



# Cabinet Economic Growth and Infrastructure Committee

EGI Min (10) 21/11

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10 SEP 2010

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## Minute of Decision

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## Emissions Trading Scheme: Proposed Regulations for Synthetic Greenhouse Gases

Portfolio: Climate Change Issues

On 8 September 2010, the Cabinet Economic Growth and Infrastructure Committee (EGI):

### Background

1 noted that:

- 1.1 the Climate Change Response Act 2002 (the Act) requires participants in the synthetic greenhouse gas sectors of the New Zealand Emissions Trading Scheme (NZ ETS) to enter the NZ ETS on 1 January 2013;
- 1.2 the Act provides for the voluntary reporting of activity in these sectors from 1 January 2011, and for mandatory reporting on 1 January 2012;

2 noted that regulations are required to support the entry of these sectors into the NZ ETS, and that the regulations need to be gazetted by 1 October 2010;

### Proposed regulations

3 noted that on 26 May 2010, EGI:

- 3.1 agreed in principle, for the purpose of developing an exposure draft of the regulations, to proposed methodologies, amendments to the removals regulations, and proposed exemptions for the synthetic greenhouse gas sectors;
- 3.2 invited the Minister for Climate Change issues, following the consultation process, to report back to EGI seeking final policy approval for the regulations;

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4 noted that consultation on draft amendments to the regulations has been undertaken, and that submissions have informed the policy proposals in the paper under EGI (10) 206;

- 5 **confirmed** the following in-principle decisions, referred to in paragraph 3 above:
- 5.1 the basic method for reporting emissions and removals from synthetic greenhouse gases activities will be the amount of a chemical imported or exported, its chemical composition, and the global warming potential of that composition;
  - 5.2 default chemical quantities will be provided for synthetic greenhouse gases contained in motor vehicles;
  - 5.3 eligibility for recognition of removal of sulphur hexafluoride exported in bulk will be contingent on evidence that the chemical was imported after 1 January 2013;
  - 5.4 exemptions from the NZ ETS will be established for synthetic greenhouse gases:
    - 5.4.1 contained in the refrigeration or air conditioning system of an aircraft, ship or container engaged in an international trip, including any domestic leg of an international trip;
    - 5.4.2 contained in a manufactured product that consists in part of that gas only because the gas was used in the manufacturing process;
    - 5.4.3 contained in goods where the goods are imported for that person's personal non-business use, and are not intended for gift, sale or exchange;
    - 5.4.4 contained in motor vehicles if the total amount of synthetic greenhouse gases imported or exported in the year is less than 100 tonnes of carbon dioxide equivalent;
- 6 **approved** the following policy additions for amendments to the general exemptions Order:
- 6.1 exemptions from the NZ ETS for synthetic greenhouse gases contained in aircraft or ships if the total amount of synthetic greenhouse gases imported or exported in the year is less than 100 tonnes of carbon dioxide equivalent;
  - 6.2 the synthetic greenhouse gas mixture HFC 245fa/365mfc be exempted;
- 7 **approved** the following policy addition for amendments to the stationary energy and industrial processes regulations:
- 7.1 the total emissions of any person who imports synthetic greenhouse gases contained in a motor vehicle will be the calculated emissions less 100 tonnes of carbon dioxide equivalent;

### Fiscal implications

- 8 **agreed** to incur estimated fiscal costs of \$1.5 million per annum from 2013 from the proposed threshold referred to in paragraphs 5.4.4 and 6.1 above;
- 9 **agreed** to incur estimated fiscal costs of less than \$50,000 per annum from 2013 as a result of the proposed exemption referred to in paragraph 6.2 above;
- 10 **agreed** to incur notes estimated fiscal costs of \$1 million per annum from 2013 from the policy change outlined in paragraph 7.1 above;

- 11 **noted** that, as the proposed methodology differs from the approach used to calculate New Zealand's obligations, the Crown is exposed to price uncertainty with potential fiscal costs or savings, because its costs are not known until emissions are reported in the Inventory;
- 12 **noted** that, due to the differing methodologies, there will be fiscal implications that are highly uncertain, but that there are likely to be NZ ETS revenues until 2020;
- 13 **noted** that because the costs of the NZ ETS post-2012 have yet to be budgeted for, these fiscal costs do not count against the Budget allowance (although when these costs are fully accounted for in Crown accounts, the net fiscal impact of the NZ ETS will have an impact on the operating balance);
- 14 **noted** that the NZ ETS administrator will have difficulty implementing its responsibilities under the Act for this sector in the absence of complementary policies to provide secondary information;

### Next steps

- 15 **invited** the Minister for Climate Change Issues to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above paragraphs;
- 16 **invited** the Minister for Climate Change Issues to submit a paper to the Cabinet Legislation Committee seeking approval to amendments to the stationary energy and industrial processes regulations, the other removal activity regulations, and the general exemptions order, in order to promulgate these regulations by 1 October 2010;
- 17 **noted** that the Minister for the Environment intends to proactively release the paper under EGI (10) 206 on the Ministry for the Environment's website, subject to any appropriate withholdings that may be required in accordance with the Official Information Act 1982;
- 18 **noted** that a full analysis of the cost effectiveness of policies for reducing synthetic greenhouse gas emissions will be undertaken concurrently with implementing the regulations, and may result in proposed amendments prior to mandatory reporting commencing on 1 January 2012.

Reference: EGI (10) 206

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**Present:**

Hon Bill English (Chair)  
 Hon Dr Nick Smith  
 Hon Tim Groser  
 Hon Steven Joyce  
 Hon Phil Heatley  
 Hon Nathan Guy

**Officials present from:**

Office of the Prime Minister  
 Officials Committee for EGI