



To: Hon Tim Groser, Minister for Climate Change Issues

Cabinet Paper – New Zealand's post-2012 Mitigation Commitment and Linkages to the ETS

Other Dept Tracking Number:	N/A	MfE Tracking Number:	12-B-00493
Date Submitted:	1 May 2012	MfE Priority:	Urgent
Security Level:	SENSITIVE	Number of Attachments:	One
Action Sought:	Forward a copy of this briefing note to Hon Simon Bridges, Associate Minister for Climate Change Issues Lodge A3 with Cabinet Office	Response/Signature Needed by:	3 May 2012

Ministry for the Environment Contacts

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Executive Summary

1. This note provides an A3 paper for submission to Cabinet Strategy Committee (STR) - *New Zealand's post-2012 Mitigation Commitment and Linkages to the ETS*. The paper reflects your comments to date, consultation with departments and feedback from Officials Committee. The paper is due to be lodged with Cabinet on 3 May 2012, for the Committee meeting on Monday 7 May.
2. Internationally, New Zealand is alone amongst developed countries in not declaring either a domestic target or whether we will join a second Commitment Period (CP2) of the Kyoto Protocol. Maintaining maximum influence and flexibility is particularly important for the period up to 2015 when a new global agreement for post-2020 is being negotiated.
3. Upcoming amendments to the Emissions Trading Scheme (ETS) are closely linked to international decisions. A domestic cap on the supply of NZUs and limit on offshore purchasing are currently being consulted on, in part to avoid excess purchasing of international units by ETS participants.
4. A domestic target can provide international credibility without sacrificing negotiating flexibility. It can also improve domestic market certainty and maintain incentives to reduce emissions.
5. Due to the linkages between an international target and a domestic cap on supply of NZUs, it may be desirable for Cabinet to consider the two issues together in October 2012.

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Situation Analysis

7. The December 2011 United Nations Climate Change Conference in Durban resulted in agreement to a second commitment period (CP2) under the Kyoto Protocol and to negotiate a new comprehensive agreement to cover all major emitters. This global agreement is targeted for completion by 2015 to come into force by 2020.
8. New Zealand has not yet decided 'where' to take our next set of international commitments, either under the CP2 of the Kyoto Protocol, or via alternative arrangements under the United Nations Framework Convention on Climate Change (UNFCCC).

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10. In February 2012, Cabinet invited [EGI Min (12) 2/3] the Minister for Climate Change Issues to:
 - submit an item to STR as soon as practicable on "the overall strategic direction and policy priorities of the government in relation to New Zealand's post-2012 mitigation commitments and any related changes to the ETS"; and
 - report back to EGI no later than November 2012 on:
 - i. Options for where New Zealand will take post-2012 mitigation commitments (under the Kyoto Protocol or under the UNFCCC);
 - ii. When New Zealand will make such a commitment; and
 - iii. The level of New Zealand's mitigation commitment or a minimum unilateral target.
11. Your final submission for STR is scheduled to be lodged 10:00am Thursday 3 May.

Advice – the STR A3 and Supporting Information

12. Following your feedback to officials last week (11 April 2012), the attached paper frames a discussion on strategic direction and policy priorities in five sections. These are summarised with supporting material below.

Context

13. The first Commitment Period (CP1) of the Kyoto Protocol ends on 31 December 2012. Our existing conditional 2020 target range, negotiations for a new global agreement, and upcoming amendments to the ETS all form a backdrop to the choices Ministers will face.
14. New Zealand is alone amongst developed countries in not declaring either a domestic target or whether we will join CP2 during the transition period to a new global agreement. Australia has not yet declared whether they will join CP2, but already has a minimum commitment.

Relevant considerations and related decisions

15. Upcoming domestic amendments to the ETS are closely linked to international decisions. A domestic cap on the supply of NZUs and limit on offshore purchasing are currently being consulted on, in part as measures to avoid excess purchasing of international units by ETS participants.
16. While setting a domestic cap is not identical to taking an international target, it can signal the Government's longer term commitment to both ETS participants and the New Zealand public. It can also provide a buffer against pressure in the international negotiations to join CP2 as it is evidence of good faith during the transition period.
17. Domestically, this signal from the Government can help to provide market certainty for ETS participants when CP1 expires at the end of this year. Over the long term, New Zealand will face increasing drivers to take responsibility for its emissions. The ETS will be best able to support New Zealand's long term economic resilience if investors have confidence that the scheme will provide for a carbon price in future that will reward lower carbon investments now. Setting a domestic target can thus also encourage improved productivity and long term economic resilience and competitiveness through better steering investment decisions and business planning.

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Timetable

22. The timetable in the A3 outlines key dates when decisions will be needed in both the international and domestic spheres over the coming 12 months.

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24. Due to the linkages an international target and a domestic cap on supply of NZUs, it may be desirable for Cabinet to consider the two issues together in October 2012.

Indicative supporting material

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Risks and Mitigations

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29. Public interest in New Zealand's post-2012 mitigation commitment is likely to grow over time. A public messaging strategy will be needed if Ministers do not wish to take a decision on a domestic target ahead of the UNFCCC meeting in Qatar in December 2012.

Consultation

30. Officials from the Ministry of Foreign Affairs and Trade have been closely involved in the drafting of the attached paper. Officials from the Treasury, Ministry of Primary Industries, Ministry of Transport and Ministry of Economic Development have also been consulted. The Department of Prime Minister and Cabinet has been informed.

Next steps

31. Pending your advice on any update to timetables, officials will continue to work on advice for your report back to EGI by November 2012 on:
- Options for where New Zealand will take post-2012 mitigation commitments (under the Kyoto Protocol or under the UNFCCC);
 - When New Zealand will make such a commitment; and
 - The level of New Zealand's mitigation commitment or a minimum unilateral target.

¹ This refers to harvesting emissions that will be accounted for over time, depending on what the wood is used for.

Recommended Action

We recommend that you:

- a) **Approve** and submit the attached A3 to Cabinet

Yes / No

- b) **Forward** this cover note and attachments to Hon Simon Bridges, Associate Minister for Climate Change Issues

Yes / No

Stuart Calman
Climate and Risk Policy Directorate

Date

Hon Tim Groser
Minister for Climate Change Issues

Date

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Appendix 1: Background to NZ's Emissions Trajectory and Associated Costs

1. Between 2013 and 2020 New Zealand is projected to emit approximately 650 mega-tonnes (Mt) of CO₂ equivalent. In the A3 'Projected emissions to 2030' graph, this is represented by the area under the red 'gross emissions' line.

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Appendix 2: Background to the Comparison with Other Countries

1. A domestic target for New Zealand can be compared to the commitments of other countries in a number of ways. Different 'metrics' or measurement tools give different results for a single target. For example, our relatively low GDP means that New Zealand is generally estimated to have high emissions intensity (emissions divided by output). On the other hand, the structure of our economy and population projections lead to low estimates of New Zealand's emissions per capita and high 'effort' in terms of the cost of domestic mitigation.

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Figure 5: The lower-end 2020 pledges of Annex 1 Parties

Annex 1 Party	Lower-end 2020 pledge relative to 1990 levels	Equivalent pledge on BAU 2020
Australia	-4%	-19% to -23%
Canada	+3%	-20%
EU27	-20%	-5%
Japan	-25%	-20%
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NZ conditional range	-10% to -20%	-32% to -40%
Norway	-30%	-44%
USA	-4%	-5%

4. Comparability information included in the A3 is sourced from publicly available international data, including an international abatement cost calculator and world emissions database.
5. The 'Cost (% of GDP)' column reflects the cost of both international purchasing and domestic mitigation costs. Cross-country analyses require a nuanced comparison of the information presented to ensure a consistent approach. Such estimates are also very sensitive to assumptions about different economies and the ease with which countries can curb domestic emissions. For example, the cost calculator assumes that the United States could increase its GDP by performing domestic abatement in its energy sector.
6. Cost figures are therefore a useful indicator of the **relative** costs of each country meeting its target. Figures are not likely to be accurate indications of the absolute GDP impacts of targets on different countries.
7. Work to update and refine this information will be performed to inform further comparability advice in 2012.

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