

Chair

Cabinet Policy Committee

CLIMATE CHANGE: PRE-2008 CROSS-SECTORAL AND PRICE MEASURES

Executive Summary

This paper seeks Cabinet's agreement to a three-stage process for developing and implementing negotiated greenhouse agreements (NGAs) with industry. The three-stage process is proposed as a means of enabling prompt completion of NGAs once their relationship to other policy options is clarified in the ratification legislation likely to be introduced into Parliament early in 2002. Certainty of regulatory framework is an issue of high importance to industry. The three stages involve a period of consultation with industry plus analysis to confirm a generic agreement framework, a heads-of-agreement stage and finally completion of an agreement.

Context

1. Negotiated Greenhouse Agreements (NGAs) are proposed agreements between Government and industry that will set greenhouse gas emissions limits for industry participants until 2008, when New Zealand will have binding emissions reduction commitments if it ratifies the Kyoto Protocol. NGAs are intended to follow on from and extend the existing Voluntary Agreement programme between Government and a number of major industrial emitters.
2. The Climate Change: Pre-2008 Cross-Sectoral and Price Measures paper considered by the Cabinet Business Committee on 31 January 2001 included consideration of a range of policy options [ref. POL (00) 217]. These included objectives for decisions on pre-2008 measures, feedback from early consultations concerning negotiated greenhouse agreements (NGAs), the need for a pre-2008 element in the proposed communication and consultation package, plus work related to use of a carbon charge, non-price measures and pilot emission trading.
3. At that meeting Cabinet agreed in principle that NGAs would form part of the pre-2008 policy package, subject to consultation on the Government's overall climate change policy package [ref. CBC Min (01) 3/4]. It was also noted that it might not be practical to develop NGAs in some sectors or with smaller industrial emitters. Officials were directed to prepare a recommended draft generic NGA covering key design issues and report to the Cabinet Policy Committee (POL) in March 2001. Officials were also directed to consult with potential NGA participants while developing the draft generic NGA.

Proposal

4. This paper reports progress on developing a generic NGA and seeks approval for a 3-step process to develop and implement NGAs via further consultation with potential participants, including joint working groups to advance methodological and technical matters. Approval is also sought for the Ministerial Group on Climate Change, once it has approved the generic NGA framework, to approve negotiation of heads-of-agreement for individual NGAs. Other (non-NGA) matters considered on 31 January are either reported on briefly in this paper or included in a separate paper on public education and communication.

Industry focus on a legislated framework for NGAs

5. It was clear from the October 2000 second industry consultation and subsequent views expressed by the Greenhouse Policy Coalition (GPC) at their November 2000 seminar (and via direct Ministerial contacts) that having a legislative framework is seen as a precursor to development of NGAs. The Climate Change Steering Group are presently considering and will soon advise Ministers concerning the scope and timeline of the legislative requirements for the ratification of the Kyoto Protocol.

The proposed three-stage NGA process

6. Delaying NGA development until the legislative and incentive frameworks are in place potentially reduces their usefulness as a measure to manage emissions. This delay can be minimised by breaking the process into discrete steps and proceeding promptly with those that are technically based. The following three-stage process is suggested.

Confirming a generic NGA

7. A draft generic NGA is included as an attachment to this report and includes drafting comments that will be removed following a process of consultation and analysis. It was developed by officials and incorporates feedback from the earlier industry consultations and material subsequently provided by the GPC. The GPC and other potential industry partners will also have considered what form a generic NGA might have. It is recommended that the attached draft generic NGA forms a starting point for consultations with industry, who can contribute their perspectives. It will be necessary to use a number of smaller 'reference groups' to promptly address technical matters associated with NGAs such as those outlined in Annex 4 of the draft generic NGA. This process should be the focus of NGA development in the coming months, with officials reporting progress back to the Ministerial Group by 31 July 2001.

A heads-of-agreement NGA

8. Once the generic NGA framework and conventions have been confirmed it is recommended that officials begin to negotiate heads-of-agreement NGAs as outlined in Annex 1 of the attached draft generic NGA. A heads-of-agreement NGA involves

confirming an intention to sign an NGA, agreeing on information collection and sharing, some timetable and reporting conventions as well as beginning to negotiate a target. This approach maximises progress towards an NGA while the incentive and legal frameworks are separately developed.

Completing the NGA

9. The draft heads-of-agreement includes a time limit of a year for the completion of an NGA from the time of the initial signing. This should enable the passage of the ratification legislation before any heads-of-agreement reach their expiry point. It is expected that the third stage will involve the final negotiation of a target in a more certain legislative framework and thus encourage participation.

Consulting over the generic NGA

10. It is recommended that Cabinet approves officials consulting with potential industry partners, including the use of small 'reference groups' to advance specific technical issues, and report back to the Ministerial group on Climate Change by 31 July 2001. The objective is to advance the technical aspects of NGAs while their legislative status is clarified as part of the development of the ratification legislation.

Proceeding with a heads-of-agreement NGA

11. Once officials have reported on progress with the generic NGA framework, and if the Ministerial Group on Climate Change is satisfied that the proposed framework is robust, then approval is sought to begin to negotiate heads-of-agreement. This will start a timetable that is intended to enable NGAs to be completed promptly once the legislative framework, incentive and liability issues are confirmed.

Other matters

Carbon charge

12. In July 2000 Cabinet directed officials to undertake further analysis of the rate and corresponding sectoral, distributional and competitiveness impacts of a carbon charge and revenue recycling options [ref. CAB (00) M 25/4C]. Officials have prepared a draft summary of sectoral impacts, and have requested tenders from economic consultants to carry out distributional, competitiveness and revenue recycling analyses. It is expected that these analyses will be completed in late May, from which a report will be finalised and submitted to the Minister of Finance in June.

Public education & communication

13. The direction to report to POL by the end of March 2001 [ref CBC Min (01) 3/4] is covered by a separate paper as part of this series.

Financial and legislative implications

14. This paper has no immediate financial implications and its legislative implications will be part of the ratification legislation work-stream.

Consultation

15. The following departments have been consulted during the preparation of this paper and agree with its recommendations: Agriculture and Forestry, Economic Development, Environment, Foreign Affairs and Trade, Transport, Research, Science and Technology, the Treasury and Te Puni Kokiri. The Department of Prime Minister and Cabinet and the Energy Efficiency and Conservation Authority have also been involved in the preparation of this paper.

Recommendations

16. It is recommended that the Committee:

- a) **Note** that Cabinet has already decided that “*..in order to facilitate consultation, particularly in enhanced industry agreements, that emitters should be informed by officials that actions taken by emitters under any pre-2008 price measure implemented by the government will not disadvantage them for the allocation of any units for a post-2008 domestic emissions trading system (or any other post-2008 price measure)..*” [ref. CAB (00) M 25/4C];
- b) **Agree** to a three-stage process for developing NGAs incorporating:
 1. development of a generic framework (incorporating common assumptions and methodologies);
 2. a heads-of-agreement stage (incorporating an intention to proceed and agreeing on information collection and sharing and NGA structure); and
 3. final completion of the agreement with explicit targets (once the legal status of NGAs is confirmed).

Developing a generic NGA framework

- c) **Note** that the generic NGA included as an attachment to this report was developed by officials utilising input from earlier consultations and material subsequently provided by the GPC;
- d) **Note** that the GPC is independently developing legislative recommendations and a draft agreement for the consideration of Ministers and officials;
- e) **Direct** officials from departments participating in the pre-2008 working group to consult with potential NGA participants using the draft generic agreement outlined in the attachment;

- f) **Direct** officials to refine the generic framework taking into account feedback received with as many common assumptions and methodologies as possible and report back to the Ministerial Group on Climate Change by 31 July 2001;
- g) **Agree** that the Ministerial Group on Climate Change be delegated authority to finalise the generic framework agreement;

Heads-of-agreement NGAs

- h) **Agree** that once the Ministerial Group on Climate Change has approved the reported back generic agreement, the Convenor of the Group, in consultation with other Ministers on the Group, be delegated authority to direct officials to conclude heads-of-agreement with firms or collective groups of parties;

Completing negotiations of NGAs

- i) **Note** that officials will report to Cabinet Policy Committee (POL) on progress with heads-of-agreement NGAs and recommendations on the timing and process for initiating negotiations for concluding NGAs by 30 November 2001;
- j) **Note** that the Convenor of the Ministerial Group on Climate Change will be seeking delegated authority to enter into those agreements at that time;

Other matters

- k) **Note** that work is progressing on carbon charge impacts and revenue recycling options; and
- l) **Note** that a previous reporting directive concerning public education and communication is included as a separate paper in this series [ref CBC Min (01) 3/4].

Hon Pete Hodgson
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