



# Cabinet

## Minute of Decision

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Convenor, Ministerial Group on Climate Change

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Minister of Agriculture	Chief Parliamentary Counsel
Minister for Trade Negotiations	Legislation Coordinator
Minister of State Services	Secretary, POL

## Climate Change II: New Policies

On 29 April 2002, following reference from the Cabinet Policy Committee (POL), Cabinet:

### 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 **noted** that new policies need to be implemented over time, in addition to existing policies, to ensure that New Zealand takes responsibility for excess emissions over 1990 levels. These policies could include:
  - 3.1 measures to encourage further reductions;

- 3.2 use of sink credits to cover emissions;
- 3.3 measures that ensure that New Zealand can pay for its excess emissions using the mechanisms allowed under the Protocol;
- 3.4 a combination of the above;
- 4 **agreed** that new climate change policies for the first commitment period will not be implemented until the Protocol comes into force;
- 5 **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;
- 6 **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**

- 7 **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;
- 8 **noted** that the broad pathways available for the first commitment period (2008-12) are:
  - 8.1 full exposure to the international price of emissions through either (i) private sector emissions trading if the international market is functional, or (ii) an emissions charge that approximates the "international price", if the market is initially assessed to meet the criteria for a functional market outlined in Annex 2 of *Climate Change I: Overview* [CAB (02) 185];
  - 8.2 partial exposure to the international price of emissions via (i) a flat rate emissions charge, capped below the international price; or (ii) an escalating charge, which increases to full price (and therefore emissions trading) by a specific date;
- 9 **agreed** that the Government's preferred position for the first commitment period is an emissions charge, approximating the international price of carbon, with a price cap of \$25 per tonne of CO<sub>2</sub>, but retaining the option of private sector emissions trading if the international market is functional and the international price of carbon is reliably below the price cap, and the administration works of establishing such a market do not outweigh the benefits;

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

- 10 **agreed** that Negotiated Greenhouse Agreements (NGAs) with the Government be offered to the at-risk group;
- 11 **agreed** that:
  - 11.1 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 exemption from emission charges;

- 11.2 in the event that negotiations do not result in an agreement that reaches best practice within an acceptable timeframe, a partial change may be negotiated;
- 11.3 in the event that emitters in the at-risk category fail to negotiate an NGA they will revert to the not-at-risk category;
- 12 **directed** officials to report to POL on criteria, process and guidance for content of NGAs in July 2002 after consultation;

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

- 13 **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;
- 14 **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;
- 15 **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**

- 16 **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**

- 17 **agreed** that for pre-2008 and for the first commitment period, the policy for non-process perfluorocarbons (PFCs) and hydrofluorocarbons (HFCs) be initially voluntary containment and handling standards;
- 18 **agreed** that for the first commitment period, the policy for sulphur hexafluoride (SF<sub>6</sub>) emissions is to apply a price measure, but offer industry the opportunity to negotiate with the Government on an alternative approach to manage these emissions;
- 19 **agreed** that, in addition, for both HFCs and SF<sub>6</sub>, Projects are proposed to provide further incentives for improved management practice;
- 20 **agreed** that because the majority of PFC emitters are likely to be at-risk industries, these emissions will be managed within the NGA process and a price measure will not be applied;

### **Carbon sinks**

- 21 **noted** that in July 2000 Cabinet agreed in principle that "all or most of the additional assigned amount units derived from specified sink activities will be tradeable within an international emissions trading system under the Kyoto Protocol, expected to be operating for the first commitment period 2008-2012 and that some proportion of the additional units should accrue to those undertaking the specified activities" [CAB (00) M 25/4C refers];

- 22 **agreed** not to confirm the decision in principle noted in paragraph 21 above;
- 23 **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;
- 24 **agreed** that the Government retain deforestation liabilities, provided these remain within a cap equal to the carbon that would be released by the deforestation of 5% of the area of forest reaching maturity during the first commitment period;
- 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 the Government provide mechanisms to encourage the creation of new protection (non harvest) forest sinks;
- 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;
- 29 **directed** officials to report to POL in July 2002 after consultation with further details on the process and means for the mechanism to provide incentives for forest sinks;

### Use of Projects in general

- 30 **agreed** that Projects:
  - 30.1 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;
  - 30.2 will focus during the first commitment period on sectors where an efficient price signal is absent or blunted;
  - 30.3 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;
  - 30.4 will utilise a contestable approach to accessing Project support where feasible;
  - 30.5 will include additionality criteria so as to avoid supporting Projects that would have occurred anyway;
- 31 **directed** officials to report to POL in July 2002 after consultation with further details on the process and means for implementing Projects;

### Implications of the policy package

- 32 **directed** officials to report to POL for final decisions in July 2002 on the outcome of consultation on the Government’s preferred policy package to meet New Zealand’s Protocol obligations, and on further work undertaken on the fiscal and legislative implications of implementing the preferred policies;

33 **directed** officials to consider the impact on New Zealand's World Trade Organisation (WTO) rights and obligations in developing design details for assistance to the at-risk group and on-farm agriculture, and any incentives to abate emissions or enhance sinks;

34 **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.

Secretary of the Cabinet

Reference: CAB (02) 186; POL Min (02) 9/1-6

***Secretary's Note:** This minute reflects some changes made following the initial consideration of the issues by POL. It accordingly replaces POL Min (02) 9/1-6.*