



Cabinet

CAB Min (12) 23/10

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Minute of Decision

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Emissions Trading Scheme Review 2012: Final Decisions on Amendments to the Climate Change Response Act 2002

Portfolio: Climate Change Issues

On 2 July 2012, following reference from the Cabinet Economic Growth and Infrastructure Committee, Cabinet:

Background

- 1 noted that a statutory review of the New Zealand Emissions Trading Scheme (ETS) was completed in 2011, and that the ETS Review Panel (the Panel) made 61 recommendations, largely focused on improving the operation of the ETS and slowing the transition to full obligations under the scheme;
- 2 noted that Cabinet has previously agreed in principle to:
 - 2.1 significant amendments to the Climate Change Response Act 2002 (the Act) to implement key recommendations of the Panel and key commitments in the National Party's Manifesto [CAB Min (12) (8/7)];
 - 2.2 changes to improve the current treatment of the synthetic greenhouse gas sector in the ETS [EGI Min (12) 8/4];
 - 2.3 address technical and operational amendments [EGI Min (12) 10/3];
- 3 noted that the following proposed amendments, agreed in principle by Cabinet [CAB Min (12) (8/7)], have recently been subject to public consultation:
 - 3.1 more gently phasing out the current one-for-two surrender obligation in three equal steps between 2013 and 2015 (as recommended by the Panel);
 - 3.2 maintaining the \$25 fixed price option until 2015;
 - 3.3 providing for a more explicit power to auction New Zealand Units (NZUs) to an overall cap on the supply of NZUs;
 - 3.4 providing for a more explicit power to place a quantitative restriction on the surrender of international units;
 - 3.5 the introduction of offsetting within the ETS as an option for pre-1990 forests;

- 3.6 a review of the second tranche of free allocation to pre-1990 forest landowners, with the option to reduce or remove the second tranche in recognition of the benefits offered by offsetting;
 - 3.7 providing for a power to defer the start of surrender obligations for agricultural greenhouse gases by up to 3 years, subject to a review in 2014;
 - 3.8 providing for a power to extend the fixed price option beyond 2015 and align it with any price ceiling in Australia should linking with the Australian Carbon Pricing Mechanism occur;
 - 3.9 removing the obligation under current ETS settings to 'back' all NZUs with an international unit;
 - 3.10 extending the ban on the export of NZUs from non-forestry sectors, whilst the fixed price option remains in place;
 - 3.11 aligning the ETS with international greenhouse gas accounting standards, by adopting the latest, internationally accepted global warming potentials;
- 4 noted that the paper under CAB (12) 339 seeks Cabinet's final agreement to a final package of policy changes, based on the outcome of the public consultation;
- 5 noted that, subject to Cabinet's final decisions on the proposals set out in the paper under CAB (12) 339, the Minister for Climate Change Issues will submit a draft Bill to Cabinet in August 2012 for approval to introduce into Parliament;

New Zealand's post-2012 mitigation commitment

- 6 [withheld under s 9(2)(j)]
- 7 [withheld under s 9(2)(j)]

Proposals for amendment to the Act in 2012

Significant proposals previously agreed in principle subject to consultation, adjusted where appropriate to reflect the outcomes of public consultation

Transition phase

- 8 noted that a majority of those who commented on the proposed more gentle phase out of the one-for-two surrender obligation supported the proposal to phase out the one-for-two surrender obligation in three equal steps between 2013 and 2015;
- 9 agreed, given the current level of uncertainty around the international action on climate change and the continuing economic recovery, to extend the one-for-two surrender obligation after 2012;

- 10 agreed that there be no specified end date for the one-for-two obligation;
- 11 agreed that the one-for-two surrender obligations also be applied to the waste and synthetic greenhouse gas sectors (including to the synthetic greenhouse gas levy) when their obligations begin in 2013;
- 12 agreed that the proposed extension to the one-for-two surrender obligations remains a transitional measure (despite the open end date), and therefore should remain a distinct legislative provision;
- 13 noted that entitlements to receive NZUs for industrial allocation and non-forestry removal activities should be consistent with the proposed surrender obligations;
- 14 agreed to amend the Act to adjust the entitlement to receive NZUs for industrial and agriculture allocation and non-forestry removal activities to reflect the extension of the one-for-two obligation (i.e. 50 percent of normal entitlement);
- 15 agreed to review the one-for-two surrender obligation in 2015;
- 16 noted that a majority of submitters who commented on the fixed price option did not support the proposal to extend the fixed price option until 2015;
- 17 noted that the future international carbon price remains uncertain, particularly after 2015, and that this creates a risk of future carbon price spikes;
- 18 agreed to amend the Act to extend the \$25 fixed option after 2012, without specifying a particular end date;
- 19 noted that future reviews of the ETS will provide an opportunity to examine the need to maintain the fixed price option, in light of developments in international carbon markets;
- 20 agreed not to provide for a power to extend the fixed price option in order to align it with any price ceiling in Australia, should linking with the Australian Carbon Pricing Mechanism occur;
- 21 noted that the majority of submitters supported the proposal to extend the ban on exports of NZUs from the non-forestry sector;
- 22 confirmed Cabinet's previous in principle decision [CAB Min (12) 8/7] to amend the Act to extend the ban on exports of NZUs from non-forestry sectors while the fixed price option remains in place;

Supply of NZUs after 2012

- 23 noted that substantially more submitters agreed or agreed in principle to the proposal to restrict the proportion of international units an ETS participant can surrender than disagreed;
- 24 noted that those submitters that agreed with the proposal did so because they saw it as a mechanism to increase the price of NZUs rather than its intended purpose of encouraging participation at the auction;
- 25 noted that a well designed and efficient auction will encourage ETS participants to buy NZUs at the auction, without the need for a restriction on international units;

- 26 agreed that a restriction on the proportion of international units an ETS participant can surrender is not introduced in the context of auctioning, and that this will not form part of the consultation on the detailed auction design settings;
- 27 noted that, as the ETS will remain open to international markets, this means that the introduction of an auction of NZUs within an overall cap on the number of NZUs auctioned and allocated would not impact on the price of units within the scheme, which will continue to reflect the international price;
- 28 noted that slightly more submitters disagreed with the proposal to auction NZUs within an overall cap than agreed or agreed in principle;
- 29 noted that the proposed approach for introducing auctioning within an overall cap set out below addresses the most substantive concerns raised by submitters;
- 30 confirmed Cabinet's previous in principle decision [CAB Min (12) 8/7] to amend the Act to allow for an express regulation making power to auction NZUs within an overall cap on the number of NZUs auctioned and allocated;
- 31 agreed that the regulation making power to auction NZUs within an overall cap be exercised, subject to consultation;
- 32 noted that further consultation will take place during 2012 on the detailed auction design settings, consistent with Cabinet's previous decision [Cab Minute (12) 8/7], including the level of the cap;
- 33 invited the Minister for Climate Change Issues to report to the Cabinet Economic Growth and Infrastructure Committee [EGI] with proposals for consultation on auction design settings in 2012, prior to consultation;
- 34 noted that a common concern, raised by both those who agreed and disagreed with the proposals, was a desire for more certainty about how these powers will be used;
- 35 agreed to amend the Act so that the regulations related to auctioning are updated and extended annually so that ETS participants always have forward notice of cap levels over the following five years;
- 36 agreed that the annual extension would be subject to the same regulation making procedures that apply to the initial making of those regulations, but will not be subject to the additional restrictions that apply to amending these regulations;
- 37 noted that the cap should exclude NZUs transferred for removal activities and NZUs purchased under the government's fixed price option;
- 38 agreed to amend the Act such that NZUs provided under section 86C(5) of the Act to correct for an error in an initial allocation are excluded from the cap;
- 39 [withheld under s 9(2)(b)(ii) & 9(2)(ba)]
- 40 agreed to amend the Act in line with Cabinet's other previous in principle decisions [CAB Min (12) 8/7] in relation to auctioning, subject to the following clarifications:

- 40.1 specify that the cap does not restrict the amount of NZUs allocated, but does limit the number of NZUs available for auction to be the level of the cap less NZUs allocated, so that if allocation is in excess of the cap, then no NZUs should be auctioned;
- 40.2 the list of matters the Minister must have regard to when determining 'the amount of NZUs to be auctioned and the overall cap' should only relate to 'the overall cap';
- 40.3 the list of matters the Minister must have regard to when determining the overall cap should include the emissions covered by the ETS and other ETS design settings;
- 40.4 the general procedure for making regulations set out in section 30H of the Act should be used for introducing and extending the regulations related to auctioning;
- 40.5 the specific requirements that Cabinet has agreed in principle to when amending the regulations related to auctioning apply in addition to the general procedure for making regulations set out in section 30H of the Act, but that the specific requirement to consult with 'interested parties' is not required, as section 30H requires consultation with 'substantially affected' parties;

Removal of obligation to 'back' NZUs

- 41 noted that a majority of those who commented on the proposed removal of the NZU backing obligation disagreed with the proposal;
- 42 noted that the main reason cited by those who disagreed was the incorrect understanding that ETS forestry participants would no longer be able to sell units overseas;
- 43 noted that New Zealand is expected to meet its commitments under the first commitment period of the Kyoto Protocol;
- 44 noted that the need for backing is significantly reduced if auctioning within an overall cap is introduced, and that maintaining the backing requirement would result in significant fiscal costs of up to \$140 million in the period 2012/13 to 2015/16;
- 45 confirmed Cabinet's previous in-principle decision [CAB Min (12) 8/7] to amend the Act to remove the requirement to back NZUs during CP1, subject to agreement to introduce auctioning an overall cap;

Deferral of agricultural liabilities

- 46 noted that the majority of submitters who commented on the proposed power to allow deferral of surrender obligations for agricultural emissions, subject to a review in 2014, disagreed with the proposal for equity, economic and environmental reasons;
- 47 noted that there will be a fiscal cost associated with delaying liabilities for the agricultural sector of around 2 million units in 2014/15, and more than 4 million units per annum from 2015/16 onwards (based on a reduction in ETS revenue);
- 48 agreed to amend the Act to remove the 2015 entry date for surrender obligations for agricultural emissions;
- 49 noted that this approach would have the effect of delaying the entry of agriculture indefinitely or until legislation is amended;

- 50 **agreed to review the entry date for surrender obligations for agriculture obligations in 2015;**
- 51 **agreed that despite the proposed removal of the 2015 entry date for agriculture, provisions related to the surrender obligations for agriculture should remain in the Act;**

Pre-1990 forestry – Introduction of offsetting

- 52 **noted that submitters have requested changes to the offsetting for pre-1990 forestry policy proposed through the consultation;**
- 53 **confirmed Cabinet's previous in principle decisions [CAB Min (12) 8/7] to amend the Act to enable offsetting for pre-1990 forest land consistent with the Flexible Land Use rule agreed for the Kyoto Protocol second commitment period (CP2) at Durban;**
- 54 **noted that Cabinet previously agreed in principle [CAB Min (12) 8/7] to introduce a power to place a limit on offsetting, should this be required to manage any fiscal risks, but that this power is no longer considered necessary;**
- 55 **agreed not to introduce a power to place a limit on offsetting;**
- 56 **agreed that offsetting for pre-1990 forest land shall not include the use of :**
 - 56.1 **existing post-1989 forest not in the ETS as offset forest;**
 - 56.2 **deforested pre-1990 forest land (converted to other land use) to establish an offset forest;**
 - 56.3 **natural regeneration for offset forest establishment;**
- 57 **noted that submitters requested allowing land harvested in the CP1 and currently unstocked and not classified as deforestation to be eligible for offsetting;**

58 [withheld under s9(2)(j)]

59 [withheld under s9(2)(j)]

- 60 **agreed to amend the Act to allow land harvested in the CP1 that is currently unstocked and not classified as deforestation to be eligible for offsetting;**
- 61 **agreed that regulations be developed for the effective operation and implementation of the pre-1990 forestry offsetting policy;**
- 62 **agreed that officials consult on the pre-1990 forestry offsetting regulations with interested parties in 2012;**

Pre-1990 forestry – Second tranche of Pre-1990 Forest Land Allocation

- 63 **noted that the allocation to pre-1990 forest landowners was provided as partial compensation for the loss of land value landowners were expected to face because of the ETS deforestation liability;**

- 64 noted that the introduction of offsetting changes the ETS rules for pre-1990 forest land, reducing the costs of the deforestation liabilities;
- 65 noted that the possible adjustment or cancellation of the second tranche was signalled to landowners, including through the Act, consultations and letters to landowners;
- 66 noted that the Minister for Climate Change Issues consulted on the following options for adjusting the second tranche:
 - 66.1 cancelling all of the second tranche;
 - 66.2 partial cancellation (for example a pro-rata of 50 percent to all forest owners, or a flat amount of compensation to all e.g. 11 units);
 - 66.3 cancel for all landowners who take up offsetting (recommended by the Panel);
- 67 noted that:
 - 67.1 a majority of submitters did not support an adjustment to the level of compensation in light of the introduction of offsetting;
 - 67.2 if the government were to adjust the allocation, submitters strongly preferred cancelling the second tranche only for those who take up offsetting;
- 68 noted that concerns were raised that offsetting has limited value either because land is already in the best use or because participants will not be able to offset because of the financial or other constraints;
- 69 noted that the points raised in consultation that much pre-1990 forest land is in best use underlines the policy case for reviewing the level of compensation to pre-1990 forest landowners;
- 70 noted that iwi/Māori raised a number of concerns around partial or full cancellation, including:
 - 70.1 the potential impacts on Treaty of Waitangi deeds of settlement;
 - 70.2 the disproportionate impacts on iwi/Māori and therefore on the government's relationship with iwi;
 - 70.3 limited ability to take up offsetting;
- 71 [withheld under s 9(2)(h) & s 9(2)(g)(i)]
- 72 [withheld under s 9(2)(g)(i) & s 9(2)(g)(i)]
- 73 73.1 agreed to cancel the second tranche of pre-1990 forest land allocation only for those that take up offsetting;

- 73.2 **noted** that if there is not a significant reduction or cancellation of the second tranche, the option of allowing landowners to re-apply for the less than 50 hectares exemption, in exchange for forfeiting the second tranche of their allocation and paying back the value of the first tranche, is not required;
- 73.3 **noted** that this decision will create fiscal savings of \$5.772 million over 2012/13 to 2015/16;

Aligning the ETS with International greenhouse gas accounting standards

- 74 **noted** that it was agreed at Durban that, from 1 January 2013, the reporting and accounting of greenhouse gases will use the updated Global Warming Potentials (GWPs) from the IPCC's 4th Assessment report;
- 75 **noted** that the updated GWPs will increase costs for some ETS participants and result in fiscal savings of about \$3.470 million over the forecast period up to 2015/16;
- 76 **confirmed** Cabinet's previous in principle decision [CAB Min (12) 8/7] to amend the Act to ensure that the GWPs used to calculate obligations under the ETS after 2012 are aligned with those that will be used by New Zealand to account and report its national emissions;

Confirmation of Cabinet's previous in-principle decisions that were not subject to consultation

Synthetic greenhouse gases

- 77 **confirmed** Cabinet's in principle decisions [EGI Min (12) 8/4] to amend the Act to change the treatment of synthetic greenhouse gases;
- 78 **noted** that, as a result of engagement with industry, a unique emissions factor will be created for sulphur hexafluoride participants;
- 79 **agreed** that the Parliamentary Counsel Office should draft regulations for a sulphur hexafluoride Unique Emissions Factor to be included in the Climate Change (Unique Emissions Factors) Regulations 2009;
- 80 **noted** that consultation on synthetic greenhouse gas regulations will occur parallel to the legislative process, as agreed by Cabinet [EGI Min (12) 8/4], and will take place throughout September;
- 81 **noted** that, as a result of engagement with industry and the Parliamentary Counsel Office, some clarifications are needed;
- 82 **agreed** that in order to align with other levies, Goods and Services Tax (GST) will apply to the goods and motor vehicle levies;
- 83 **agreed** to carry over the exemption for goods that are household goods and other effects of a passenger of a ship or aircraft (accompanied or unaccompanied) that are not intended for gift, sale, or exchange to the levy on the importation of goods (excluding motor vehicles) containing HFC/PFC;
- 84 **agreed** that the New Zealand Customs Service will collect the levy on the importation of goods (excluding motor vehicles) containing HFC/PFC as if the levy were a duty using relevant powers in the Customs and Excise Act 1996;

- 85 noted that Memoranda of Understanding will outline operational responsibilities of agencies implementing the goods and motor vehicle levies;
- 86 noted that, in order for the levy on the importation of goods (excluding motor vehicles) containing HFC/PFC to commence on 1 July 2013, decisions on the specific coverage and specific structure of the regulations establishing the levy will need to be made at least 6 months in advance;
- 87 noted that section 149 of the Act will apply to the sharing of information on individuals for the purposes of collecting and enforcing the levies, and that the relevant Memorandum of Understanding will ensure that processes match those otherwise applying to Customs, now and in the future;

Technical and operational amendments

- 88 noted that Cabinet has previously agreed in principle [EGI Min (12) 10/3], subject to a decision on the overall ETS package, to 27 specific technical and operational changes to the ETS, that are more minor in nature and aimed at improving the operational effectiveness of the ETS;
- 89 noted that these minor and technical amendments will raise fiscal costs of \$3.990 million over the forecast period up to 2015/16;
- 90 confirmed all of Cabinet's previous in-principle decisions to make these technical and operational amendments to the Act [EGI Min (12) 10/3], subject to the following clarifications:
- 90.1 in respect to Cabinet's agreement in principle to add the own-use of crude oil and other liquid hydrocarbons to the list of activities facing emissions obligations: that this is not narrowed to own-use by a miner and includes own-use of crude oil only;
- 90.2 in respect of Cabinet's agreement in principle to remove the obligation for the Crown to purchase and surrender units on behalf of insolvent participants: that the Crown can still pursue the cost of units not surrendered through a court;

New proposals following public consultation and further analysis

Industrial allocation

- 91 noted that the list of emissions sources to be counted towards the eligibility for and level of allocation to activities for the purposes of industrial allocation do not include Fugitive Coal Seam Methane emissions or Liquid Fossil Fuel emissions from stationary energy;
- 92 noted that these emissions sources are subject to ETS liabilities, meaning that allocation recipients may face costs for which they are not eligible for an allocation;
- 93 noted that the inclusion of Fugitive Coal Seam Methane as an eligible emission source for coal users will raise fiscal costs of approximately \$2.767 million over the forecast period up to 2015/16;
- 94 agreed that Fugitive Coals Seam Methane emissions be included in the list of emissions sources to be counted towards the eligibility for and level of allocation to activities for the purposes of industrial allocation to coal users;

- 95 **noted that including liquid fossil fuel emissions from stationary energy use in the list of emissions sources to be counted towards the eligibility for and level of allocation to activities for the purposes of industrial allocation is logical considering the emissions from other fuel types are already counted;**
- 96 **noted that the inclusion of emissions from stationary energy use of liquid fossil fuel as an eligible emission source for coal users will raise fiscal costs of approximately \$8.069 million over the forecast period to 2015/16;**
- 97 **agreed that stationary energy use of liquid fossil fuels be included as an eligible emissions source for the purpose of industrial allocation;**
- 98 **noted that:**
- 98.1 **'manufacture of steel from cold ferrous feed' is given a significantly lower level of industrial allocation in New Zealand than in Australia;**
- 98.2 **it is currently classed as a moderately emissions-intensive, trade-exposed activity in New Zealand, but a highly emissions-intensive, trade-exposed activity in Australia;**
- 99 **noted that the fiscal cost of reclassifying 'manufacture of steel from cold ferrous feed' as a highly emissions-intensive, trade-exposed activity will be \$0.442 million over the forecast period to 2015/16;**
- 100 **agreed that the Climate Change (Eligible Industrial Activities) Regulations 2010 be amended so that 'manufacture of steel from cold ferrous feed' will be classed as a highly emissions-intensive, trade-exposed activity;**
- 101 **noted that suspending the phase-out of industrial allocation until ETS participants face full surrender obligations will result in a fiscal cost of approximately \$2.599 million over the forecast period to 2015/16;**
- 102 **agreed that the phase-out of industrial allocation be suspended until ETS participants face full surrender obligations;**
- 103 **agreed that the phase-out of agricultural allocation be suspended until agricultural sector ETS participants face full surrender obligations;**
- 104 **noted that the Act currently implies rather than states expressly that the Minister for Climate Change Issues has discretion on whether to make regulations prescribing a new activity eligible for allocation;**
- 105 **agreed that section 161A(3) of the Act be amended to state expressly that the Minister's decision to make regulations prescribing a new activity eligible for allocation is discretionary;**

ETS review provisions

- 106 **noted that sections 160 and 161 of the Act set out a review process that is unnecessarily restrictive and does not allow flexibility for the government to review the ETS at the most appropriate time, without creating the needless burden of numerous reviews;**

- 107 **agreed to amend the Act to remove sections 160 and 161 of the Act and replace them with a discretionary power for the Minister of Climate Changes Issues to initiate a review of the operation and effectiveness of the ETS at any time using any method;**
- 108 **agreed that this discretionary power also specifies that when the Minister initiates a review, the Minister must consult with stakeholders and the representatives of iwi and Māori;**
- 109 **agreed that this discretionary power would allow the review to be undertaken by any method, and that this may include the appointment of an independent panel to conduct the review;**
- 110 **agreed that the Act make it clear that if a panel review is initiated, then the current requirements for iwi involvement (section 3A(d) of the Act) would stand;**
- 111 **agreed that the first discretionary review will occur in 2015, and that it will specifically include consideration of the entry of agriculture and the continuation of one-for-two and fixed price transition arrangements;**

Clarification of regulation-making powers

- 112 **agreed to amend the regulation-making powers to allow the Environmental Protection Authority (EPA) to issue guidelines or standards by notice in the Gazette relating to method and format for determining the spatial extent of an area of forest land;**
- 113 **agreed to amend the Act to clarify that the EPA can issue guidelines or standards by notice in the Gazette relating to the method and mechanisms by which the data and information must be collected for the purposes of calculating emissions or removals;**

Environmental Protection Authority reporting period

- 114 **noted that section 89 of the Act requires the EPA to annually report on the activities of the ETS to promote transparency;**
- 115 **noted that the requirements regarding the period the section 89 report is based on makes it difficult to compare activity year-to-year or reconcile the information with other information published in relation to the ETS;**
- 116 **agreed that the Act be amended so that the reporting period for the section 89 report be information reported to the EPA between 1 July to 30 June (inclusive) of each year;**
- 117 **agreed that the Act be amended to require the section 89 report to be published as soon as practicable each year;**

Cross references in the Act to international framework

- 118 **agreed to amendments to enable some parts of the Act to more easily accommodate the range of possible outcomes of the Kyoto Protocol negotiations by, where appropriate:**
- 118.1 **supplementing references to the Kyoto Protocol with references to the United Nations Framework Convention on Climate Change;**
- 118.2 **allowing the transfer of Kyoto units to be registered without approval of the international transaction log if this is no longer required under the international framework;**

- 118.3 enabling provisions that refer specifically to a commitment period to operate in the situation where there is no subsequent commitment period under the Kyoto Protocol, or New Zealand has not accepted obligations in relation to a subsequent commitment period;
- 119 authorised the Minister for Climate Change Issues to approve further changes of a similar character to the Act to enable further provisions of the Act which reference the international framework established by the Kyoto Protocol, to be able to accommodate the range of possible outcomes of the Kyoto Protocol negotiations;

International forestry rules

- 120 noted that the Minister for Climate Change Issues is proposing no changes be made to the Act in response to international decisions agreed on Land Use and Land Use Change rules at this point in time, with the exception of the Flexible Land Use rule;
- 121 noted that, in response to the harvested wood products rule, officials will undertake further analysis before a decision is made;
- 122 agreed that given the high interest in the forestry sector, public statements on the government's response to the Durban rules be developed and issued following Ministers' decisions on the final ETS amendments;

Other measures to promote long term emissions reductions and productivity

- 123 invited the Minister for Climate Change Issues, in close consultation with other relevant Ministers to explore options for measures other than the ETS that will improve productivity and reduce New Zealand's greenhouse gas emissions over the long term;
- 124 invited the Minister for Climate Change Issues to report back to EGI on the initial results of this exploration by the end of 2012;

Fiscals costs and Implications

- 125 noted that Cabinet has agreed that any changes to ETS policy settings resulting from the ETS Review will be fiscally-neutral [CAB Min (11) 37/16];

126 noted the following fiscal implications of proposed ETS decisions:

A: Summary of Proposed Package

	Increase/(decrease) in operating balance \$ million					Total across the forecast period
	2011/12	2012/13	2013/14	2014/15	2015/16 & Outyears	
Updating emissions projections with new Global Warming Potentials	-	0.541	0.961	1.264	0.704	3.470
Surrender obligation for own-use of oil	-	0.032	0.063	0.063	0.063	0.222
Removal of entry date of agriculture	-	-	-	(12.156)	(23.640)	(35.796)
Transition phase—gradual phase-out of 2:1 surrender obligation for LFF, SEIP, SGG and waste sectors	-	(28.053)	(79.995)	(79.779)	(77.853)	(265.679)
Extending the Pre-1990 tree weed exemption to 2015/16	-	(0.600)	(1.200)	(1.200)	(1.200)	(4.200)
Increasing allocation to coal users by amending the coal factor used in industrial allocation to cover costs associated with fugitive coal seam methane emissions	-	(0.692)	(0.692)	(0.692)	(0.692)	(2.767)
Increasing industrial allocation for "manufacture of carbon steel from cold ferrous feed" by reclassifying it as a highly emissions-intensive, trade-exposed activity	-	(0.107)	(0.109)	(0.112)	(0.114)	(0.442)
Application of SGG levy	-	(1.254)	0.300	0.300	0.300	(0.353)
Changing point of ETS obligation for SF6 activities	-	(0.395)	(0.791)	(0.793)	(0.794)	(2.773)
Emissions Trading Scheme Review implementation contingency	-	(8.745)	(2.095)	(2.213)	(2.180)	(15.233)
Add stationary energy use of liquid fossil fuels as an emission source eligible for industrial allocation	-	(2.017)	(2.017)	(2.017)	(2.017)	(8.069)
Suspending the phase-out of industrial allocation until ETS participants assume full surrender obligation	-	(0.236)	(0.501)	(0.780)	(1.081)	(2.599)
Total Operating	-	(41.527)	(86.075)	(98.114)	(108.503)	(334.219)

B: Further policy for the second-tranche

	increase/(decrease) in operating balance					
	2011/12	2012/13	2013/14	2014/15	2015/16 & Outyears	Total across the forecast period
\$ million						
Cancellation of the second tranche for those who take up offsetting	-	1.443	1.443	1.443	1.443	5.772

- 127 noted that Cabinet has previously agreed that an "Emissions Trading Scheme Review implementation contingency" of \$15.233 million in 2012/13 be established from the Budget 2012 operating allowance, to fund implementation costs that cannot be met through existing agency baselines;
- 128 noted that the Minister for Climate Change Issues proposed package (A and B above) will require a \$313.214 million pre-commitment against Budget 2013;
- 129 authorised the Minister of Finance and the Minister for Climate Change Issues to make changes to appropriations as necessary to give effect to Cabinet's decisions on the paper under CAB (12) 339;

Process and timeline

- 130 authorised the Minister for Climate Change Issues, in consultation with the Minister for Primary Industries as appropriate, to further clarify and develop policy matters relating to the amendments set out in paper under CAB (12) 339, in a way not inconsistent with Cabinet decisions;
- 131 agreed that the Parliamentary Counsel Office may make amendments to regulations that are consequential to any of the decisions made on the amendments set out in the paper under CAB (12) 339 which require the Act to be amended;
- 132 agreed that the Minister for Climate Change Issues may share the paper under CAB (12) 339, drafts of further Cabinet papers on related issues, drafting instructions to the Parliamentary Counsel Office, subsequent drafts of amendments to the Act, and related documents, with the Environmental Protection Authority, as a key agency in the proposed amendments;

Communication and public consultation

- 133 noted that responsibility has been delegated to the Minister for Climate Change Issues for communication and engagement regarding the proposed amendments and response to the Panel's recommendations;

- 134 authorised the Minister for Climate Change Issues to prepare and table in the House a response to the Panel's recommendations.

Secretary of the Cabinet

Reference: CAB (12) 339

Distribution: