



Cabinet Policy Committee

POL Min (03) 6/4

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Minute of Decision

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Climate Change: The Projects Mechanism - Details and Process

On 26 March 2003 the Cabinet Policy Committee:

Background

- 1 **noted** that on 7 October 2002 Cabinet directed officials to report to POL by 28 February 2003 on the details of the Climate Change Projects policy, including a process for Projects and necessary legislation for Projects [CAB Min (02) 26/18];

Workshop

- 2 **noted** that the generally well attended Projects workshop held on 28 January 2003 indicated wide interest in the mechanism, and feedback received provided valuable input that informed the preparation of the paper under POL (03) 45;

Eligibility

- 3 **noted** that eligibility for Projects requires that proposals pass an additionality assessment to avoid supporting business as usual proposals;
- 4 **agreed** that this assessment involve consideration of both investment and environment additionality;
- 5 **agreed** that the size eligibility for the exploratory round be 10,000 tonnes of CO₂ equivalent (t/CO₂(e)) over the five years of the First Commitment Period (CP1) of the Kyoto Protocol;
- 6 **noted** that for the exploratory round, priority in negotiation and assessment of projects **will be** afforded to larger proposals that contribute to electricity security;
- 7 **agreed** that firms with Negotiated Greenhouse Agreements (NGAs) are eligible to participate in the Projects mechanism, but that a no double-dipping principle be applied so that the Projects incentive is not used to assist in achievement of NGA targets;
- 8 **agreed** that for firms that have submitted a successful Projects proposal and subsequently sought an NGA, then that would be considered both in assessing their at-risk status and negotiating the detail of their NGA;

- 9 **agreed** that firms in the process of negotiating an NGA with the Government be ineligible to participate in Projects until their NGA is concluded;
- 10 **agreed** that applications where the number of units requested is greater than the tonnes of CO₂(e) reductions expected in CP1 will not be assessed;

International Issues

- 11 **agreed** that while firms awarded promissory notes under the domestic Projects mechanism can potentially enter into an overseas Joint Implementation (JI) scheme, the level of incentive provided is determined within the domestic mechanism;
- 12 **noted** that policy concerning the Clean Development Mechanism (CDM) has not been developed and that opportunities under CDM may be the subject of a future "Business Opportunities" report-back;

Incentive

- 13 **agreed** that for the exploratory round the incentive for Projects will be promissory notes for emission units;
- 14 **noted** that a promissory note is a financial instrument that can be used by the recipient to generate cash by either trading or borrowing against at any time appropriate to them;
- 15 **noted** that officials are considering the feasibility of supporting some direct emission reduction initiatives for subsequent project rounds with cash incentives and will report to the Convenor, Ministerial Group on Climate Change and the Minister of Finance in time for the 2004 Budget;

Assessment

- 16 **agreed** that the core criterion for assessing proposals be the ratio of the number of emission units requested by the applicant divided by the total CO₂(e) reductions from the start of the project to 2012, with lower ratio proposals favoured;
- 17 **agreed** that the ranking from the core criterion for each proposal be supplemented by an analysis of the risks associated with the proposal, which include technical risks, additionality risks, and the risks of any adverse spill-over effects;

Tender Process

- 18 **agreed** that the tender process involve successful applicants being paid up to the amount of their bid;

Project Cycle and Institutional Arrangements

- 19 **agreed** that the exploratory round follow the project cycle outlined in the annex attached to this minute;
- 19.1 initial information and pre-screening of applicants;
- 19.2 assessment and decisions on successful projects;
- 19.3 negotiation of project agreements; and

- 19.4 administration of a portfolio of agreements;
- 20 **directed** officials to report to the Convenor of the Ministerial Group on Climate Change and the Minister of Finance on the operation of the exploratory round recommending any changes arising from this review by 30 November 2003;
- 21 **noted** that the Climate Change Office is responsible for the administration of the Projects mechanism;
- 22 **agreed** that the Assessment Team be made up of officials from relevant departments and EECA supplemented by contractors as required for specialist financial and technical advice with support from the Programme Administrator;
- 23 **agreed** that the Decision Maker be the Chief Executive of the Ministry for the Environment and that the Decision Maker determines which proposals progress to the negotiation stage based on the recommendation of the Assessment Team, and provides a mandate for the contract negotiations;
- 24 **authorised** the Chief Executive of the Ministry for the Environment to delegate the decision-making function to any person holding the position of Deputy Secretary or any other employee holding the position of manager at the Ministry for the Environment (but not to an employee of the Climate Change Office or a member of the Assessment Team);
- 25 **agreed** that the negotiator for project agreements be appointed by the Director of the Climate Change Office and supported by the Office and other officials as required;

Project Agreement Report Back

- 26 **noted** that officials have previously been instructed to report to POL by 30 June 2003 on a model project agreement [CAB Min (03) 26/18], but given the timetable proposed for the exploratory round, officials propose to report back by 31 May 2003;

Legislative and Financial Implications

- 27 **noted** that legal advice is that the proposed Projects Mechanism does not require recognition in legislation;
- 28 **noted** that the incentive pool and administrative funding for the exploratory round is being considered as part of the 2003 Budget round process;

29

[withheld under the OIA ss. 6(a) and 9(2)(h)]

Authorisations

- 30 **authorised** the Convenor, Ministerial Group on Climate Change to implement the exploratory round based on the model outlined above and the pending Project Agreement report back referred to in paragraph 26;

- 31 **authorised** the Convenor, Ministerial Group on Climate Change and the Minister of Finance to adjust the Project Mechanism as required to facilitate implementation of the exploratory round;

Consultation

- 32 **noted** that the Minister indicates that consultation will not be required with government caucuses or other parliamentary parties.



Sue Sharp
Secretary

Reference: POL (03) 45

Present:

Rt Hon Helen Clark (Chair)
Hon Dr Michael Cullen
Hon Jim Anderton
Hon Steve Maharey
Hon Annette King
Hon Trevor Mallard
Hon Pete Hodgson
Hon Margaret Wilson
Hon Parekura Horomia
Hon Lianne Dalziel
Hon George Hawkins
Hon Paul Swain
Hon Marian Hobbs
Hon Ruth Dyson
Hon John Tamihere
Hon Chris Carter
Hon Rick Barker

Officials present from:

Office of the Prime Minister
Department of the Prime Minister and Cabinet

Copies to:

Cabinet Policy Committee
Chief Executive, DPMC
Mary Anne Thompson, DPMC
Secretary to the Treasury
Chief Executive, Ministry of Economic Development
Secretary of Foreign Affairs and Trade
Director-General of Agriculture and Forestry [Agriculture]
State Services Commissioner
Director-General of Agriculture and Forestry [Forestry]
Secretary for the Environment [EECA]
Director, Climate Change Office, MfE
Chief Executive, Te Puni Kokiri
Chief Executive, Ministry of Economic Development [Commerce]
Minister of Transport
Secretary for Transport
Minister for the Environment
Secretary for the Environment

Proposed Project Cycle

It is proposed that a project cycle would run through the following four basic stages:

- (i) an initial phase (steps 1-4 below) where project proposals would be received and processed;
- (ii) an assessment phase (steps 5-8) where more detailed information would be sought from applicants, proposals would be assessed for additionality and then ranked against specified project criteria, and top ranked projects would be forwarded for negotiation;
- (iii) a negotiation phase (step 9) where project agreements would be negotiated for top-ranked proposals and then signed off by the Minister of Finance and the Convenor of the Ministerial Group on Climate Change; and
- (iv) an administration phase (step 10) for ongoing monitoring and management of the projects portfolio, including assessing performance against project agreements, and consequent allocation of units.

