

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

Context

1. New Zealand's obligations under the Kyoto Protocol'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 of 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. We need to decide on the emissions reduction effort we want the ETS to deliver in the period 2013-20. This will anchor the ETS and provide greater certainty for participants.
2. 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.
3. This cap will need to reflect our level of domestic ambition, maintaining incentives for domestic emissions reduction 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

4. 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 influence to position New Zealand well in negotiations over the next three years for the post-2020 agreement.
5. Progress has been made in meeting conditions on our existing 2020 target range, 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.
6. 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 domestic unilateral target

1. Agreeing a cap on the number of NZUs issued under the ETS and communicating this decision internationally could be helpful as we negotiate towards the final international agreement. In effect this cap could represent a domestic unilateral target.
2. A domestic unilateral target should fall between 0% and 10% below our 1990 levels. A positive target (i.e. above our 1990 level) is not internationally credible, and 10% is the lower end of our existing conditional target range.

What if settings under the ETS equated to a domestic target of -5% on 1990 emissions by 2020?

3. Setting a domestic unilateral target at 5% below 1990 levels would help position the New Zealand economy to be resilient in the face of future target.
4. It would also allow New Zealand to leave its existing conditional target range on the table, in order to help preserve credibility in the on-going negotiations.
5. Indicative analysis of the impacts of tabling a 5% target internationally 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 meeting in Qatar in December.

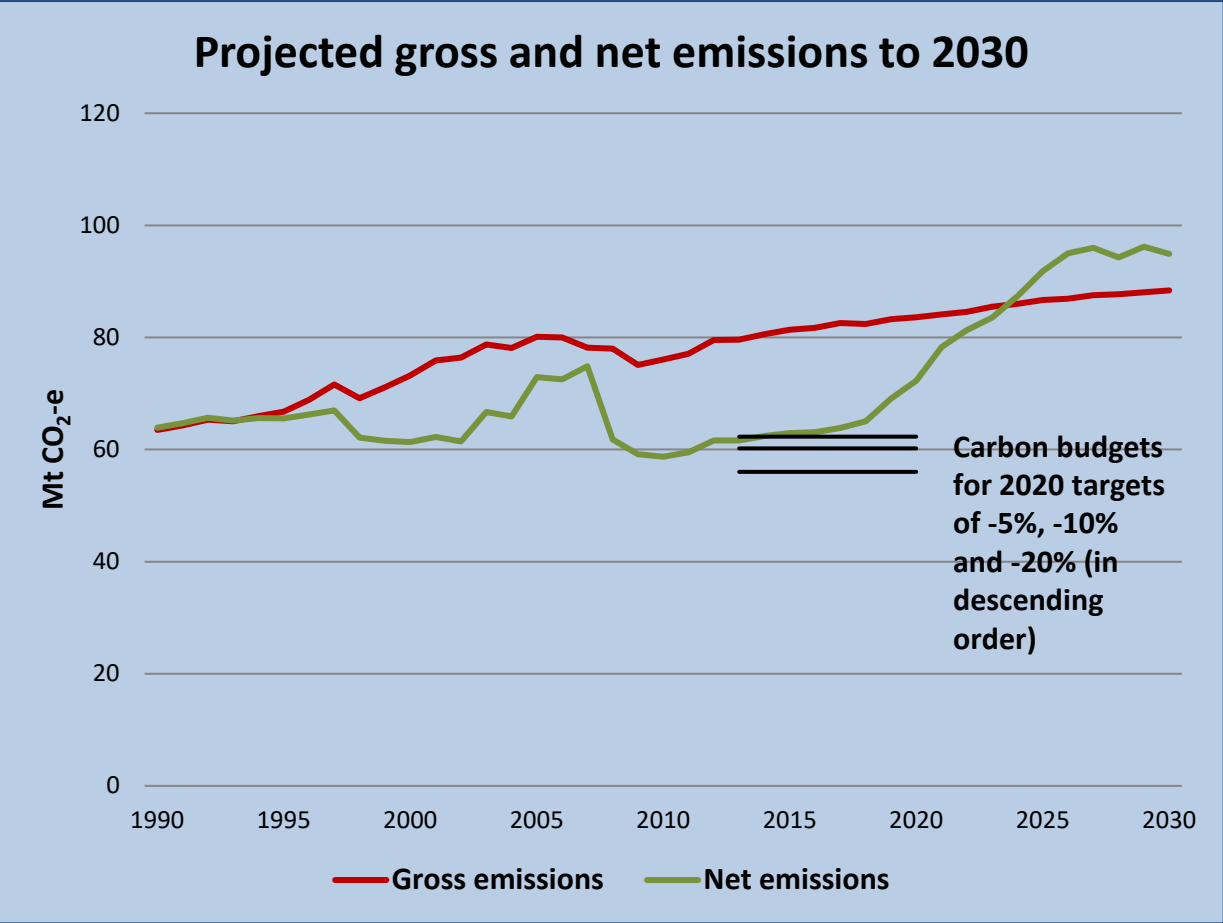
In considering our post-2012 domestic target, Cabinet can expect further advice on:

- Domestic abatement and complementary measures
- Fiscal and economic costs
- Long-term trajectory for New Zealand 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. Opportunity to further discuss the issue of a domestic unilateral target
Aug 2012	Further policy design of supply of NZUs in ETS begins
Oct 2012	Last opportunity for decisions on NZ's domestic unilateral target if NZ wishes to be ready to announce its target at the 2012 UNFCCC Conference of the Parties (COP)
Nov - Dec 2012	Report back to EGI on where, when and the level of NZ's unilateral target [EGI Min (12) 2/3]. 2012 UNFCCC COP in Qatar to decide final details for a second commitment period under the KP to begin 1 January 2013
Dec 2012	Cabinet in-principle decision on a cap on supply of NZUs needed by now to enable auctioning from 2014
Early 2013	Consultation on ETS regulations to cap total supply of NZUs and limit offshore purchasing needed now to implement auctioning (pilot or full) from 2014

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 New Zealand to meet international targets up to 2020, in the years after 2020 much of New Zealand'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 to New Zealand and must be paid back when trees are harvested.
 - Reducing gross emissions through infrastructure investment, 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 New Zealand 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%
A -5% target for NZ	-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%

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 a best estimate cost of \$500 million in purchasing over the period 2013 to 2020.
- Each percentage point difference in a target corresponds to approximately \$85 million in purchasing (i.e. a 0% 2020 target would equate to approximately \$100m 2013-2020).
- The estimates are based on a number of assumptions and should be taken as indicative only. In addition to the uncertainty within emissions projections (such as forestry behaviour), the nature of the target taken by New Zealand (including the accounting rules applied) will influence costs.