

New Zealand's post-2012 Mitigation Target and Linkages to the ETS

Context

1. New Zealand's obligations under Kyoto's first Commitment Period (CP1) end 31 December 2012. Governments are negotiating a new comprehensive agreement to cover all major emitters targeted for completion by 2015 to come into force from 2020.
2. Our international target under Kyoto has been a key reference underpinning our Emissions Trading Scheme (ETS) to date. We are currently consulting on amendments to the ETS and decisions will be required over the next 12 months on the level of ambition it should achieve.
3. Domestically we have gazetted a 2050 target of -50% but we have not yet identified any near-term milestones in relation to this.
4. Our emissions will continue to grow, reflecting our emissions intensive economy and growing population.
5. **For the period 2013-2020, New Zealand will need to decide:**
 - a) whether to take a target under a Kyoto CP2 (like Europe) or in transitional UNFCCC arrangements outside Kyoto (like Japan, the US and many other developing countries); and
 - b) whether and when to commit to a domestic emissions target to supplement our existing conditional target range of 10-20% below 1990 levels by 2020.
6. New Zealand is alone amongst developed countries in not declaring either a domestic target or whether we will join a CP2, although there are varying degrees to firmness to other countries' targets.
7. Australia has not yet decided whether to join a CP2, but has a minimum unconditional target. Australia's actions will influence our decisions.

Relevant considerations and related decisions

Domestic policy settings

1. While our target range and conditions should remain on the table, we need to determine whether an interim policy signal through either a domestic target and/or equivalent ETS settings can provide both international credibility and greater domestic market certainty beyond CP1.
2. We need to decide on the emissions reductions effort we want the ETS to deliver in the period 2013-20. This will anchor the ETS and provide greater certainty for participants.
3. In addition, we may wish to avoid excess purchasing of international units by ETS participants (with the offshore cash flows and the loss of welfare that this implies) without increasing unit price. We will need to establish a 'cap' on the total supply of NZUs, including the units we allocate to emissions-intensive trade-exposed activities.
4. This cap will need to reflect our level of domestic ambition, maintaining incentives for domestic emissions reductions and improved productivity in the longer term. Any commitment should not raise short term economic costs that are significantly in excess of trading partners.

International positioning

5. We need to position NZ well in negotiations over the next three years for the post-2020 agreement: maintaining maximum credibility, influence and flexibility, whilst managing expectations regarding future targets.
6. Progress has been made in meeting our conditions but International negotiations have a long way to run. This does not absolve New Zealand from its fair share in the interim but neither should it force us to act ahead, of or do more than others in similar circumstances.
7. A domestic target could manage credibility and expectations around our -10 to -20% range. Decisions on a domestic target will be more important than decisions on joining a CP2.

A working hypothesis

1. Agreeing a domestic target through the ETS and communicating this decision internationally could act as a 'down payment' towards the final international agreement. We then need to give thought to the level of that 'down payment'.
2. A preferred domestic target is likely to fall between 0% and -10%. A positive target (i.e. above 0%) is not internationally credible, and -10% is the top of our existing conditional target range. We also need to consider leaving some headroom for the negotiations as international expectations of effort are likely to increase.
3. **What if settings under the ETS equated to a domestic target of -5% on 1990 emissions by 2020?**
4. This domestic target would allow New Zealand to preserve its existing conditional target range for the time being, in order to help preserve credibility in the ongoing negotiations.
5. Indicative and high-level analysis of the impacts of a -5% target is provided overleaf.

Further information and timetable

Over the course of 2012 EGI will consider New Zealand's post-2012 target, linkages to ETS amendments and a negotiating mandate for a coordinated approach to the UNFCCC COP in Qatar.

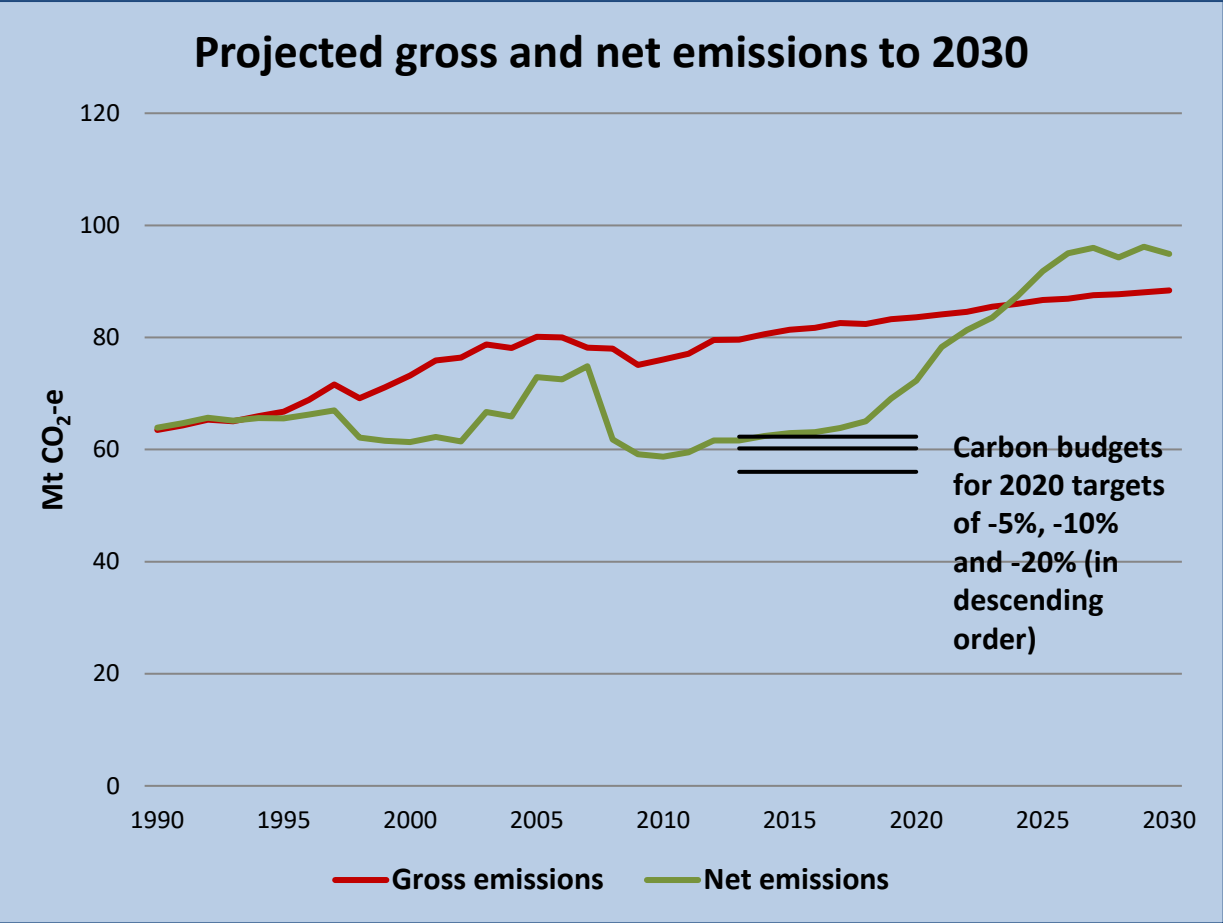
In considering our post-2012 domestic target, Cabinet can expect further advice on:

- Domestic abatement and complementary measures
- Fiscal and economic costs
- Long-term trajectory for NZ emissions
- What other countries are doing.

Date	Activity
May 2012	UNFCCC negotiations in Bonn, Germany - some clarity may be gained on key CP2 questions
June-July 2012	Cabinet decisions on amendments to ETS legislation
Aug 2012	Further policy design of ETS begins, to inform consultation later in the year
Oct 2012	Last opportunity for decisions on NZ's domestic target if NZ wishes to be ready to announce its target at the 2012 UNFCCC Conference of the Parties (COP)
Nov - Dec 2012	2012 UNFCCC COP in Qatar to adopt a CP2 decision
Dec 2012	Cabinet in-principle decision on a number of ETS regulations
31 Dec 2012	End of Commitment Period 1 under the Kyoto Protocol
Early 2013	Consultation on a number of ETS regulations

NZ's emissions trajectory

- New Zealand is projected to emit 650 mega-tonnes (Mt) of CO₂ equivalent over the 2013-2020 period. Our emissions will be influenced by a number of factors including the domestic price of carbon, GDP and population growth, oil prices and forestry activity.
- The graph below shows a projection of emissions to 2030, and a carbon budget level for a number of 2020 targets. There is considerable uncertainty over the actual trajectory, relating in the main to forestry. While forestry can help NZ to meet international targets up to 2020, beyond 2020 much of NZ's post-89 forests will be harvested, and credits from these forests will need to be repaid.



- Gross emissions under current policies are projected to continue rising. New Zealand can reduce overall emissions through three mechanisms:
 - Offsetting emissions through forestry sinks, although these are effectively a loan on New Zealand's 'credit card' which must be paid back when trees are harvested.
 - Reducing gross emissions through technology and behaviour change. This can be achieved in part by the ETS but will need other measures to overcome non-price market failures. Complementary measures can support other government objectives such as improving productivity or resource use efficiency. Opportunities vary significantly by sector.
 - Purchasing offshore emissions reductions, which is cheaper in the short-term but which sees NZ have to pay again and again for the same emissions envelope.

Comparisons with other countries

- For tactical reasons, it is important that New Zealand does its fair share compared to other countries. Imposing costs well beyond our peers would be unjustifiable to the New Zealand public, while taking too 'soft' a target would be difficult to defend in international negotiations.
- The table below provides an indication of how New Zealand's 2020 target compares to the low-end or unconditional pledges of selected Annex I and developing countries.

Pledges by key parties				
Annex 1 Party	Lower-end 2020 pledge relative to 1990 levels	Status	Cost (% of GDP)	% Gross global Emissions
Australia	-4%	Unconditional	0.06% - 0.13%	1.5%
Canada	+3%	Unconditional (contingent on USA legislation)	---	2.0%
EU27	-20%	Unconditional	---	13.4%
Japan	-25%	Conditional - revised following tsunami	0.04%	3.6%
NZ w. hypothesis	-5%	Unconditional	0.19%	0.2%
NZ conditional range	-10% to -20%	Conditional	0.24% to 0.33%	0.2%
Norway	-30%	Unconditional	0.15%	0.14%
USA	-4%	Unconditional (cont. on leg.)	---	18.3%
Non-Annex 1 Party	Stated pledge	Developing countries will increasingly need to take on a share of the global effort over time	Data unavailable outside Annex 1 countries	% Gross global Emissions
Brazil	-36.1 to -38.9% on BAU			2.67%
China	-40% to -45% on 2005 intensity			19.2%
India	-20% to -45% on 2005 intensity			4.9%
Republic of Korea	-30% on BAU			1.5%

Source: 2009 GAINS mitigation costs calculator and 2011 CAIT world emissions database (both excluding LULUCF). Figures are based on publicly available data and will be refined and updated in further advice.

Indicative cost of meeting a -5% target

- A -5% target and a carbon price of \$25 a tonne corresponds to approximately \$500 million in purchasing and a credit card debt of \$100 million through forestry 2013-2020.

	Direct cost	Future harvest liability
2013 - 2020	\$-0.4bn to \$2.4bn	\$0bn to \$0.2bn (TBC MAF)
2021 - 2028	\$2.6bn to \$7.4bn	\$0.7bn to \$1.7bn (TBC MAF)

- The estimates are based on a number of assumptions and should be taken as indicative only - any change to modelling assumptions could impact on the results by orders of magnitude. Key sensitivities are the nature of the target taken by New Zealand and the way in which forestry rules are applied on the level of harvesting in the forestry sector.