

Reference number:

POL (06) 352

Cover note

On Monday 27 November 2006, the Cabinet Business Committee (CBC) having been authorised by Cabinet with power to act [CAB Min (06) 44/14], considered the paper Climate Change Policy: Release of Discussion Paper on “Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012”.

The paper (Ref: POL (06) 352) and the associated Cabinet minute (Ref: CBC Min 06 17/16) are included. It is important to note that some of the timeframes for completion of work specified in this document are now out of date. More up-to-date information can be found as it becomes available at www.climatechange.govt.nz

Office of the Minister Responsible for Climate Change Issues

Chair Cabinet Policy Committee

Proposal

1. I seek Cabinet agreement for the public release of the attached discussion paper entitled “Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012.” This discussion paper will be the basis for the next phase of stakeholder engagement under the climate change work programme on alternatives to the carbon tax.
2. I also seek Cabinet agreement to defer the report on this work programme from February 2007 to April 2007 to enable more effective integration of consultation activity across work programmes, especially with the draft New Zealand Energy Strategy and replacement National Energy Efficiency and Conservation Strategy.

Background

3. In CAB Min (06) 18/8, Cabinet approved a series of whole-of-government climate change policy work programmes as required by Cabinet in December 2005 [CBC Min (05) 20/10 refers]. These work programmes are designed to enable New Zealand to better manage climate change as a long-term issue and play its part in reducing emissions as well as encouraging other countries, especially the major emitters, to act. While many work programmes have a sectoral focus, the work programme on alternatives to the carbon tax is cross sectoral and has implications for other work programmes.
4. The work programme on alternatives to the carbon tax has evolved to focus on longer-term policy measures that could be used to introduce a price for greenhouse gas emissions across the New Zealand economy post-2012. It also assesses implications for the design of transitional measures.

5. In CBC Min (06) 17/16, Cabinet approved the use of a discussion paper “as a basis for stakeholder consultation on policy options to reduce New Zealand's greenhouse gas emissions post-2012.” Cabinet agreed that “the primary objective of the discussion paper is on developing a consensus for the long-term direction of policies to reduce New Zealand's greenhouse gas emissions and that meaningful engagement with stakeholders is an essential part of this process.” Cabinet also agreed on a series of key messages to be included in the discussion paper.

Overview of the discussion paper

6. The purpose of the discussion paper is to stimulate dialogue between stakeholders and officials about potential longer-term (i.e., post-2012) climate change policy measures for reducing emissions, including broad price-based measures, directive regulations, and emission reduction agreements.

7. The discussion paper provides a summary of key issues and asks a series of questions for stakeholders to consider. While it does not contain government policy proposals or identify preferred approaches, it does set out an indicative policy proposal for consideration. This is done in order to give some direction to the consultation, which might otherwise be too general to be useful. The paper contains statements that the content should not be interpreted as a reflection or prediction of government policy decisions or preferred approaches.

8. The paper addresses the following issues:

- The role of price-based and other options as possible measures for managing greenhouse gas emissions and allocating costs in the New Zealand economy over time; and
- How to assess the effectiveness of specific measures such as emissions trading, greenhouse gas charges, directive regulation, and emission reduction agreements (voluntary or mandatory) in supporting New Zealand's longer-term climate change policy goals.

9. To provide context for the comparative evaluation of measures, the discussion paper summarises policy considerations around who bears the costs and opportunities from reducing emissions and enhancing sinks. These considerations include: realising least-cost abatement opportunities; applying targets to subsets of emitters; managing competitiveness-at-risk impacts of climate change policy; setting thresholds for application of measures; revenue recycling; and building capacity for strategic emissions management.

10. The discussion paper contains, and remains consistent with, all of the key messages agreed by Cabinet in CBC Min (06) 17/16.

11. The discussion paper will be of particular interest to key stakeholders who are major producers or consumers of energy, and who need to make long-lived investments that will determine their future exposure to increased international pricing of greenhouse gas emissions. The discussion paper will also be of particular interest to the transport, agriculture and land-use change and forestry sectors.

12. As noted in CBC Min (06) 17/16, although the discussion paper will inform stakeholders about the general application of price-based and alternative measures

pre-2012, the design of specific shorter-term measures falls within the scope of the sectoral climate change work programmes underway (in particular, the New Zealand Energy Strategy).

13. I recommend that Cabinet authorise the Minister Responsible for Climate Change Issues to approve the final version of the discussion paper.

Application of the discussion paper

14. Following Cabinet approval, the discussion paper will be released publicly. Stakeholders will be invited to make written submissions on this paper within 6-8 weeks of public release (with an allowance for the Christmas holiday). In addition, the discussion paper will provide a framework for discussions between officials and stakeholders through workshops and smaller, focused meetings from November 2006 through February 2007.

15. Officials note that formal consultation on several sectoral work programmes, including agriculture and forestry, could occur concurrently with stakeholder engagement on the discussion paper.

16. The discussion paper sits alongside the development of the New Zealand Energy Strategy and the replacement National Energy Efficiency and Conservation Strategy, which will evaluate a broad range of implementation measures specific to achieving New Zealand's energy-sector vision. Associated energy-sector consultation processes are expected to begin in late November 2006.

17. To the extent practicable, consultation on the work programme on alternatives to the carbon tax will be coordinated with any consultation on the agriculture and forestry climate change work programmes, the New Zealand Energy Strategy, and the replacement National Energy Efficiency and Conservation Strategy.

18. In the further report-back on the alternatives to the carbon tax climate change work programme, Cabinet will have the option to consider a preferred approach for reducing New Zealand's greenhouse gas emissions post-2012.

19. Following that report-back, and depending on Cabinet decisions, a second stage of consultation will be undertaken which will focus on the detail of the preferred approach and other specific matters. This, too, will be coordinated with consultation under the combined energy sector work programmes.

Timeline for the work programme report-back to Cabinet

20. In CBC Min (06) 17/16, Cabinet agreed to defer the report on the work programme on alternatives to the carbon tax from November 2007 until February 2007 given the requirement for adequate consultation on the proposed discussion paper.

21. I note that consultation on the proposed discussion paper will need to be coordinated with consultation under the work programmes on energy, agriculture,

and land-use change and forestry. These consultation processes are provisionally scheduled to extend through February 2007 or later, and are expected to influence the report-back on the work programme on alternatives to the carbon tax.

22. To enable more effective integration of consultation activity across work programmes, and to make allowance for the Christmas holiday break, I, therefore, seek Cabinet agreement to defer the report on this work programme from February 2007 to April 2007.

Consultation

23. The following departments were consulted: The Treasury, Te Puni Kokiri, the Ministry of Economic Development, the Ministry of Agriculture and Forestry, the Ministry of Foreign Affairs and Trade, the Department of Prime Minister and Cabinet, the Ministry of Transport, the Ministry of Research, Science and Technology, and the Energy Efficiency and Conservation Authority.

Financial implications

24. There are no fiscal, financial or economic implications of decisions sought by this paper.

Legislative implications

25. There are no legislative implications of decisions sought by this paper.

Publicity

26. This paper proposes the public release of the attached discussion paper with a request for submissions by interested stakeholders. Communication around this release will be integrated with the climate change communication and stakeholder engagement work programme being managed by the Ministry for the Environment.

27. I also propose the public release of this paper with appropriate withholdings.

Recommendations

28. As Minister Responsible for Climate Change Issues, I recommend that the Committee:

1. **Note** that Cabinet has agreed to the use of a discussion paper as a basis for stakeholder consultation on policy options to reduce New Zealand's greenhouse gas emissions post-2012 (CBC Min (06) 17/16 refers);

2. **Note** that Cabinet also agreed that the primary objective of the discussion paper is on developing a consensus for the long-term direction of policies to reduce New

Zealand's greenhouse gas emissions and that meaningful engagement with stakeholders is an essential part of this process;

3. **Note** that the work programme on alternatives to the carbon tax has evolved to focus on longer-term policy measures that could be used to introduce a price for greenhouse gas emissions across the New Zealand economy post-2012, and implications for transitional measures;

4. **Note** that measures under consideration also include non-price measures such as emission reduction agreements and the use of directive regulations;

5. **Agree** to the public release of the discussion paper entitled "Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012" for the next stage of consultation with stakeholders on these measures;

6. **Authorise** the Minister Responsible for Climate Change Issues to approve the final version of the discussion paper for the next stage of consultation;

7. **Note** that this work programme contains strong linkages to the New Zealand Energy Strategy and the replacement National Energy Efficiency and Conservation Strategy as well as the climate change work programmes on transport, agriculture, and land-use change and forestry, and that stakeholder consultation should be coordinated to the extent practicable across these work programmes;

8. **Note** that the outcome of stakeholder engagement on this discussion paper will be reported to Cabinet and will support the development of government climate change policy on post-2012 measures to reduce emissions, transport, agriculture, and land-use change and forestry as well as the New Zealand Energy Strategy, and the replacement National Energy Efficiency and Conservation Strategy;

9. **Agree** to defer the report to Cabinet on this work programme from February 2007 to April 2007 to enable more effective integration of consultation activity across work programmes;

10. **Note** that Cabinet will have the option to decide at the time of the report-back whether or not to proceed further with a price-based measure for the longer term and which other measures outlined in the discussion paper should or should not be progressed further;

11. **Note** that, depending on Cabinet decisions at the time of the report-back, a further stage of formal consultation under this work programme will be undertaken in mid-2007, focusing in more detail on the narrowed set of options; and

12. **Agree** to the public release of this paper by the Minister Responsible for Climate Change Issues, with appropriate withholdings.

Hon David Parker

Minister Responsible for Climate Change Issues