

Office of the Minister for Climate Change Issues

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2.

Background

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The agreement is due to be concluded at a summit Ministerial Conference in Paris in December.

4. Tackling climate change is crucial to avoid longer-term economic costs and harm to people and the environment in the long term.

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. An international agreement with broad participation mitigation commitments by both developed and emerging economies is needed to achieve this. New Zealand will be expected to play its part in the global response.

6. Some countries have made commitments between 2008 and for the period 2012 to 2020 under the Kyoto Protocol but it has ~~was not designed to~~ not achieved broad developing country participation which, in turn deterred a number of developed countries. s6(a), s9(2)(j)

s6(a), s9(2)(j)

7. New Zealand made a Kyoto Protocol commitment to reduce its emissions to 1990 levels by 2013 for the period 2008-2013 and has ~~an~~ set an unconditional commitment ~~voluntary target~~ (outside the Kyoto Protocol) under the UNFCCC to

Comment [BA(1): s6(a)]

\* Under the Kyoto Protocol, parties commit to reduce their emissions by a given year to an absolute level specified as a percentage of emissions in a historical base year. This target is translated into a 'carbon budget' of total permitted emissions over the commitment period. Parties may purchase international offsets in order to help meet their commitments.

reduce emissions to 5% below 1990 levels by 2020 as well as a conditional target pledge range of 10% to 20% below 1990 levels by 2020.

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~~It is expected~~ Countries have also agreed that contributions 'should demonstrate progression beyond current undertakings'. Most developed countries, including the European Union and the United States, have already announced and/or tabled their contributions, including the European Union and the United States.

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9. Because contributions are nationally-determined, this nominally provides an opportunity for New Zealand to table a target of a different form which suits its national circumstances by treating agricultural emissions differently. There will be negative credibility implications risk associated with this approach which are discussed in the body of this paper.

9-10. ~~Officials consider buying a fight now is counter-productive, unnecessary and detrimental to our interests in securing favourable negotiation outcomes on land sector accounting and carbon market access, both essential to managing the cost of any target.~~

10-11. ~~MFAT input please: New Zealand and Australia are the only developed countries that have not announced targets. Australia has signalled an intention to table its contribution in ... July s6(b)~~

Although Japan will not table until the G7 meeting in early July, its intended target has been announced in its public consultation documentation.

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~~China's peaking year/renewable energy target is expected to be tabled by the end of June.~~

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13-14. ~~The new agreement is achieving requires all Parties to commit and seems likely to attract greater participation than the Kyoto Protocol. Both with both the US and China have announcing announced contributions their intended contributions.~~ Targets submitted to date cover just over [50%] of current global emissions.

14-15. ~~However, current contributions are not sufficient in aggregate to meet the two degrees goal. It's estimated that even strong pledges by remaining countries would take the total, pledged emissions reductions at 2030 to only around half of what is needed for two degrees<sup>2,3</sup>.~~

15-16. ~~Regular (5-yearly) renewal of targets is expected Additional global reductions to these pledged by Paris will be needed prior to 2030 in order to keep the two degrees goal within reach. There are likely to be future 'contribution rounds' over the next decade where parties to the agreement are invited to table more ambitious targets.~~

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<sup>2</sup> 'Gap analysis with Paris pledges', Wolosin and Belenky, 2014

<sup>3</sup> This analysis excludes any developed country finance provided for additional reductions in developing countries

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47-18. OUT OF SCOPE

X,000 formal submissions were received.

Comment [BA(2)]: Useful to identify the number of individual submissions.

Comment

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By acting ourselves we'll help ensure others do too, so the problem can be properly tackled. OUT OF SCOPE

18.

49-20. I propose New Zealand tables the an INDC substantially similar to that attached as appendix 3. The content of the INDC has been broadly agreed between countries. The INDC has the following components:

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OUT OF SCOPE A statement on provisionality as follows along the lines of the following:

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"New Zealand's 2030 target will be finalised after we have clarity about (a) our ability to access carbon markets and (b) our assumptions about the land sector accounting approach we intend to use. [Note: this form of provisionality is acceptable and carries no political risk, given these rules are still being negotiated and may not be agreed until sometime after the Paris meeting]

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We intend to meet our target through domestic action as far as possible, but the limited options available to us in the short-to-medium term [agricultural emissions and high level of renewable electricity generation] will require us to supplement this with the purchase of international units.

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The extent to which we can reduce our own emissions depends on successful technology development and deployment, especially for the agriculture and transport sectors.

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New Zealand has invested \$45 million to date in research into technology to reduce agricultural greenhouse gas emissions, including via the GRA. Maintaining support for this research will continue to be a priority for us."

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iv. An narrative on explanation of New Zealand's national circumstances, our domestic policies and goals and our leadership in global agricultural mitigation research

v. An A narrative on explanation of why the target represents a fair and ambitious contribution to meeting the 2 degrees goal and a progression on our current target (of 5% below 1990 levels by 2020)

Comment [BA(3)]: This is what the Lima decision calls for, that it is a progression will be self-evident, and will support, but not exhaustively so, our claims to be making an ambitious contribution.

20-21. In making its decision on the INDC, Cabinet should consider:

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implications for the agriculture sector, and

the nature of signals sent to different sectors of the economy and

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### International considerations

21-22. It is important to table an internationally-credible target. International credibility on climate change allows New Zealand to wield some-influence within negotiations by maintaining our 'seat at the table' and has 'spillover' benefits for our broader international interests.

22-23. A non-credible target that lacks credibility would be badly will not be received well-by the international community as evidence of New Zealand's lack of commitment to the global effort to address climate change.

s6(a), s9(2)(j)

leading-generating to further international-criticism of New Zealand's position.

~~23-24. Rules relating to forestry and international carbon markets will not be finalised as part of the primary agreement concluded in Paris but will be negotiated subsequently. Poor outcomes in these areas could substantially increase the cost of any target or make it unattainable. In previous negotiations rounds on these issues we have secured substantive rule decisions in New Zealand's interests. Without a credible target we are likely to lose much of this influence our ability to influence outcomes in these areas (critical for managing the affordability of our target). The issues of forestry and markets are much more material for New Zealand's emissions than for other developed countries and we cannot rely on negotiations delivering a favourable result for New Zealand in our absence if we are not well placed to advance our own interests.~~

~~24-25. In the medium term, influence in broader UNFCCC negotiations allows New Zealand to maintain its role as a constructive 'solution finder'. This is in New Zealand and the world's interests to the extent that it helps the development of an agreement which achieves the two degree goal. New Zealand has influence in the negotiations because we are a credible 'solution finder'. If we undermine that by failure to act responsibly and do our fair share, we have no entrée to small rooms or ability to ensure others look out for our interests.~~

~~25-26. OUT OF SCOPE~~

There will be greater global focus on our policy positions across the board, including the INDC, ~~due during the period of~~ our Security Council membership.

~~26-27. Assessing target credibility and the risks discussed above is subjective cannot be readily quantified but. Nonetheless, this is an important issue which requires requiring careful political judgement.~~

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#### *Progression*

~~28-29. Since contributions are nationally-determined, New Zealand has some choice about the form and level of its greenhouse gas reduction target, but this is constrained by the need to demonstrate progression.~~

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~~An alternative target form that excludes responsibility for some or all of our agricultural emissions which treats agriculture differently could better suit New Zealand's emissions profile and would better suit New Zealand's circumstances and provide cost savings, but would not be accepted by other countries as demonstrating progression.~~

~~29. While some scientific arguments have been advanced for prioritising action on carbon dioxide ahead of methane, these are not conclusive (see Box 2). However, excluding agriculture from the responsibility target would not meet~~

~~the progression test and would therefore have poor international credibility. No other developed country has tabled a target which excludes a significant emissions sector or gas. All other developed countries have tabled (or signalled they will table) economy-wide absolute emissions reductions targets. There are some scientific arguments for delayed action on some agricultural greenhouse gases (i.e. methane) but these are not conclusive (see Box 2).~~

30.

~~30-31. Progression also implies requires an increase in the target level from the current 5% below 1990 (or equivalent reduction stated relative to 2005). The existing Our current conditional target range pledge of 10% to 20% below 1990 by 2020 is also relevant.~~

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32-33.

*Comparison with other countries' targets*

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~~These targets represent progression on current undertakings by those countries but fall short of what is required to meet the two degrees goal.~~

Comment [BA(4): on what measure?

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~~35-36. Factoring in these challenges implies New Zealand should make could justify making relatively smaller emissions reductions than other developed countries. There are various approaches to factoring in country differences to give a fairer target comparison. Applying these approaches is complicated and involves subjective choices so the comparisons presented here should be used as a rough guide only.~~

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37-38. shows the range of New Zealand targets which are roughly equivalent to those announced by key developed countries on the basis of 'equal cost' and also according to some other generally-accepted widely used ways of comparing effort.

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We can expect others will make comparisons using these indicators and there is a risk New Zealand's INDC will be criticised as a result to receive criticism on this basis. Messaging about fairness and ambition used in New Zealand's INDC includes a section explaining why it is a fair and ambitious contribution which can help mitigate this and associated communications will emphasise favourable indicators of ambition (e.g. cost, and change from BAU) to help mitigate this risk. These messages will also be used in communications related to the INDC.

39-40. There are likely to be future 'contribution rounds' over the next decade where parties to the agreement are invited to table more ambitious targets more consistent with the two degrees range. There are likely to be 5 yearly reviews of targets probably starting in 2025. Targets for 2030 tabled in the first cycle could be simply reconfirmed. We need to consider if the level of New Zealand's target provides sufficient 'head-room' to raise ambition in future.

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This would make the target more clearly comparable with others (the US, Canada, Japan and likely Australia) and would reduce the apparent disparity between New Zealand's target and the EU's.

40. [Insert table showing 1990/2005 comparisons with key countries]

#### Costs

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Table 1 Estimated cost of different target. Grey figures are interpolated between other model results.

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Comment [BA(5)]: Think there is too much in this table. Preceding section needs a table illustrating how 1990 and 2005 base year targets relate to each other and to the targets tabled by other developed countries. This table only needs to show the cost of the target against the preferred base year.

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44-45. Costs are likely to be higher than under previous and current targets because if cheap international carbon units may are no longer be available, and New Zealand's business-as-usual emissions will also have risen while although the target may have has deepened.

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46-47.

Comment [BA(6)]: Think the headline reasons need to be here.

47-48. Row 1 of Table 2 shows that a +22% economy-wide target which is equivalent to a -10% target on non-agricultural sectors only not including agricultural emissions. OUT OF SCOPE

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~~48-49. As noted in the preceding section, excluding agriculture has negative credibility, would not be credible and would undermine our ability to negotiate impacts which risk poor favourable negotiating outcomes for New Zealand on forestry rules and international carbon market access.~~

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~~49-50. Meeting a target through domestic action alone would likely require a New Zealand domestic carbon price of up to \$200 to \$300 per tonne and which would be significantly higher than the rest of the world. This implies a severe less in impact on New Zealand's competitiveness leading to an estimated drop in exports of around 5% versus compared with BAU and a substantial increase in target cost (estimated at -2.4% RGNDI versus 0.8% with carbon markets for a -10% target excluding agriculture).~~

#### *Cost risks*

~~50-51. The costs of a target are hard to estimate with a good degree of any certainty. Key uncertainties variables are: rules on forestry and the land sector under the agreement; the price of units available on international carbon markets and whether economically-viable technologies become available to reduce New Zealand's agricultural emissions. Different models also give different results due to key differences variations in their underlying assumptions (see Appendix 2).~~

~~51-52. There are some potential forestry rule sets which would enable New Zealand to either minimise forestry as a source of emissions or possibly to recognise a forest sink over the 2020s. OUT OF SCOPE The international credibility of these options is not yet fully clear, but there appears to be a fair chance of achieving a positive outcome for New Zealand on this in negotiations following the Paris meeting. MPI strongly disagrees in respect of credibility.~~

~~53. I consider buying a right in the international negotiations now to manage cost risks is counter-productive, unnecessary and highly prejudicial to our ability to negotiate the rule settings that are essential to keeping the cost of the target manageable. It is preferable to table a credible contribution now, as all other developed countries are doing. This includes setting out careful assumptions in the INDC so as to secure a right to adjust the target (permitted so long as progression is maintained) if rules do not accommodate our land-sector accounting preferences and/or assumed use of markets. We can manage concerns about potential affordability by:~~

- ~~i. Re-looking at the target at the time of ratification (likely around 2018);~~
- ~~ii. Setting a longer target period;~~
- ~~iii. Negotiating best possible rule settings;~~
- ~~iv. Maintaining investment in research of agricultural technology;~~
- ~~v. Looking closely at ETS settings.~~

~~52. I propose further mitigating the risk of high costs by including relevant wording in the INDC. This means including statements about forestry rules, carbon markets~~

~~and agricultural emissions mitigation technology which set out assumptions underpinning quantification of the target (see appendix x, INDC section Y).~~

~~54. This approach affirms makes clear that the target is provisional until we ratify, at which time it will need to be finalised. It is made provisional by stating the assumptions about rules that have been applied in determining the target and reserves the right to adjust the target if the assumptions about rules are not fulfilled. It also signals the importance of technology in ensuring we can manage affordability.~~

~~53-55. This approach that the contribution remains provisional with respect to these issues prior to ratification (around 2018). It helps reserve the right to make technical adjustments to the target if assumptions on these issues prove incorrect. It retains the option to gain make cost savings by applying forestry rules which recognise the extent of carbon removals by New Zealand's forests. Nonetheless we will need to table a clear statement of our assumptions ahead of the Paris meeting to secure the ability to make technical adjustments. This text will also help support negotiation of New Zealand's preferred landing zone on these issues.~~

~~54-56. This text would need to be revisited at the time the agreement is ratified as contributions may be expected to become less provisional at that point and be firmed up and final at that point.~~

~~55. [MFAT input required: Note that exercising right to make technical adjustment could still incur credibility impact at the time]~~

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~~63-64. A target with no progression not higher than 5% indicates a step back from the government's position of being in the 'middle of the pack' 'fast followers' internationally. A modest progression on the current level indicates a steady policy trajectory and with only incremental cost of -5%. Targets in the same range as the EU or US (i.e. 30% to 40% below 1990 levels) would indicate a shift to a more ambitious stance on climate change.~~

~~64-65. The recommended whole-economy target form maintains future governments' flexibility to select where and how to reduce emissions within the economy reduce emissions from across the economy. It signals that it is still possible anyall emitting sector (or removing sector, i.e. forestry) sectors~~

Clarifying information: This deletion "or US" is a factual amendment and was proposed because the US target does not fall in this range

~~potentially will contribute to meeting the target could be called upon to contribute, and maintains some pressure on the agriculture sector to develop technology to tackle its emissions in the longer terms soon as possible.~~

66-66. ~~OUT OF SCOPE~~

~~There is flexibility at a domestic level to (a) adjust the ETS to drive incentives/signals to business; (b) set sub-targets or different policies targeted to sectors (e.g. intensity improvements for agriculture or policies for transport).~~ ~~OUT OF SCOPE~~

66-67. ~~OUT OF SCOPE~~

### *Synthesis*

67-68. ~~I believe that my recommended target of a reduction of 10% below 1990 levels by 2030 across the whole economy (equivalent to, or expressed as 29% below 2005 levels) meets the need for an INDC which is internationally credible while managing the costs to the New Zealand economy and sending appropriate domestic signals about New Zealand's longer-term direction.~~

68-69. ~~A target level of 10% below 1990 provides/represents progression on current levels. It balances the extent of progression against the need to manage costs on the New Zealand economy, taking account of our particular challenges of reducing emissions.~~ ~~OUT OF SCOPE~~

69-70. ~~An alternate target form which reduces or excludes responsibility for agricultural emissions could provide cost savings but would not meet the progression test requirement for international credibility and reduces New Zealand's chances of negotiating favourable forestry rules and terms of access to accessing carbon markets. It is unlikely that New Zealand could deliver a target (even one which that excludes agriculture) without carbon market access as the economic impacts of doing so are severe. Under this scenario, New Zealand would need to consider/be prepared to renege on its target.~~

70-71. ~~A non-credible target that is not credible creates a risk—also risks New Zealand. New Zealand will be unable to losing influence to shape the details under the new agreement. There is an additional risk we may be up to Paris and beyond or even being accused of jeopardising it. We also risk tarnishing/would also compromise our status/standing as a 'responsible global citizen' relevant for broader international issues which, as a small developed economy, is critical to our broader international interests.~~

71. ~~My recommended target of 10% below 1990 across the whole economy (-29% on 2005) avoids an immediate negative credibility impact for New Zealand. It maintains our influence on rules and the broader direction of the new agreement which gives the best chance of favourable outcomes on these issues. Some possible forestry rule sets offer a comparable cost saving to the effect of excluding agriculture from the target.~~

**Comment [BA(7)]:** Propose we don't say this. Think we have to be very confident of the credibility of the gross-net rule to let this genie out of the bottle. Clearly MPI does not accept the credibility of this rule set, and MFAT has not formed a firm view.

72. Although tabling a whole-economy target does not offer the immediate cost-savings of excluding costs more than excluding agricultural emissions, its provisional status maintains some flexibility to review the target prior to ratification in the absence of favourable outcomes on forestry rules and carbon markets or progress on agricultural mitigation technology. Tabling a credible INDC now sets us up for good-faith negotiations on these issues. This will provide a viable basis for reviewing the target prior to ratification if favourable outcomes are not achieved and costs are considered too high by the government of the day. Setting the target on a 2030 timeframe - 15 years from now - maximises the chances technology to mitigate agricultural emissions will be commercialised and deployed.

Comment [BA(8)]: Drafting of this para is awkward.

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75. [MFAT input required: What Australia is doing]

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Comment [BA(9)]: Not sure what you want from us here. We anticipate Australia will move to table soon after the conclusion of the World Heritage Council meeting on the status of the Great Barrier Reef - 28/29 July. They will have tactics to play out re how soon after. We are not privy to those.

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Comment [BA(10)]: Again, unclear what you want to say here. As background - we expect INDCs will be appended to the COP 21 decision adopting the text of the new agreement. The same decision will invite Parties to ratify, and to lodge their first (i.e. final) mitigation commitments [wording unknown] with the depository (expect UNFCCC Secretariat) as soon as possible. We expect the same COP decision to launch a work programme on rules, and we expect this to take a couple of years to work through. We expect some Parties will wait for conclusion of the work programme before ratifying. Others, those not planning to use markets or cover the land sector and those desperate to access climate finance will possibly not wait. Entry into force, whatever formulation we land on, will require participation of the G7, and this is likely to push it out closer to 2020 than 2016.

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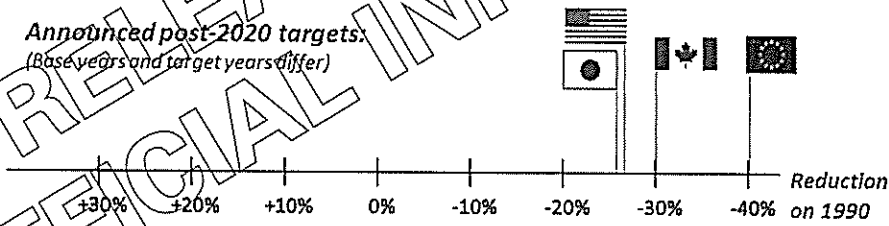
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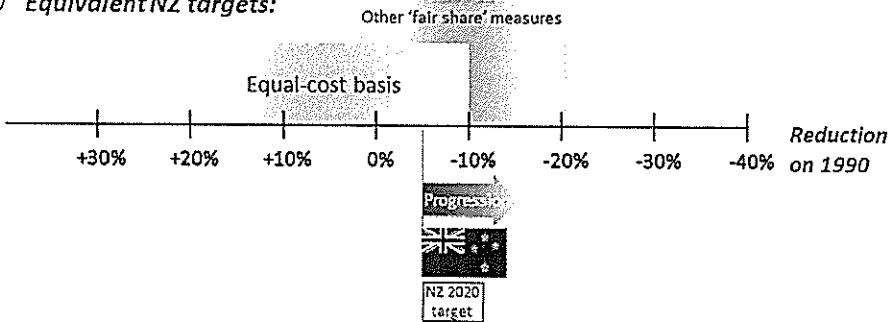
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*Announced post-2020 targets:  
(Base years and target years differ)*



*Equivalent NZ targets:*



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Figure 2 New Zealand targets which are 'equivalent' to those announced by other countries

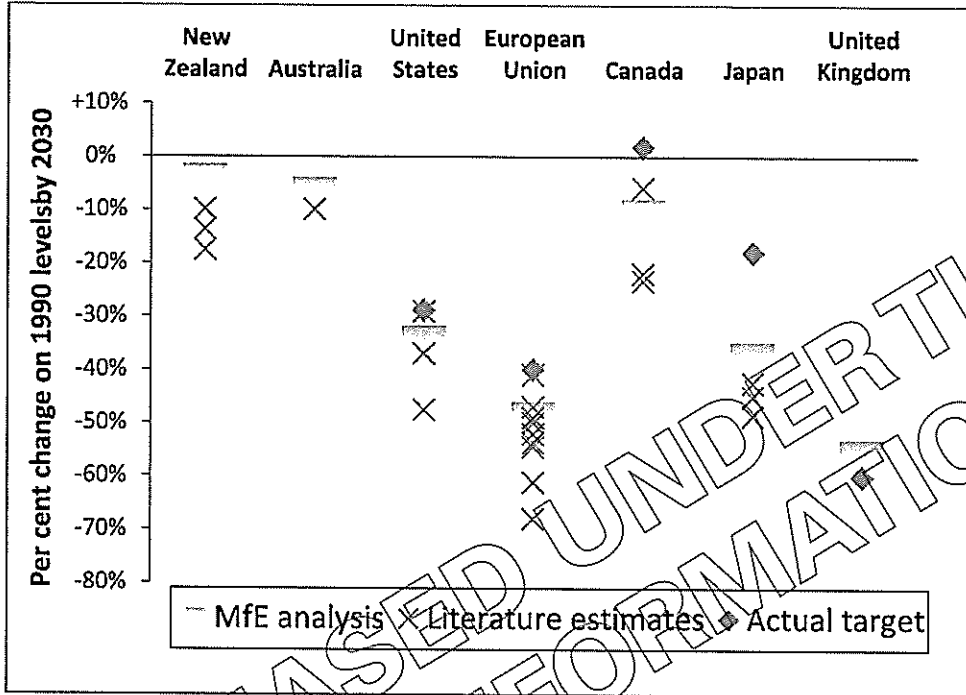
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Figure 3



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Figure 4

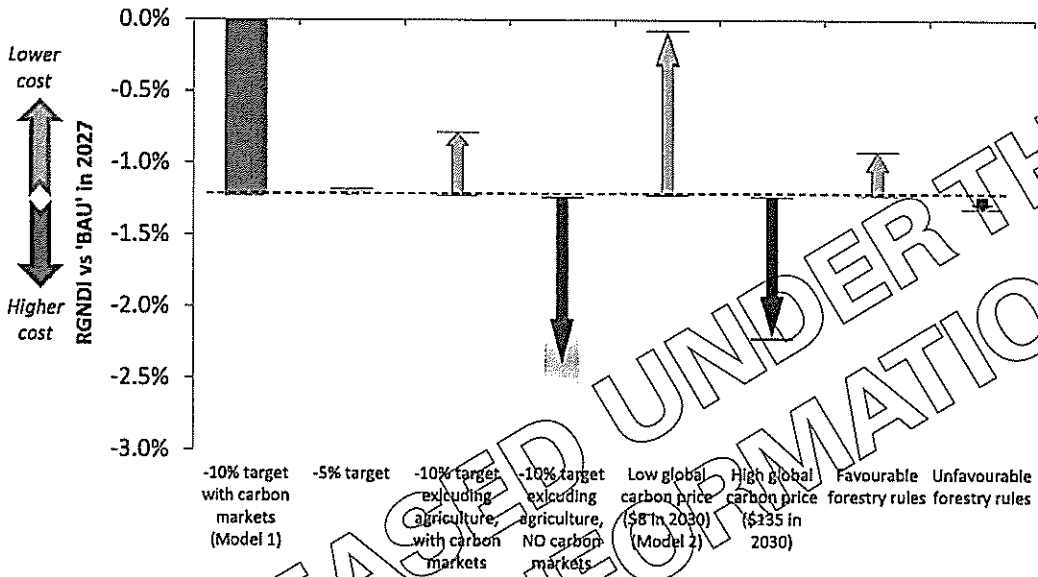
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Figure 5 Estimated target cost under different scenarios



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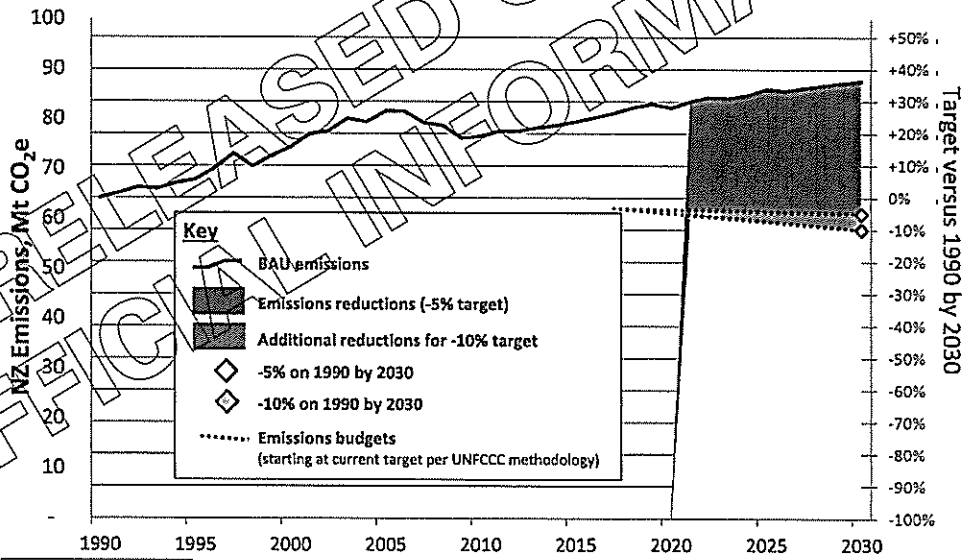
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