



# Cabinet Business Committee

Budget: Sensitive

CBC Min (05) 20/10

Copy Number:

## Minute of Decision

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### Climate Change: Review of Policy and Next Steps

On 19 December 2005, the Cabinet Business Committee, having been authorised by Cabinet with Power to Act [CAB Min (05) 42/17]:

#### Background

- 1 **noted** that in June 2005 the government commissioned a *Review of Climate Change Policies*;
- 2 **noted** that New Zealand has two greenhouse-gas targets:
  - 2.1 an externally set target under the Kyoto Protocol, namely that by 2012 New Zealand would return its total net emissions to 1990 levels or take responsibility for any emissions in excess of 1990 levels;
  - 2.2 an internally set goal, namely that New Zealand be set towards a permanent downward path for total gross emissions by 2012;
- 3 **noted** that it is estimated that New Zealand will be in net deficit of 36 million tonnes of carbon dioxide equivalent in the first Kyoto commitment period (2008-2012) - it was previously estimated that New Zealand would be in surplus;
- 4 **noted** that New Zealand is bound by the Kyoto Protocol for the first commitment period and that the decisions set out in this minute do not change that commitment;
- 5 **noted** that the Review indicates that most countries that emit large quantities of greenhouse gases [withheld under OIA s6(a)] consider that climate change poses a serious risk and are taking action to manage both their emissions and the effects of climate change;

#### Findings of the Review of Climate Change Policies

- 6 **noted** that the report *Review of Climate Change Policies* was submitted to the Minister Responsible for Climate Change Issues on 9 November 2005, and that its key findings were:
  - 6.1 the government should consider formulating an alternative internal climate change goal for New Zealand as its current internal goal – that by 2012 New Zealand's total gross emissions will be set towards a permanent downward path – is no longer realistic;

- 6.2 the level of domestic reductions that can be achieved in a cost effective manner is likely to be small relative to New Zealand's net emission position:
- 6.2.1 some small and incremental gains can be made in transport and energy efficiency and conservation (that will have other non-CO<sub>2</sub> benefits);
  - 6.2.2 the overall effects of a sustained, higher oil price may be more influential in reducing transport emissions than the current range of policies;
- 6.3 to meet the projected Kyoto Protocol first commitment period (CP1) deficit entirely through domestic emission reductions will cost the economy more than a combination of domestic reductions and purchasing some units on the international market;
- 6.4 work should commence quickly to determine potential buying strategies for New Zealand in the international carbon market;
- 6.5 a new programme of large-scale new forest planting would not enable New Zealand to meet its Kyoto CP1 target because relatively little carbon would be sequestered in the CP1 period (2008-2012):
- 6.5.1 the benefits of planting now will mainly accrue in future commitment periods,
  - 6.5.2 such plantings would also potentially have significant benefits in terms of soil conservation, flood control, water quality and biodiversity;
- 6.6 for forestry:
- 6.6.1 the current policy package does not send appropriate climate change signals to land managers regarding the benefits and costs of land-use change;
  - 6.6.2 the option for government to retain all Kyoto benefits and liabilities and not impose a deforestation cap was not recommended;
  - 6.6.3 a number of options for climate change land-use policy were identified but further analysis of these was required;
- 6.7 circumstances have changed since 2002 and the current carbon tax/Negotiated Greenhouse Agreement model is no longer a suitable platform over the longer term for achieving domestic emission reductions;
- 6.8 the government should not develop a New Zealand emissions trading scheme to apply in the period 2008-2012, but should consider it for post 2012;
- 6.9 the third round of the Projects to Reduce Emissions programme should not proceed:

- 6.9.1 to be successful the Projects to Reduce Emissions programme should deliver greater emission reductions during the CP1 period than the emission units allocated to the projects, and the Review Report concluded that this outcome is uncertain;
- 6.10 on agriculture, cost-effective emission reduction options are currently limited and are likely to remain so, at least over the next decade:
  - 6.10.1 the price measures that appear to be most feasible and practical during the CP1 period are a tax or other controls on nitrogen fertilisers and/or incentives for the uptake of technologies to reduce emissions;
  - 6.10.2 the current research effort is considered sub-optimal and investment in research is important to enable effective emission reductions in the future;

### Further Forestry Information

[withheld under OIA s9(2)(f)(iv), s9(2)(j)]

### New Zealand's Climate Change Objectives

- 9 **noted** that New Zealand will meet its obligation under the Kyoto Protocol, namely that by 2012 New Zealand would return its total net emissions to 1990 levels or take responsibility for any emissions in excess of 1990 levels;

### Carbon Tax/Negotiated Greenhouse Agreement Package

- 10 **noted** that the package of a carbon tax and Negotiated Greenhouse Agreements is central to New Zealand's current climate change policy (note that the current carbon tax is expected to reduce emissions by approximately 13 million tonnes of carbon dioxide equivalent during the first commitment period (2008-2012), but that in its absence a proportion of that reduction could be achieved through alternative policy measures);
- 11 **noted** that due to the time required to undertake the Review in 2005, it is not practicable, from a timing perspective, that the announced carbon tax could be implemented by the scheduled start date of 1 April 2007;
- 12 **noted** that the Review Report concluded that emissions reductions cannot be achieved at the lowest cost if Negotiated Greenhouse Agreements, and the exemption for livestock methane and nitrous oxide from a greenhouse gas tax, were extended well beyond 2012;

- 13 **noted** that the Review Report concluded that the carbon tax and associated Negotiated Greenhouse Agreements is unlikely to be sustainable over the medium term and would need to be replaced by some other policy package;
- 14 **noted** that the government’s confidence and supply partners have expressed opposition to the carbon tax;
- 15 **agreed** to announce that the carbon tax will not start at the previously announced date of 1 April 2007;
- 16 **agreed** that the government will not introduce the current carbon tax model or any other broad-based greenhouse gas tax before the end of the first Kyoto commitment period (2012). (NB This would not preclude putting in place a more narrowly based tax on large emitters if that was deemed appropriate);

*Financial and other implications*

- 17 **agreed** to the establishment of a new other expense to be incurred by the Crown “Kyoto Protocol - Forecast Liability” in Vote Climate Change and Energy Efficiency;
- 18 **approved** the following change to appropriations to increase the provision for New Zealand’s liability under the Kyoto Protocol, with a corresponding impact on the operating balance:

Vote Climate Change and Energy Efficiency	\$m – increase/(decrease)				
	2005/06	2006/07	2007/08	2008/09	2009/10 & outyears
Other expenses to be incurred by the Crown: Kyoto Protocol – Forecast Liability	111,150	-	-	-	-

- 19 **agreed** that any changes to appropriations for 2005/06 be included in the 2005/06 Supplementary Estimates and that, in the interim, these expenses be met from Imprest Supply;
- 20 **noted** that the removal of the carbon tax, in the absence of compensatory measures will have a significant impact on the operating balance;
- 21 **directed** the Treasury to include in the report to Ministers on 3 March 2006 (see paragraph 36) advice on compensatory measures;
- 22 **noted** that the decision to not proceed with the current carbon tax will require transition arrangements for Negotiated Greenhouse Agreements (which exist to protect companies whose competitiveness is at risk as a result of the tax);
- 23 **noted** that the figures used in the paper under CBC (05) 394 reflect the carbon price that has been used to date in the estimation of New Zealand’s Kyoto liability, and an exchange rate of \$US/\$NZ 0.7020, which was the exchange rate prevailing at the end of November 2005;

## Forestry and the Deforestation Cap

[withheld under OIA s9(2)(f)(iv), s9(2)(g)(i)]

[withheld under OIA s9(2)(f)(iv), s9(2)(g)(i), s9(2)(j)]

- 28 **agreed** that no final decision on the future of the current deforestation cap, or any alternative to it, is required now, and the future of the cap will be considered alongside alternative measures as part of the 3 March 2006 report to Ministers on climate change work programmes;
- 29 **authorised** the Minister of Forestry to announce that the government will explore alternative measures;
- 30 **noted** that the decision at paragraph 16 leaves it open for the government to introduce other regulatory or non-regulatory policy responses to control emissions or encourage forest sinks;

### Projects to Reduce Emissions Programme

- 31 **noted** that the Projects to Reduce Emissions programme was designed to bring forward projects that generate additional emissions reductions in CP1 by providing incentives for the project in the form of Kyoto emissions units (carbon credits);
- 32 **directed** the Ministry for the Environment to include in the report to Ministers on 3 March 2006 advice on how to achieve greater assurance that the emission reductions resulting from projects will be greater than the emission units given away to project owners under the programme;

### Future Work Programmes

- 33 **noted** that advice on, and implementation of, climate change policies is the responsibility of a number of Ministers, departments and government agencies – the Ministries of Agriculture and Forestry, Environment, Economic Development, Transport, Foreign Affairs, Research, Science and Technology, the Treasury, Te Puni Kokiri, the Department of the Prime Minister and Cabinet, New Zealand Customs, the Inland Revenue Department and the Energy Efficiency and Conservation Authority;

- 34 **noted** that, regardless of decisions on the carbon tax, the Review Report proposed new work programmes to respond to an expected “Kyoto deficit”, including a package of enhanced domestic emission reduction measures and a strategy for acquiring emission units to cover the CPI deficit;
- 35 **noted** that a well co-ordinated suite of future work programmes, supported by strong senior-level input from the relevant departments and agencies, is required to provide further analysis to inform government decisions, in light of the Review Report, including in the following areas;
- 35.1 revisiting New Zealand’s internally set goal that “New Zealand be set towards a permanent downward path for total gross emissions by 2012” (Minister Responsible for Climate Change Issues);

[withheld under OIA s9(2)(f)(iv), s9(2)(j)]

- 35.3 work on alternative measures to the announced carbon tax, including consideration of emissions trading and new, possibly voluntary, arrangements to replace Negotiated Greenhouse Agreements (Minister Responsible for Climate Change Issues);
- 35.4 purchasing and other strategies for acquiring emission units for the first Kyoto commitment period (2008-2012) from appropriate sources including projects under the Kyoto Clean Development Mechanism and Joint Implementation, including the option of projects that would leverage the export of New Zealand’s expertise and technology (Minister of Finance);
- 35.5 work on forestry policy options for managing deforestation and encouraging afforestation (new tree planting) and reforestation (reversion to indigenous forest or replanting) (Minister of Forestry);
- 35.6 land-use and the links between forestry and agriculture policies (Minister of Agriculture and Forestry);
- 35.7 incentives for renewable energy or disincentives for fossil fuel based electricity generation (Minister of Energy);
- 35.8 opportunities to reduce energy emissions generally, including through development of the National Energy Strategy and energy research and priorities (Minister of Energy);
- 35.9 review of the National Energy Efficiency and Conservation Strategy (Minister of Energy);
- 35.10 treatment and reduction of agricultural emissions including research (Minister of Agriculture);
- 35.11 incentives or disincentives for purchase and use of transport modes and vehicle efficiency (Minister of Transport);
- 35.12 appropriate research and technology investment priorities, excluding agriculture and energy (Minister Responsible for Climate Change Issues);

- 35.13 the need for, and future shape of, cross-sectoral incentive programmes such as the Projects to Reduce Emissions programme (Minister Responsible for Climate Change Issues);
- 35.14 continuation of work to ensure that New Zealand's international interests in climate change are protected and advanced (Minister of Foreign Affairs);
- 35.15 an extension of existing work to help New Zealand prepare for and adapt to the impacts of climate change (Minister Responsible for Climate Change Issues);
- 36 **directed** officials from the Treasury and the Ministries of Agriculture and Forestry, Energy, Transport, Environment, Foreign Affairs and Trade and Economic Development to report to their relevant Ministers by 3 March 2006 with detailed proposals for climate change work programmes in each work area listed in paragraph 35;
- 37 **agreed** that the Minister Responsible for Climate Change Issues convene and chair before 13 March 2006 a meeting of a Ministerial Reference Group comprising the Ministers of Finance, Agriculture, Forestry, Energy, Transport, Environment, Economic Development and the Minister Responsible for Climate Change Issues to discuss proposals and approve, in-principle, a well coordinated whole of government work programme for climate change policy;
- 38 **invited** the Minister Responsible for Climate Change Issues, on behalf of the Ministerial Reference Group, to report to POL by 3 April 2006 seeking approval for a whole of government work programme for climate change policy;
- 39 **noted** that the report in paragraph 38 will include advice from the reports referred to in paragraphs 21 and 32;

### Review Report

- 40 **noted** that the Review Report (produced by a cross-departmental team assembled by the Ministry for the Environment) provides a comprehensive picture of the options and tradeoffs that New Zealand faces in responding to the challenge of reducing greenhouse gas emissions;
- 41 **noted** that public and business response to the Review Report's key findings would assist officials in prioritising and finalising their future work programmes;
- 42 **authorised** the public release of the report entitled *Review of Climate Change Policies*;

### Next steps

- 43 **noted** that the Minister Responsible for Climate Change Issues and the Minister of Forestry would brief the Leaders of the New Zealand First and United Future parties on the decisions set out in this minute;
- 44 **noted** that the Minister Responsible for Climate Change Issues and the Minister of Forestry would publicly announce the decisions in this minute following the discussion with the leaders of the United Future and New Zealand First parties;

45 **noted** that the Minister Responsible for Climate Change Issues indicates that the government caucuses and other parties in Parliament will be consulted.

Katherine Noble  
Secretary

Reference: CBC (05) 394

**Present:**

Rt Hon Helen Clark (Chair)  
Hon Dr Michael Cullen  
Hon Jim Anderton (part)  
Hon Steve Maharey (part)  
Hon Annette King  
Hon Trevor Mallard  
Hon Pete Hodgson  
Hon Parekura Horomia  
Hon Mark Burton  
Hon David Benson-Pope  
Hon Damien O'Connor  
Hon David Parker

**Officials present from:**

Office of the Prime Minister  
Department of the Prime Minister and Cabinet  
Ministry for the Environment

**Copies to:**

Cabinet Business Committee  
Chief Executive, DPMC  
Director, PAG, DPMC  
Secretary to the Treasury  
Director-General, Ministry of Agriculture and Forestry (Forestry)  
Chief Executive, Ministry of Research, Science and Technology  
Secretary of Foreign Affairs and Trade  
State Services Commissioner  
Chief Executive, Ministry of Economic Development  
Chief Executive, Te Puni Kokiri  
Minister for the Environment  
Secretary for the Environment  
Minister Responsible for Climate Change Issues  
Secretary for the Environment (Climate Change)  
Secretary for the Environment (Energy Efficiency Conservation Authority)  
Secretary for Transport  
Minister of Customs  
Comptroller of Customs  
Commissioner of Inland Revenue  
Controller and Auditor-General