

DRAFT - New Zealand's post-2012 Mitigation Commitment and Linkages to the ETS

Context

- The first commitment period (CP1) of the Kyoto Protocol (KP) ends 31 December 2012. CP2 begins 1 Jan 2013. New Zealand has yet to decide what it will 'do' in the 2013-2020 transition period to a post-2020 global climate regime.
- At Durban it was agreed that a new international agreement, including all developed and developing countries, be negotiated by 2015 and brought into effect by 2020.
- Ministers have choices about where to take a post-2012 commitment – either under a second commitment period (CP2) of the KP or in transitional arrangements under the Framework Convention – and the level of that commitment.
- New Zealand is alone amongst developed countries in not declaring either a minimum commitment or whether we will join CP2, although there are varying degrees to firmness to other countries' targets.
- Australia has not yet declared whether they will join CP2, but already has a minimum commitment.
- New Zealand has committed to do its fair share and has an existing international treaty obligation to reduce emissions.

- New Zealand has consulted on and pledged a 2020 target range of -10% to -20% below 1990 levels by 2020 with the following conditions :
 - the global agreement sets the world on a pathway to limit temperature rise to not more than 2 degrees;
 - developed countries make comparable efforts to those of NZ;
 - advanced and major emitting developing countries take action fully commensurate with their respective capabilities;
 - there is an effective set of rules for land use, land-use change and forestry (LULUCF); and
 - there is full recourse to a broad and efficient international carbon market.

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- New Zealand's international target has been a key reference underpinning the domestic emissions trading scheme (ETS). The ETS places responsibility for meeting any target on sectors of the economy where there is technology available to reduce emissions; Government bears the cost of any excluded sectors.
- The Government is currently consulting on amendments to the ETS.

What decisions need to be made and when?

New Zealand is facing considerable pressure to clarify what we will do in the transition period to 2020: Should New Zealand join a CP2? What action to reduce emissions will NZ commit to?

- Delaying a decision poses risks to international credibility and ability to influence negotiations. We need this most in the period between now and 2015.
- Pressure on New Zealand at COP18 is likely to be high. An earlier decision gives us a 'back pocket' position in the event NZ is forced to make an announcement at the negotiations.
- We need to work 'in-step' with Australia and it is unclear when Australia will make a CP2 decision.

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- Decisions on our post-2012 mitigation commitment and a domestic ETS affect one another:

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- Consultation on regulations implementing the currently proposed amendments to the ETS may take place in Q1 2013.
- At present, there will be no international commitment to signal the long-term trajectory for ETS participants from 1 January 2013. This could create uncertainty and impact on market functioning.

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Key Considerations

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DRAFT – Supporting Material

NZ's Emissions Trajectory

- New Zealand is projected to emit 650 Mt of CO₂ equivalent over the 2013-2020 period. Our emissions will be influenced by a number of factors including the domestic price of carbon, GDP and population growth and oil prices.

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- Gross emissions under current policies are projected to continue rising. New Zealand can reduce overall emissions through three mechanisms:
 - Offsetting emissions through forestry sinks, although these are effectively a loan on New Zealand's 'credit card' and must be paid back when trees are harvested.
 - Reducing gross emissions through technology and behaviour change. This can be achieved in part by the ETS but will need other measures to overcome market failures. Complementary measures can support other government objectives such as improving productivity or resource use efficiency. Opportunities vary significantly by sector.
 - Purchasing offshore emissions reductions, which is cheaper in the short term but which sees NZ have to pay again and again for the same emissions envelope.

Comparisons with Other Countries

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- The table below provides an indication of how New Zealand's 2020 target compares to the low-end or unconditional pledges of selected Annex I and developing countries.

Pledges by key parties					
Annex 1 Party (low-end pledge)	Reduction in 2020 relative to 1990 levels	Reduction in 2020 relative to 2005 levels	Status	Cost (% of GDP)	% Gross global Emissions
Australia	-4%	-11%	Unconditional	0.10% - 0.24%	1.5%
Canada	+3%	-17%	Unconditional (contingent on USA legislation)	---	2.0%
EU27	-20%	-14%	Unconditional	---	13.4%
Japan	-25%	-30%	Conditional - revised following tsunami	0.04%	3.6%
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Norway	-30%	-35%	Unconditional	0.15%	0.14%
USA	-4%	-17%	Unconditional (cont. on leg.)	---	18.3%
Non-Annex 1 Party	Stated pledge	Reduction in 2020 relative to 2005 levels			% Gross global Emissions
Brazil	-36.1 to -38.9% on BAU	-21 to -25%	Developing countries will increasingly need to take on a share of the global effort over time	Data unavailable outside Annex 1 countries	2.67%
China	-40% to -45% on 2005 intensity	+31% to -41% (GDP dependent)			19.2%
India	-20% to -45% on 2005 intensity	+145 to +195% (GDP dependent)			4.9%
Republic of Korea	-30% on BAU	-4%			1.5%

Source: 2009 GAINS mitigation costs calculator and 2011 CAIT world emissions database (both excluding LULUCF). Figures are based on publicly available data and will be refined and up-dated in further advice.

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