture and forestry we could assess, in conjunction with the relevant private sector players, our potential for contribution in those areas.

39 [withheld under OIA s 6 (a), 6 (b)]

officials could not prepare a first cut net benefit assessment until the end of January 2007. **[withheld under OIA s 6 (a), 9 (2) (g) (i)]**

Consultation

40 The following departments were consulted in the development of this paper: The Treasury, Department of Prime Minister and Cabinet, Ministry for the Environment, Ministry of Economic Development, Ministry of Agriculture and Forestry, Ministry of Research, Science and Technology.

Financial Implications

41 Officials expect engagement with the Partnership would bring financial and other resource implications for the Government. These have not been quantified.

Human Rights Implications

42 There are no inconsistencies with the Human Rights Act 1993 and New Zealand Bill of Rights Act 1990.

Legislative Implications

43 This paper has no legislative implications.

Regulatory Impact and Business Compliance Cost Statement

44 No Regulatory Impact Statement or Business Compliance Cost Statement is required.

Publicity

45 [withheld under OIA s 6 (a), 9 (2) (g) (i)]

Should any public comments on the Partnership be required they could note that New Zealand sees the Partnership as a useful initiative that complements the Kyoto Protocol, and that New Zealand will be looking at opportunities for cooperation with the Partnership. A reiteration of New Zealand's continued resolve to meet its Kyoto Protocol commitments would put our interest in the Partnership into a broader context.

Recommendations

46 As Minister of Foreign Affairs and Minister Responsible for Climate Change Issues we recommend that Cabinet Business Committee:

1. **Note** that the six founding members of the Asia Pacific Partnership on Clean Development and Climate represent half of the world's economy, population and energy use.
2. **Note** that joint government/industry Task Forces are at the core of the Partnership, that its work will be driven by private sector involvement, and that individual Task Force Action Plans are due to be finalised [withheld under OIA s 6 (b)]

3. **Note** that the Partnership members have emphasised its complementarity to the Kyoto Protocol, but that it has, nevertheless, attracted criticism by some, including within New Zealand, for detracting from emission reduction efforts in the Kyoto Protocol.

4. **[withheld under OIA s 6 (a), 6 (b), 9 (2) (g) (i)]**

5. **Note** that while New Zealand remains committed to meeting its international commitments on climate change under the UN Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol, in view of the scale of the challenge posed by climate change and our desire to use all possible means to respond to it, New Zealand sees value in exploring participation in the Partnership.

6. **Note** that engagement with the work of one or more of the Partnership Task Forces could provide a route for New Zealand participation, that this would require agreement by the Task Force/s themselves, and would require a commitment from the New Zealand private sector as well as a demonstration of the value that New Zealand could add.

7. **Note** that participation in the Partnership would entail, as yet unquantified, financial and resource costs for any interested New Zealand companies and the Government (these are likely to reflect our size and areas of expertise), and that a careful assessment of the costs and benefits of participation would be required.

8. **Agree** that any public comments on the Partnership should reiterate New Zealand's resolve to meet its international commitments on climate change, note that New Zealand sees the Partnership as a useful initiative to complement other avenues to reduce greenhouse gas emissions, and signal that New Zealand will be looking at opportunities for cooperation with the Partnership.

9. **Agree** to the following next steps for exploring the prospects for New Zealand participation in the Partnership:

9.1 Officials to engage with Partnership members to discuss the Task Force Action Plans after these are finalised [withheld under OIA s 6 (b)]

9.2 **[withheld under OIA s 6 (a), 9 (2) (g) (i)]**

9.3 Officials, and key interested New Zealand companies, to review the Task Force Action Plans, by end of January 2007, to consider any opportunities for New Zealand engagement, and begin to investigate the scope of associated costs and benefits of engagement for the Government and private sector.

9.4 Should specific areas of interest be identified, officials to explore further with key interested New Zealand companies, by end of March 2007, what those companies would specifically be prepared to contribute by way of financial and other resources.

9.5 Ministry for the Environment and other relevant officials to engage concurrently with New Zealand Trade and Enterprise and the Ministry of Research, Science and Technology to explore potential alignment of engagement in the Partnership with existing business promotion and Research and Development initiatives.

9.6 Officials to continue a watching brief on developments of the Partnership, including through the existing bilateral climate change partnerships New Zealand has with Australia and the United States.

10. **Note** that the timelines above will be dependent on progress in the Partnership itself.

11. **Direct** officials to report further on possibilities for New Zealand participation in the Partnership by April 2007.

For Rt Hon Winston Peters
Minister of Foreign Affairs

Hon David Parker
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