



AIDE MEMOIRE

EGI: New Zealand's intended contribution to the new global climate change agreement

Date:	22 June 2015	Priority:	High
Security Classification:	Restricted	Tracker number:	3243 14-15

Information for Minister(s)	
Hon Steven Joyce Minister for Economic Development, Science and Innovation, Tertiary Education, Skills and Employment	Hon Simon Bridges Minister of Energy and Resources

Contact for telephone discussion (if required)				
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The following departments/agencies have been consulted					
<input type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
<input type="checkbox"/> Other:		N/A			

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments:



AIDE MEMOIRE

Decision on New Zealand's international climate change target

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Purpose

The Minister for Climate Change Issues is seeking agreement to New Zealand's post-2020 Intended Nationally Determined Contribution (INDC) under the new global climate change agreement.

This paper provides further advice on national interest considerations ^{s9(2)(f)(iv)} that supports our previous advice (aide memoire 2297 14-15 refers).

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^{s9(2)(a)}
Ministry of Business, Innovation and Employment
22, 06, 15


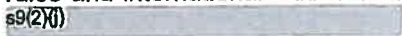
Background

1. A new climate change agreement, to apply post-2020, is being negotiated under the United Nations Framework Convention on Climate Change (UNFCCC) and is due to be concluded at a Ministerial Conference in Paris in December 2015.
2. Following the Cabinet Strategy Committee discussion in March on the key decisions and trade-offs, public consultation was undertaken on New Zealand's potential contribution to these negotiations. This has now concluded and the Minister for Climate Change Issues is now seeking final Cabinet decisions on New Zealand's Intended Nationally Determined Contribution (INDC).
3. In March, we provided advice recommending that New Zealand table an INDC featuring a whole-of-economy emissions reduction target of -6% on 1990 levels by 2030.
4. We understand that Ministers discussed the INDC on 8 June and questions were raised about applying more strongly national interest considerations when setting the potential level of New Zealand's contribution. This paper responds to that request.

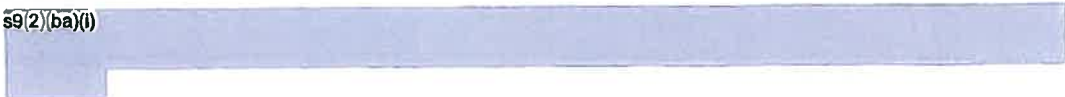
National considerations in setting a climate change target

It is in New Zealand's economic self-interest to address climate change

5. Securing an effective international response to climate change is in New Zealand's self-interest because:

- a. there are economic benefits from slowing or halting the effects of climate change. Our economic performance is predominantly tied to our land-based, natural resource sectors, and with location of population and assets on coasts and river plains, we are highly economically exposed to changes in the climate; and
 - b. it is important that New Zealand has a clear, predictable and steady transition to a low emissions economy to ensure that we get the competitive benefits, and manage the costs, from major, climate-change related global developments such as changing business models, new technologies and consumer preferences.
6. The key questions to consider when setting a national target are:
- a. what level of international commitment does New Zealand need to make to ensure a global agreement is secured;
 - b. what terms is New Zealand able to secure to meet this commitment (international carbon markets access; preferable forestry and agriculture rules); and
 - c. how does this commitment incentivise a transition to a low emissions future.
7. The Minister for Climate Change Issues advises that New Zealand will be required to demonstrate progression, which in effect means a more ambitious emissions reduction target than current pledges – an economy wide reduction of emissions of 5% below 1990 levels by 2020.
8. On the basis that it is in New Zealand's interest to commit to an international emissions reduction target, and that this target should demonstrate progression, Ministers need to weigh up the following when setting the level of the target:
- a. the level of commitment required in order to secure a favourable outcome on forestry rules and international carbon market access ^{s9(2)(i)} 

 - b. the need to ensure a pathway of increased domestic abatement so that New Zealand moves towards a low emissions future, which reduces our economic exposure over the long term.
9. Ultimately this requires a judgement about the trade-offs between ensuring positive negotiation outcomes for New Zealand against both the financial cost of such a commitment, and the economic benefits of a low emissions transition.

International and domestic options for abatement

10. Making a decision on a target for the period 2021-2030 is an inherently complex exercise, due to the uncertainty in trying to predict changes in behaviour, technological developments and future carbon prices. It requires a judgement call about how to best minimise risk in the face of this uncertainty.
 11. To support this judgement call, below is a 'bottom-up' approach to setting a target level that best supports the trade-off between domestic cost and domestic transition incentives.
- In the short-to-medium-term New Zealand will likely be reliant on purchasing international units...*
12. The historic perspective of some of the developed world in the international climate change negotiations has been that abatement should occur at the lowest cost globally.
 13. While low cost global abatement is the most efficient way to meet a global emissions reduction target, it runs the risk of downplaying the importance of the competitive position of countries in a low-emissions future in the medium-to-long-term, which is likely to entail major structural changes to economies.
 14. ^{s9(2)(ba)(i)} 

15. s9(2)(ba)(i) and 9(2)(i)

It is worth noting that both the United States and the European Union have indicated that they will not be using international units to meet their post-2020 targets.

16. The table below⁽¹⁾ shows the s9(2)(ba)(i) level of international purchasing for New Zealand at different target levels:

Target: 2021-2030	-5%	-6%	-10%	-15%	-20%
Total amount of CO ₂ reductions (MT)	130	156	260	390	520
Amount of domestic reductions (MT)	s9(2)(i)				
Amount of international purchasing (MT)	s9(2)(i)				
Cost of international purchasing at \$46 tonne (billion \$)	s9(2)(i)				

17. As the level of economic abatement at a given price is fixed, the higher the target New Zealand takes, the greater the cost of international purchasing.

18. The economic cost of this purchasing is significantly influenced by the price of international units. Computable general equilibrium (CGE) modelling suggests that if New Zealand was required to abate emissions domestically without access international purchasing, a much higher domestic carbon price of up to \$300 per tonne would be needed to attempt to meet a -10% target. s9(2)(ba)(i) and 9(2)(i)

19. s9(2)(i)

But there are domestic abatement opportunities to be explored...

20. However, New Zealand will not be totally reliant on international purchasing as there are also domestic abatement opportunities from a transition to low emissions economic growth.

21. s9(2)(f)(iv)

⁽¹⁾ Based on CGE modelling by Infometrics. Assumptions include a carbon price reaching \$50 by 2030, no forestry abatement, and no price on agricultural emissions.

This modelling assumes that there is no effective way to address methane emissions from agriculture, that technological change would not allow for greater emissions reductions from the transport sector, that there would be sufficient units available to meet New Zealand's requirements and that there would be no increase in domestic afforestation from a higher carbon price. It also assumes a linear relationship between the level of target and the cost of purchasing.

This modelling should only be considered as indicative based on the assumptions used as afforestation and technological change is also likely to affect domestic abatement opportunities.