



Cabinet

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Climate Change International Negotiations: Update and New Zealand Position

Portfolio: Climate Change

On Monday 16 March 2009, the Cabinet Business Committee considered the attached submission [CBC Min (09) 5/5]. The submission has been referred to Cabinet as a separate item because of its significance.

The Cabinet Business Committee recommends that Cabinet:

Background

- 1 note that United Nations negotiations on a future international climate change agreement are underway and are scheduled to conclude in December 2009 at a meeting in Copenhagen, Denmark;
- 2 note that at least four negotiating sessions will be held in the lead up to Copenhagen, with the first to take place in Bonn, Germany, from 29 March to 8 April 2009;
- 3 note that there are issues under negotiation, including agreeing medium-term emission reduction commitments and financial commitments to support mitigation and adaptation action in developing countries, that have significant economic and environmental implications for New Zealand;
- 4 note that the significant economic implications, complexity of the issues, and late engagement by the United States present challenges to concluding a comprehensive agreement at Copenhagen;
- 5 [
- 6 note that the nature of New Zealand's economy and emissions profile mean that the future international rules for forestry and the treatment of agricultural emissions will have a greater impact on New Zealand's future commitments compared to those of other developed countries;

As per
Rec: 4/17

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Negotiating guidelines

- 7 7.1 note that the current guidelines for New Zealand's international climate change negotiating position were agreed in October 2006, November 2007, and May 2008 [CBC Min (06) 18/17, POL Min (07) 26/10 and CAB Min (08) 20/9];
- 7.2 rescind the guidelines for New Zealand's international climate change negotiating position referred to in paragraph 7.1;
- 8 agree that the guidelines in paragraphs 10–39 below should replace the guidelines referred to in paragraph 7.1 above;
- 9 note that further guidance will be sought during the course of 2009 on specific issues under negotiation, including emission reduction targets and financing for developing countries;

General approach

- 10 agree the following overarching guidelines for New Zealand's international climate change negotiating position:
- 10.1 to seek an environmentally effective and economically efficient long-term international framework to meet the objective of the UNFCCC to stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic (human-induced) interference with the climate system;
- 10.2 to seek appropriate and effective action on mitigation by all developed countries and by major emitting and advanced developing countries;
- 10.3 to commit New Zealand to a fair contribution to global mitigation efforts, securing recognition of its national circumstances;
- 10.4 to commit New Zealand to an appropriate level of financial and technology support for developing country mitigation and adaptation actions;
- 10.5 to seek an international framework that allows New Zealand to contribute according to its national circumstances;
- 10.6 to ensure that rules for accounting and for the flexibility mechanisms are certain before commitments are finalised;
- 10.7 to seek improved greenhouse gas inventories, reporting and review procedures, in particular by major emitting developing countries;
- 10.8 to seek solutions that recognise the vulnerability of Pacific Island countries to climate change;

Emission reductions targets

- 11 note that the Intergovernmental Panel on Climate Change (IPCC) found that long-term stabilisation of all greenhouse gases in the atmosphere at 445-490 parts per million (ppm) carbon dioxide equivalent (CO₂-equivalent) would give a 50 per cent chance of limiting global temperature increase to 2 to 2.4 degrees Celsius;

- 12 agree that, informed by the IPCC, New Zealand support the lowest feasible global goal of long-term stabilisation of all greenhouse gases in the atmosphere at no higher than 450 ppm CO₂-equivalent;
- 13 agree that this goal should be kept under review based on latest available intergovernmental assessments of science;
- 14 14.1 note that under the Kyoto Protocol each Annex I Party (developed countries) has a national emissions reduction target for the first commitment period (2008–2012);
- 14.2 note that the timeframe being focused on in the UN negotiations for Annex I emission reductions is the medium-term (from 2013 to around 2020);
- 14.3 note that Annex I countries have been invited to provide information concerning their possible medium-term targets at the UNFCCC negotiations in Bonn from 29 March to 8 April 2009;
- 15 note that, while the IPCC's *Fourth Assessment Report* found that emissions reductions by developed countries in aggregate of 25–40 per cent from 1990 levels by 2020 would be consistent with a 450 ppm goal, it does not follow that every country's target would sit within that range.]
- As per REC:44
- 16 note that the IPCC also found that a 450 ppm goal requires substantial deviation from baseline emissions by developing countries, in the order of 15 - 30% below business as usual by 2020;
- 17 agree that New Zealand's emission reduction target will be conditional on comparable effort by developed countries, and major emitting and advanced developing countries increasing their own efforts to reduce emissions;
- 18 agree that at the Bonn meeting New Zealand should:
- 18.1 support a global long-term goal of stabilisation at not more than 450 ppm of CO₂ equivalent in the atmosphere;
- 18.2 explain New Zealand's '50 by 50' long-term goal, if it has been announced before the meeting (50 per cent reduction of net greenhouse gases from 1990 levels by 2050);
- 18.3 describe the approach underway to develop New Zealand's position on a medium-term target;

Financing for developing countries

- 19 agree that widely-accepted principles of mutual accountability and robust governance should apply to mechanisms established under the UNFCCC to deliver financial support to developing countries;
- 20 agree that New Zealand should seek to have financing for adaptation to the impacts of climate change prioritised to the most vulnerable countries, including those in the Pacific;

- 21 agree that New Zealand should seek recognition in the international framework that a broad range of financing mechanisms and channels may be used to deliver climate change assistance;

Agriculture sector

- 22 note that the current rules do not distinguish agriculture from other sectors, and that this approach is expected to continue for the setting of developed country post-2012 commitments:

23 [

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As per
Rec: 44.

- 24 agree to New Zealand pursuing the following objectives:

24.1 continuing to build understanding amongst the international community of the unique challenges in agriculture and its mitigation potential;

24.2 [

As per
Rec: 44.

24.3 encourage the exploration of approaches that provide for more effective global action on agricultural emissions, particularly by developing countries, than is the case with the current international framework;

24.4 pursuing sectoral or sub-sectoral cooperation on research and development;

- 25 note that Ministers are currently considering the establishment of a centre of agriculture greenhouse gas research;

Land use, land use change and forestry (LULUCF)

- 26 agree that, in respect of the future LULUCF rules, the key objectives for New Zealand are to:

26.1 ensure that accounting for pre-1990 forests, revegetation and agricultural soils continues to be voluntary post-2012;

26.2 achieve flexibility of land-use for planted production forests whereby an area of pre-1990 planted production forest can be re-established on another land area once deforestation has taken place, without incurring liabilities;

26.3 ensure that liabilities from an area of post-1989 forest cannot be more than the total credits accrued in respect of that forest;

26.4 ensure that accounting rules recognise that the carbon contained in timber is not immediately released into the atmosphere upon harvesting;

- 27 agree that New Zealand be open to exploring alternative designs for rules, provided New Zealand's key objectives can still be met;

Kyoto Protocol flexibility mechanisms

Design of the flexibility mechanisms

- 28 agree that New Zealand should continue to advocate retaining flexibility in the Kyoto Protocol mechanisms to allow market forces to identify least-cost emission abatement opportunities;
- 29 agree that New Zealand should continue to support the principle that use of the flexibility mechanisms should be supplemental to domestic action by Annex I Parties to meet their targets, but should continue to oppose setting quantitative limits on the use of the flexibility mechanisms by Annex I Parties;

Developing country action

- 30 agree that New Zealand should continue to support the development of market mechanisms for developing countries which facilitate a transition towards binding national and/or sectoral targets for major emitters over an appropriate timeframe, and support development of an effective international carbon market;

Carbon capture and storage projects in the CDM

- 31 agree that New Zealand should continue to provide provisional support for carbon capture and storage (CCS) to be included in the Clean Development Mechanism (CDM), subject to consideration of issues including leakage, liability, lifetime of the project, the avoidance of perverse incentives and the need for technical assistance;

Nuclear projects in the CDM

- 32 agree that New Zealand should continue to support the position that Annex I Parties should refrain from using Certified Emissions Reductions (CERs) from nuclear facilities to meet their quantified commitments (the status quo under the Kyoto Protocol);
- 33 agree that the New Zealand Emissions Unit Register would continue to not accept the transfer in of any units involving nuclear energy [POL Min (07) 7/20];

Reducing emissions from deforestation and forest degradation in developing countries (REDD)

- 34 agree that New Zealand continue to be proactively engaged in international climate change discussions seeking an effective global REDD mechanism and that New Zealand is open to exploring all options for a mechanism;
- 35 direct officials to analyse the implications of options for a REDD mechanism and seek further decisions from Ministers before New Zealand supports any particular mechanism;

AS per 36 [

Rec: 44]

Global warming potentials

- 37 agree that New Zealand will seek the international application of environmentally sound metrics for the comparison of greenhouse gases;
- 38 agree New Zealand will seek a process within the IPCC and within the UNFCCC to ensure the most environmentally sound metrics are identified and applied;

International aviation and maritime emissions

- 39 agree that international bunker fuel emissions should be included in global climate change arrangements;

Delegations

- 40 agree to the establishment of a group of Ministers with portfolios relevant to the climate change negotiations, as follows: Climate Change Issues, Climate Change Issues (International Negotiations), Agriculture, Energy, Finance, Forestry, Transport and Maori Affairs;
- 41 authorise the group of Ministers referred to in paragraph 40 to have Power to Act with regard to climate change international negotiations' policy;
- 42 note that major policy decisions concerning emission reduction targets and financing for developing countries would still be considered by Cabinet (rather than the group of Ministers referred to above);
- 43 authorise the Associate Minister of Climate Change Issues (International Negotiations), in conjunction with the Minister of Climate Change Issues, and portfolio Ministers where relevant, to approve New Zealand's negotiating strategy and detailed instructions, within the guidelines outlined in the paper under CBC (09) 44;

Publicity

- 44 noted that the Minister for Climate Change Issues intends to publicly release the paper under CAB (09) 120, subject to any necessary withholdings under the Official Information Act 1982.

Adrian MacGregor
for Secretary of the Cabinet

Reference: CBC Min (09) 5/5; CBC (09) 44

Office of the Minister for Climate Change Issues
Office of the Associate Minister for Climate Change Issues
(International Negotiations)

Chair,
Cabinet Business Committee

Climate Change International Negotiations: Update and New Zealand Position

Proposal

This paper seeks guidance for New Zealand's position in the international negotiations on climate change.

Executive Summary

1 New Zealand is engaged in negotiations under the UN Framework Convention on Climate Change towards an agreement that will shape international action on climate change up to and beyond the end of the first commitment period of the Kyoto Protocol.

2 The long-term objective of the negotiations is to achieve stabilisation of greenhouse gases in the atmosphere at safe levels. The negotiating mandate is complex and covers mitigation, adaptation, technology, finance, and reducing emissions from deforestation. The full participation of the United States and the engagement of the major developing economies will be essential.

3 The negotiations are scheduled to end in Copenhagen at the end of this year. [

As per
Rec: 44

4 Key issues for New Zealand include:

- Securing an effective global agreement including all the major emitting countries;
- Our future emissions reduction commitment;
- Our future contribution to financial assistance for adaptation, technology, and mitigation for developing countries;
- Effective rules for land use, land use change and forestry;
- Recognition of issues specific to the agriculture sector;
- Effective emissions trading mechanisms;
- Securing a good outcome for Pacific Island countries.

5 This paper proposes a set of negotiating guidelines covering these and other issues. The guidelines would replace previous Cabinet decisions and provide a new base for New Zealand policy. The paper also proposes a process with regard to future aspects of New Zealand's international negotiations policy.

Background

6 Negotiations under the United Nations Framework Convention on Climate Change (UNFCCC or Convention) and its Kyoto Protocol on the next phase of international climate change action are scheduled to conclude at a meeting in Copenhagen in December 2009. At least four negotiating sessions will be held before Copenhagen, with the first to take place in Bonn, 29 March to 8 April.

7 Under the Kyoto Protocol, countries are negotiating further commitments for Annex 1¹ countries - excluding the United States² - for a second commitment period from 2013. It is expected that these commitments will primarily take the form of binding emission reduction targets. Also being negotiated are the rules governing how targets can be met, including for land use, land use change and forestry and the use of emissions trading and other market mechanisms.

8 Under the Convention, countries are negotiating a long-term goal for global emission reductions; medium-term emission reduction commitments/actions by developed - including the US - and developing countries, and the finance and technology required to support emission reductions and adaptation in developing countries. It is possible that some new obligations could begin before 2012.

9 Cabinet guidance on New Zealand's international climate change negotiating position was most recently updated in May 2008 [CAB Min (08) 20/9].

Comment

10 [

As per

Rec: 44

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11 The issues under negotiation have significant economic and environmental implications for New Zealand. In advance of Copenhagen we need to have a clear picture of:

- what further emission reduction commitment New Zealand is prepared to take on, and under what conditions; and

¹ The UNFCCC divides Parties into "Annex 1" and "non-Annex 1" Parties. Annex 1 Parties (developed countries) have more obligations. Under the Kyoto Protocol, each Annex 1 Party has a national emissions reduction target for the first commitment period (2008-2012).

² The US is an Annex 1 Party to the UNFCCC, but has not ratified the Kyoto Protocol. As such it is not bound by the US target listed in the Protocol, and participates in the Kyoto Protocol negotiations as an observer.

- what financing New Zealand is prepared to contribute towards developing country mitigation and adaptation actions, and how we want to deliver that support.

12 This paper seeks Cabinet guidance on a set of general negotiating parameters for New Zealand, as well as specific guidance on key issues. Further guidance will be sought during the course of the year, including on emission reduction targets and financing for developing countries. Some of the detailed aspects of the negotiations will require decisions as we go, and we propose a process for this.

General negotiating parameters

13 Climate change will have a negative impact on New Zealand and on the Pacific region, including threatening the productive base of our economies. New Zealand's interests are best served by continuing to advocate for an effective, long-term international framework to meet the ultimate objective of the UNFCCC, which is to stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous human-induced interference with the climate system. The current global economic situation underscores the need for solutions to be economically efficient.

14 To be effective, the UN response requires broad participation, including by all the major emitting countries. This will provide the assurance needed by small countries like New Zealand that represent only a very small proportion of global emissions, that their individual contributions will add up to a significant outcome. Fair effort sharing between countries is at the core of negotiating emissions reductions. The ambition and type of effort made will need to reflect different levels of economic development, amongst other factors. Those that can afford to make contributions should do so, including all developed and advanced developing countries.

15 Countries are rightly seeking recognition of their national circumstances. The international rules and framework for land use will have a greater impact on New Zealand than on other developed countries. The international rules for emissions trading are also important. We need to know what the rules are before we can take final decisions on what would constitute a fair mitigation effort by New Zealand. This applies also to decisions on what and how New Zealand will provide support for developing countries.

Emissions reductions

Global Goal

16 What concentration of greenhouse gases in the atmosphere can be considered "safe" is a policy decision informed by science, and will be key to international discussion on a long-term global goal for emission reductions. The Intergovernmental Panel on Climate Change's (IPCC) assessment reports can help inform this judgement. The IPCC's latest assessment, its *Fourth Assessment Report*, considers a range of stabilisation scenarios, the lowest being long-term

stabilisation of all greenhouse gases in the atmosphere at 445-490 parts per million (ppm) carbon dioxide equivalent (CO₂-eq). At that concentration it is estimated there is a fifty percent chance of limiting global temperature increase to 2 to 2.4 degrees Celsius. Even this would have significant and lasting impacts on the climate and ecosystems, with flow through effects on economic and social development. Some recent scientific analysis (yet to be picked up through the IPCC process) suggests that a 450 ppm CO₂-eq scenario may be less effective than previously thought.

17 The IPCC's *Fourth Assessment Report* finds that stabilisation at 445-490 ppm CO₂-eq implies global emissions should reduce by 55-83% below 1990 levels by 2050. The European Union and Norway support a goal of limiting the long-term global temperature increase to 2 degrees and of reducing global emissions to 50% of 1990 levels by 2050. Australia recognises 450 ppm or better would be in their national interest. Some other developed countries and the G8 have announced long-term reduction commitments that could enable a pathway to a 50% reduction goal. The Alliance of Small Island States and Least Developed Countries groups are calling for a limit of 1.5 degrees Celsius increase and stabilisation at 350 ppm CO₂-eq.

18 We propose that, informed by the IPCC, New Zealand support the lowest feasible global goal of long-term stabilisation of all greenhouse gases in the atmosphere at no higher than 450 parts per million CO₂-eq, and that this goal be kept under review based on the latest available intergovernmental assessments of science. While negotiations may not reach agreement on a long-term global emission reduction goal, announcing New Zealand support for a long-term global goal of 450 ppm CO₂-eq would also help to underpin our position that an effective international framework requires emission reductions by both the developed and major developing country emitters.

Individual country emission reduction targets

19 IPCC analysis suggests that a goal of 450 ppm CO₂-eq can be met if developed countries as a group reduce their total emissions by 80-95% below 1990 levels by 2050 and there is substantial deviation below business as usual (BAU) by all developing countries (which account for half of global emissions). In the medium term (2020), this would equate to emissions reductions by developed countries as a group of 25-40% below 1990 levels and by developing countries as a group of 15-30% below BAU.

20 While 'minus 25-40%' is a range within which a single percentage reduction for developed countries as a whole would lie, it does not follow that every individual country's target would sit within that range, rather it is accepted that there will be a spread³.

21 In discussions about an equitable approach to comparing developed country targets, New Zealand is proposing that the 'mitigation potential' of each

³ As an example, the spread of EU members inside the EC 'bubble' for the current commitment period ranges from -21% to +27%, whereas the EU's aggregate reduction commitment is -8%.

sector in an economy be considered, along with other factors, as that captures the unique circumstances of each country's emissions reduction potential and cost. This approach would enable New Zealand to fairly benchmark its commitments against those of other developed countries while taking into account our unique agricultural emissions profile.

22 It will be important that before finalising its own commitments, New Zealand is satisfied with the contributions to be made by others, including major emitting and advanced developing countries. In addition to binding Kyoto Protocol-style national targets, a future framework is likely to recognise other forms of national action, in particular by developing countries. These new forms of action will need to be sufficiently firm to demonstrate their effect, and sufficient for global efforts to set the world on a pathway to an adequate global emissions reduction goal.

23 Many Annex 1 countries – except for Russia, Ukraine, Iceland, Japan and New Zealand – have already made announcements on their medium-term targets; Japan has indicated informally that it expects to make an announcement in early June. [

As per
Rec: 44.

24 Annex 1 countries have been invited to provide information concerning their possible medium-term targets at the next round of negotiations in Bonn. It will not be possible for New Zealand to announce a medium-term target at the Bonn meeting. Instead, New Zealand could explain its approach towards developing a position on its target; officials are working up marginal abatement cost curves for New Zealand sectors, and developing a tool for comparing effort between countries. This will also be an opportunity to underline the importance of rules, especially for LULUCF, being agreed before commitments are made. If it has been announced prior to Bonn, the meeting would provide an opportunity to explain New Zealand's '50 by 50' long-term target (50 percent reduction of net greenhouse gases from 1990 levels by 2050).

Financing for developing countries

25 Financial support for developing country mitigation, adaptation and technology cooperation is a core issue under the Convention and Kyoto Protocol negotiations. Various finance proposals lie on the table; some would be costly for New Zealand. The proposals seek to break away from a donor pledge-type arrangement towards something that provides predictable and sustainable financial resources. Proposals include putting 0.5% - 1% of GNI into a centralised fund (equating to a financial contribution for New Zealand in the range NZ\$820 million - 1,640 million per annum⁴), levying the emissions trading mechanisms, auctioning countries' assigned amount units, and levying international aviation transport. For comparison, New Zealand's current financial climate change commitments to developing countries total ~\$6m per annum⁵ and in 2007/08

⁴ Based on year end March 2008 figures.

⁵ This includes direct contributions to UNFCCC funds and a preliminary assessment of NZAID projects directly attributable to addressing climate change.

New Zealand's total reported Official Development Assistance was \$466 million – or 0.30 percent of GNI.

26 New Zealand has said that finance must come primarily through the private sector (private-sector investments constitute 86% of the total global share of investment and financial flows), supported by enabling policy environments. Some public funding will also be needed, particularly for financing adaptation. In this case, priority should be given to the most vulnerable countries, including in the Pacific.

27 The Paris Declaration on Aid Effectiveness and the Monterrey Consensus on Financing for Development contain principles that the UNFCCC should borrow to ensure mutual accountability between donor and recipient countries.

28 New Zealand should seek recognition that a broad range of financing mechanisms and channels may be used to deliver climate change assistance, so that contributions other than simply funds under the UNFCCC can be counted.

Agriculture sector

29 Agriculture⁶ produces around 14 percent of net annual global greenhouse gas emissions. The Kyoto Protocol targets cover agricultural emissions in developed countries only. This coupled with the fact that the US has not ratified the Protocol means that the Protocol only covers 15 percent of global agriculture emissions, and this percentage is expected to fall. [

30 New Zealand is unique among developed countries with almost 50 percent of our emissions coming from agriculture. It is imperative that we continue to build understanding amongst the international community of the challenges in reducing emissions from agriculture, in particular grazing livestock. [

31 New Zealand should continue to promote the need for increased international efforts on research and development of mitigation technologies for the agriculture sector. Increased investment will improve the chances of finding mitigation solutions. Ministers are currently considering the establishment of a centre of agriculture greenhouse gas research.

32 New Zealand should encourage the exploration of approaches that provide for more effective global action on agricultural emissions, including by developing countries, than is the case with the current international framework.

Land Use, Land Use Change and Forestry

⁶ The agriculture sector is comprised of emissions of methane (CH₄) and nitrous oxide (N₂O) from: animal production (enteric fermentation, manure management, and fertiliser application); croplands (fertiliser application, burning of agriculture residues); and rice production.

33 Negotiations on the rules for LULUCF that will apply post-2012 are currently underway. New Zealand has a great deal at stake in these negotiations. The magnitude of potential credits and liabilities is large relative to our overall emissions profile. The current rules also unnecessarily impede the flexibility of land use in New Zealand.

34 While remaining open to other proposals to improve the LULUCF rules, New Zealand should focus on the following critical areas:

- Ensuring that accounting for pre-1990 forests, revegetation and agricultural soils continues to be voluntary post-2012;
- Achieving greater flexibility of land-use for pre-1990 planted production forests;
- Ensuring that liabilities from post-1989 forests can be no more than the total credits that have accrued in these forests;
- Recognising that the carbon contained in timber that is harvested is not immediately released into the atmosphere.

35 New Zealand has made specific proposals to achieve the above objectives. The proposals were drafted in the context of the current rules framework, but may need to be modified to fit with the design of the rules finally agreed for post-2012, provided our key objectives can still be met.

Kyoto Protocol Flexibility Mechanisms

Design of the flexibility mechanisms

36 The Kyoto Protocol has three so-called "flexibility mechanisms" – international emissions trading (IET), the Clean Development Mechanism (CDM) and Joint Implementation (JI) – which enable Annex I Parties to meet part of their commitments through acquiring additional units through investment in emission reductions beyond their own national borders.

37 A number of proposed changes to these mechanisms and potentially the creation of new mechanisms are being discussed in the UN negotiations. The critical issues for New Zealand are ensuring that:

- the mechanisms retain sufficient flexibility to allow market forces to identify least-cost emission abatement opportunities; and
- New Zealand does not face internationally imposed quantitative restrictions on the extent to which we may use the mechanisms to assist in meeting our target.

Developing country action

38 Stabilising global emissions at acceptable levels will require substantial emission reductions in developing countries in addition to developed country

targets. The negotiations are considering “nationally appropriate mitigation actions” (NAMAs) for developing countries, including what financial and technical support they will receive to undertake these.

39 The development of new market mechanisms for developing countries constitutes an important opportunity to design a pathway that leads developing countries from “offset” activities funded by Annex I countries toward cap-and-trade activities that require investment by developing countries themselves before excess emission units can be traded.

40 There is a trade-off between designing the flexibility mechanisms to deliver least-cost options for Annex I countries, and creating a framework that encourages developing countries to undertake their own emission reductions.

41 We recommend that New Zealand continue to support the development of market mechanisms for developing countries which facilitate a transition towards binding national and/or sectoral targets for major emitters over an appropriate timeframe, and which also support the development of an effective global carbon market.

Carbon capture and storage projects in the CDM

42 Carbon capture and storage (CCS) is a process consisting of the separation of carbon dioxide from industrial and energy-related sources, transport to a storage location and long-term isolation from the atmosphere. We recommend the continuation of New Zealand's current negotiation mandate [CBC Min (08) 16/8], which is provisional support for CCS to be included in the CDM subject to further consideration of issues including leakage, liability, lifetime of the project, the avoidance of perverse incentives and the need for technical assistance.

Nuclear projects in the CDM

43 Under the Kyoto Protocol, the Parties “recognised” that Annex I Parties were to refrain from using Certified Emission Reductions (CERs) from nuclear projects in the CDM to meet their quantified commitments in the first commitment period. Some countries (Japan, France, China) would like nuclear projects to be eligible under the CDM but there is resistance from the Alliance of Small Island States, Norway and some EU member states. We propose the continuation of New Zealand's position that concerns about nuclear safety, security, non-proliferation and waste management issues are not compatible with the sustainable development purpose of the CDM. (Irrespective of international rules, the Climate Change (Unit Register) Regulations 2007 explicitly prohibit units from JI or CDM projects that involve nuclear energy from being held in the New Zealand Registry, which blocks them from being traded in New Zealand.)

Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD)

44 Economic analysis shows that reducing deforestation emissions is one of the cheapest and most readily available abatement options globally.

Consequently, there is near universal support internationally for including REDD in a new global agreement. There are three key challenges in reaching such an agreement:

- (i) how to provide ongoing financing of the magnitude needed for REDD – options include: voluntary pledges; compulsory levies or contributions to a Fund; or inclusion of REDD in a market system;
- (ii) how to allocate the benefits of REDD between countries; and
- (iii) if a market system is selected, how to deal with demand and supply-side issues.

45 Most countries now support REDD's inclusion in carbon markets (though there are differing views about whether this should happen in the short or long-term). Research shows that, all other things being equal, REDD's inclusion in markets would roughly halve the global carbon price. Many countries are concerned about this and have stressed that if REDD is included in markets then countries' binding commitments will need to increase. It is possible that a REDD mechanism will mean less, the same, or more costs for developed countries depending on the mechanism ultimately agreed.

46 Officials should continue to analyse the implications of options for a REDD mechanism as they are put forward and seek further decisions from Ministers before New Zealand supports any particular mechanism. In the meantime, New Zealand should be open to exploring all options for a REDD mechanism and continue to be actively engaged in the discussions.

47

As per
Rec: 44

International aviation and maritime emissions

48 New Zealand's geographic position means we are highly dependent on efficient and cost-effective international transportation to support our economy (notably the primary industry and tourism sectors). Emissions from international aviation and maritime fuel usage (international bunker fuel emissions) were excluded from Annex 1 Parties' targets under the Kyoto Protocol. Instead the International Civil Aviation Organization (ICAO) and International Maritime Organization (IMO) were invited to develop emission reduction responses best suited for their sector.

49 The IMO and ICAO have made significant progress on technical and logistical issues, but limited progress on global economic measures. There is

increasing pressure on the IMO and ICAO to deliver effective measures in time for the Copenhagen meeting.

50

50 [] New Zealand should therefore support IMO and ICAO working on these issues and argue for inclusion of bunker fuels in global climate change arrangements.

As per
Rec: 44

Global Warming Potentials

51 The Kyoto Protocol considers a "basket of gases" when establishing targets for Parties. This basket includes CO₂, CH₄, N₂O, HFCs, PFCs, and SF₆⁷. To determine the relative impact of different greenhouse gases within this basket (compared to CO₂), the Kyoto Protocol uses the established metric of "100-year Global Warming Potentials" (100-year GWPs). The Kyoto Protocol also includes provisions for review of the metric used to determine equivalence.

52 New Zealand has noted that at this stage there is only limited evidence that GWPs are the best metric for comparing greenhouse gases, that whatever metric is used should be based on sound science and a clear and understandable rationale, and that therefore further consideration should be given before there is agreement to the use of 100-year GWPs for the Kyoto Protocol post-2012.

53 A process is beginning in the IPCC to give further and more intensive consideration to alternative metrics for greenhouse gases. Because of the unusually high proportion of methane and nitrous oxide in New Zealand's emissions profile these technicalities are of particular significance. New Zealand should advocate for a process within the IPCC and within the UNFCCC to ensure the most environmentally sound metrics are identified and applied.

⁷ Carbon dioxide, Methane, Nitrous oxide, Hydrofluorocarbons, Perfluorocarbons, Sulphur hexafluoride.

Measurement, Reporting & Verification

54 Mitigation actions need to be supported by good quality, reliable and comprehensive data on greenhouse gas emissions and removals. This data is crucial in order to be able to compare, review and assess performance across all countries. The information currently available from major developing country emitters does not allow this.

55 Reliable, comparable and consistent greenhouse gas data allows more informed and cost-effective decision-making for mitigation action. New Zealand should seek to ensure that accurate and up to date national greenhouse gas inventories (at least for major developing country emitters) and robust tools for measurement, reporting and verification are a part of the post-2012 climate change framework. The inventories and tools should be based, where possible, on the most recent reporting and review procedures, guidelines and methodologies under the UNFCCC and Kyoto Protocol.

Delegations

56 In order to expedite decisions on New Zealand's negotiating position, we propose Cabinet delegate power to act to a group of Ministers with portfolios relevant to the climate change negotiations, as follows: Climate Change issues, Climate Change Issues (International Negotiations), Agriculture, Energy, Finance, Forestry, and Transport. The wider group of Ministers would meet and make decisions with regard to international negotiations policy, on an as-needed basis.

57 Any major policy decisions concerning emission reduction targets and financing for developing countries would still be considered by Cabinet (rather than the wider group of Ministers).

58 We propose that the Associate Minister of Climate Change Issues (International Negotiations), in conjunction with the Minister of Climate Change Issues, and portfolio Ministers where relevant, would retain authority for approval of New Zealand's negotiating strategy and detailed instructions, within the guidelines outlined in this paper.

Consultation

59 The following departments were consulted in the development of this paper: The Treasury, Ministry for the Environment, Ministry of Agriculture and Forestry, Ministry of Transport, Ministry of Economic Development, New Zealand Agency for International Development, Te Puni Kokiri, Ministry of Research, Science and Technology, Department of Conservation, Department of Prime Minister and Cabinet.

Financial Implications

60 The UN climate change negotiations are expected to lead to a new international agreement which would have significant economic implications for New Zealand, including significant fiscal implications for the government.

Human Rights Implications

61 There are no inconsistencies with the Human Rights Act 1993 and New Zealand Bill of Rights Act 1990.

Legislative Implications

62 This paper has no immediate legislative implications. The UN climate change negotiations are expected to lead to a new international agreement which would have implications for the Climate Change Response Act 2002.

Regulatory Impact and Business Compliance Cost Statement

63 No Regulatory Impact Statement or Business Compliance Cost Statement is required at this stage.

Publicity

64 We recommend that this paper be publicly released, subject to any necessary withholdings under the Official Information Act 1982.

65 We also recommend the Minister of Climate Change Issues and Associate Minister of Climate Change Issues (International Negotiations) issue a joint press statement drawing on the key decisions in the paper.

Recommendations

66 The Minister of Climate Change Issues and Associate Minister of Climate Change Issues (International Negotiations) recommend that the Committee:

Background

1. **note** that United Nations negotiations on a future international climate change agreement are underway and are scheduled to conclude in December 2009 at a meeting in Copenhagen;
2. **note** that at least four negotiating sessions will be held in the lead up to Copenhagen, with the first to take place in Bonn, 29 March to 8 April;
3. **note** that there are issues under negotiation, including agreeing medium-term emission reduction commitments and financial commitments to support mitigation and adaptation action in

developing countries, that have significant economic and environmental implications for New Zealand;

4. **note** that the significant economic implications, complexity of the issues, and late engagement by the United States present challenges to concluding a comprehensive agreement at Copenhagen;

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6. **note** that the nature of New Zealand's economy and emissions profile mean that the future international rules for forestry and the treatment of agricultural emissions will have a greater impact on New Zealand's future commitments compared to those of other developed countries;

Negotiating guidelines

7. **rescind** the previous guidelines for New Zealand's international climate change negotiating position set out in CBC Min (06) 18/17, POL Min (07) 26/10, CAB Min (08) 20/9;
8. **agree** that the guidelines below should replace the decisions referred to in paragraph 7 above;
9. **note** that further guidance will be sought during the course of this year on specific issues under negotiation, including emission reduction targets and financing for developing countries;

General approach

10. **agree** the following overarching guidelines for New Zealand's international negotiating position:
- 10.1. to seek an environmentally effective and economically efficient long-term international framework to meet the objective of the UNFCCC to stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system;
- 10.2. to seek appropriate and effective action on mitigation by all developed countries and by major emitting and advanced developing countries;
- 10.3. to commit New Zealand to a fair contribution to global mitigation efforts, securing recognition of its national circumstances;

- 10.4. to commit New Zealand to an appropriate level of financial and technology support for developing country mitigation and adaptation actions;
- 10.5. to seek an international framework that allows New Zealand to contribute according to its national circumstances;
- 10.6. to ensure that rules for accounting and for the flexibility mechanisms are certain before commitments are finalised;
- 10.7. to seek improved greenhouse gas inventories, reporting and review procedures, in particular by major emitting developing countries;
- 10.8. to seek solutions that recognise the vulnerability of Pacific Island countries to climate change;

Emission reductions targets

- 11. **note** that the Intergovernmental Panel on Climate Change (IPCC) found that long-term stabilisation of all greenhouse gases in the atmosphere at 445-490 parts per million carbon dioxide equivalent (CO₂-eq) would give a 50 percent chance of limiting global temperature increase to 2 to 2.4 degrees Celsius;
- 12. **agree** that, informed by the IPCC, New Zealand support the lowest feasible global goal of long-term stabilisation of all greenhouse gases in the atmosphere at no higher than 450 parts per million CO₂-eq;
- 13. **agree** that this goal should be kept under review based on latest available intergovernmental assessments of science;
- 14. **note** that the timeframe being focused on in the UN negotiations for Annex 1 emission reductions is the medium-term (from 2013 to around 2020), and that Annex 1 countries have been invited to provide information concerning their possible medium-term targets at the UNFCCC negotiations in Bonn from 29 March to 8 April;
- 15. **note** that while the IPCC's *Fourth Assessment Report* found that emissions reductions by developed countries in aggregate of 25-40% from 1990 levels by 2020 would be consistent with a 450 ppm goal, it does not follow that every country's target would sit within that range,
- 16. **note** that the IPCC also found that a 450 ppm goal requires substantial deviation from baseline emissions by developing countries, in the order of 15-30% below business as usual by 2020;

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17. **agree** that New Zealand's emission reduction target will be conditional on comparable effort by developed countries, and major emitting and advanced developing countries increasing their own efforts to reduce emissions;
18. **agree** that at the Bonn meeting New Zealand should:
 - 18.1. support a global long-term goal of stabilisation at not more than 450 ppm of CO₂ equivalent in the atmosphere;
 - 18.2. explain New Zealand's '50 by 50' long-term goal, if it has been announced prior to the meeting;
 - 18.3. describe the approach underway to develop New Zealand's position on a medium-term target;

Financing for developing countries

19. **agree** that widely-accepted principles of mutual accountability and robust governance should apply to mechanisms established under the UNFCCC to deliver financial support to developing countries;
20. **agree** that New Zealand should seek to have financing for adaptation to the impacts of climate change prioritised to the most vulnerable countries, including those in the Pacific;
21. **agree** that New Zealand should seek recognition in the international framework that a broad range of financing mechanisms and channels may be used to deliver climate change assistance;

Agriculture sector

22. **note** that the current rules do not distinguish agriculture from other sectors, and that this approach is expected to continue for the setting of developed country post-2012 commitments;
23. [As per
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24. **agree** to New Zealand pursuing the following objectives:
 - 24.1. continuing to build understanding amongst the international community of the unique challenges in agriculture and its mitigation potential;

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24.2. [

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- 24.3. encourage the exploration of approaches that provide for more effective global action on agricultural emissions, particularly by developing countries, than is the case with the current international framework;
- 24.4. pursuing sectoral or sub-sectoral cooperation on research and development;
25. **note** that Ministers are currently considering the establishment of a centre of agriculture greenhouse gas research;

Land Use, Land Use Change and Forestry

26. **agree** that, in respect of the future LULUCF rules, the key objectives for New Zealand are to:
- 26.1. ensure that accounting for pre-1990 forests, revegetation and agricultural soils continues to be voluntary post-2012;
- 26.2. achieve flexibility of land-use for planted production forests whereby an area of pre-1990 planted production forest can be re-established on another land area once deforestation has taken place, without incurring liabilities;
- 26.3. ensure that liabilities from an area of post-1989 forest cannot be more than the total credits accrued in respect of that forest;
- 26.4. ensure that accounting rules recognise that the carbon contained in timber is not immediately released into the atmosphere upon harvesting;
27. **agree** that New Zealand be open to exploring alternative designs for rules, provided New Zealand's key objectives can still be met;

Kyoto Protocol flexibility mechanisms

Design of the flexibility mechanisms

28. **agree** that New Zealand should continue to advocate retaining flexibility in the Kyoto Protocol mechanisms to allow market forces to identify least-cost emission abatement opportunities;
29. **agree** that New Zealand should continue to support the principle that use of the flexibility mechanisms should be supplemental to domestic action by Annex I Parties to meet their targets, but should continue to

oppose setting quantitative limits on the use of the flexibility mechanisms by Annex I Parties;

Developing country action

30. **agree** that New Zealand should continue to support the development of market mechanisms for developing countries which facilitate a transition towards binding national and/or sectoral targets for major emitters over an appropriate timeframe, and support development of an effective international carbon market;

Carbon capture and storage projects in the CDM

31. **agree** that New Zealand should continue to provide provisional support for CCS to be included in the CDM, subject to consideration of issues including leakage, liability, lifetime of the project, the avoidance of perverse incentives and the need for technical assistance;

Nuclear projects in the CDM

32. **agree** that New Zealand should support the position that Annex 1 Parties should refrain from using CERs from nuclear facilities to meet their quantified commitments (the status quo under the Kyoto Protocol);

Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD)

33. **agree** that New Zealand continue to be proactively engaged in international climate change discussions seeking an effective global REDD mechanism and that New Zealand is open to exploring all options for a mechanism;
34. **direct** officials to analyse the implications of options for a REDD mechanism and seek further decisions from Ministers before New Zealand supports any particular mechanism;

35. [

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Global Warming Potentials

36. **agree** that New Zealand will seek the international application of environmentally sound metrics for the comparison of greenhouse gases;
37. **agree** New Zealand will seek a process within the IPCC and within the UNFCCC to ensure the most environmentally sound metrics are identified and applied;

International aviation and maritime emissions

38. **agree** that international bunker fuel emissions should be included in global climate change arrangements;

Delegations

39. **agree** to the establishment of a group of Ministers with portfolios relevant to the climate change negotiations, as follows: Climate Change Issues, Climate Change Issues (International Negotiations), Agriculture, Energy, Finance, Forestry, and Transport;
40. **agree** to delegate to this group of Ministers the power to act with regard to international negotiations' policy;
41. **note** that major policy decisions concerning emission reduction targets and financing for developing countries would still be considered by Cabinet (rather than the group of Ministers described above);
42. **agree** that the Associate Minister of Climate Change Issues (International Negotiations), in conjunction with the Minister of Climate Change Issues, and portfolio Ministers where relevant, will have authority for approval of New Zealand's negotiating strategy and detailed instructions, within the guidelines outlined in this paper;

Publicity

43. **agree** that this paper be publicly released, subject to any necessary withholdings under the Official Information Act 1982.

Hon Dr Nick Smith
Minister for Climate Change Issues

Hon Tim Groser
Associate Minister for Climate Change
Issues (International Negotiations)