Appendix 1 Climate Change – New Zealand's Context

Version 2

1 What are NZ's economic & climate drivers?

Economic Goals

Build a more productive, competitive economy

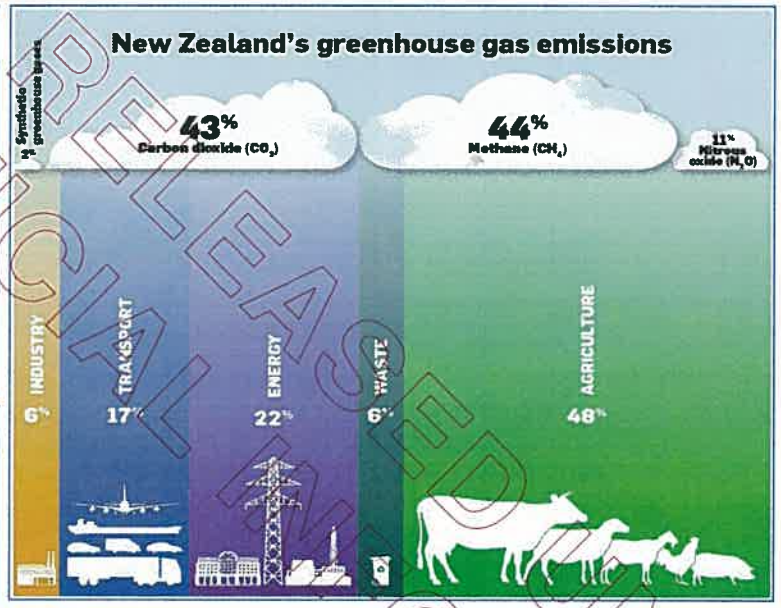
- ↑ export value to 40% of GDP (2025)
- ↑ household income by 40% (2025)
- ↑ double labour productivity growth to 2% per annum
- ↑ double business expenditure on R&D to 1% of GDP

Note: Population will grow to 5 million by 2025

Emissions Reduction Targets

- ↓ 5% below 1990 by 2020
- ↓ 30% below 2005 by 2030
- ↓ 50% below 1990 by 2050
- ↓ Net zero globally before 2100

New Zealand's greenhouse gas emissions



2 What will be the impact of existing policies?

Actions we are taking now

- Review of the NZ ETS
- Encourage uptake of electric vehicles (EVs)
- New energy targets
- Refresh of the New Zealand Energy Efficiency and Conservation Strategy
- Government and sector research to reduce biological emissions from agriculture
- Investment in public transport
- Energy efficiency measures, including emissions reduction pilot projects

Impact of existing policies

Emission reductions to meet 2030 target

Reductions required	249 Million tonnes
Existing Policies	- 31 Million tonnes
Shortfall	218 Million tonnes

Estimated contribution of selected policies in the 2020s

- **ETS (includes forestry)** - 16.3 Mt
- **Non-ETS forestry** - 9.2 Mt
- **Electric vehicles** - 0.7 Mt

Direction on Climate Change

Domestic

Growing public and business perception that climate change warrants clearer Government response:

- Themes from NZ ETS submissions include need for a broader, long-term plan and long-term policy stability
- A range of organisations driving public discussion e.g. Royal Society, Morgan Foundation, PCE, Westpac
- Recent international reviews from the IEA and OECD highlighted opportunities for further domestic emissions reductions
- More businesses taking action: 2015 BusinessNZ survey showed 2/3 of surveyed businesses have emission reduction targets in place and 52% consider climate change is a material issue

Global

Despite a fragile global economy, countries are progressively increasing actions, targets and policies to reduce domestic emissions.

EU

- Decrease emissions by 40% below 1990 by 2030 – met through domestic reductions only
- Decrease emissions by 80-90% below 1990 by 2050
- Increase transport energy from renewable sources to 10% by 2020

Australia

- Decrease emissions by 26-28% below 2005 levels by 2030 – uncertain if met through domestic reductions only

US

- Decrease emissions by 26-28% below 2005 emissions by 2025 – met through domestic reductions only
- Reduce emissions from power sector by 30% from 2005 levels, worth an estimated $55-$93 billion in savings in 2030
- Vehicle and fuel standards, saving six billion barrels of oil by 2025

China

- Aim to reach peak carbon dioxide emissions by 2030 – met through domestic reductions
- Coal consumption fell by 3.7% in 2015, whereas solar increased by 74% and wind by 34%
- Launch of a national ETS in 2017

Globally, businesses are also taking action: Google, Microsoft and Bank of America have committed US$140 billion to reduce emissions. Lending and investment increasingly focusing on low carbon initiatives. Clean energy investment in the first quarter of 2016 was $53.1 billion.

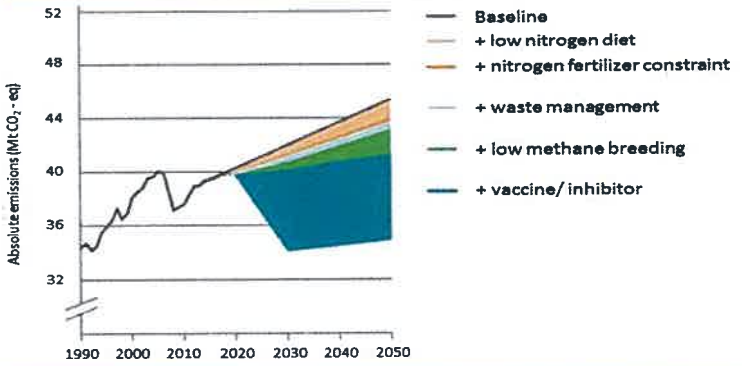
These commitments and actions indicate a long-term global transition towards economies with low emission energy sectors. Action to reduce agricultural emissions remains very limited.

3 Agriculture

We need an explicit public discussion about what agriculture's contribution will be in reducing New Zealand's emissions in the long-term. The sector's engagement in that discussion will be critical.

- Current and future technologies and practices are unlikely to reduce New Zealand agricultural emissions below 1990 levels. The IPCC's pathway reflect this, with significant amounts of agricultural methane still present by 2100, even under pathways that limit warming to 2 degrees
- If the sector does not reduce or offset its own emissions in the long-term, New Zealand's overall emissions targets are likely to become more challenging to meet – economically, fiscally and politically
- Any significant reduction in agricultural emissions, even in the long-term, would require trade-offs against plans to grow the economy through the export of ruminant animal products

Future agricultural mitigation potential



4 NZ has choices

There is a window now to consider the best mix of long-term climate policy settings

New Zealand will need to rely on domestic forestry and international offsets to meet its 2030 target

After 2030, continuing to rely predominantly on domestic forestry and international offsets presents risks. It may mean missing opportunities as key trading partners reduce domestic emissions and New Zealand businesses and households invest without clear signals about future policy direction

Short-term investment decisions have long-term implications and will partly determine whether New Zealand avoids these risks and realises opportunities after 2030

Now is a good time to consider the best way to influence these investment decisions

Potential opportunities

- Early and measured signals reduce the cost of transition by encouraging business and households to make less carbon intensive, long-term investments
- Enhance economic resilience by reducing reliance on imported oil
- Increase productivity through investment and innovation

Potential risks

- As other countries reduce domestic emissions, international offsets may become increasingly scarce and expensive
- Loss of competitiveness over time if NZ economy is more emissions intensive than key trading partners
- Reputation and NZ Inc brand risks as others act to reduce gross emissions

Officials' advice

Necessary short-term actions:

- Energise businesses and households to act
- Greater incentives for domestic forestry to support offsets beyond 2030
- Continue to encourage domestic emissions reductions that are cost effective
- Secure sources of international offsets

A taskforce could help energise businesses and households to act by:

- Leveraging businesses' interest and expertise
- Building public understanding
- Improving and allowing the sharing of evidence and data

Discussion points

What do you see as the tensions and choices between domestic and international mitigation?

In what ways can NZ communities assist in managing those tensions, especially businesses?

What are the risks and opportunities of having a more long-term considered approach?

How do you want to engage with the agriculture sector on their future contribution?

Appendix 2 Rationale for early ratification

NOT GOVERNMENT POLICY, RESTRICTED

Version 2

- A globally effective international agreement is the best way to minimise the impacts of climate change on New Zealand's future prosperity.
- The United States of America (USA) and China are pushing hard for 55 countries, together responsible for 55% of global greenhouse gas emissions, to ratify the Paris Agreement in 2016. Once this happens, the Agreement will enter into force. The USA's participation in the Agreement is critical to its effectiveness.
- Early ratification (ie 2016 or 2017) ensures New Zealand a seat at the table in ongoing negotiations under the Agreement (if the Agreement enters into force early).
- Ratifying the Agreement in 2016 will show our commitment along with other countries who are ratifying early (eg, USA, Canada, Australia, and Pacific Island Countries).

See back page for timing of options

OPTION 1: Ratification in 2016

Finalise and submit Nationally Determined Contribution

- The NDC restates the content of the INDC – economy wide target of 30% below 2005 levels by 2030
- Provisionality text is removed

+

Parliamentary Treaty Examination

- Present National Interest Analysis
- Select Committee (including public submissions)

Needs to start by early Aug

Legislation is not required for ratification. If legislation is desired before 2019, there are two options, A or B. Both these options will require legislative change in 2019.

Another option is to ratify in 2016 and make legislative changes in 2019.

+ **Development of a credible plan to reduce emissions (including establishing taskforce - refer to Taskforce diagram).**

Risks:

- Ratifying before policy decisions on how to implement the Paris Agreement could be criticised during the Parliamentary Treaty Examination process. This can be mitigated through proposed action to develop a plan to reduce emissions (including establishing a taskforce).
- Before finalising New Zealand's NDC, further work is needed over June and July 2016 to assess New Zealand's proposed approach to forestry and land use in light of feedback from the NZ ETS review, and to consider any impacts on our ability to trade units in international markets.

Legislative option A: truncated process

Climate Change Response Act 2002 (CCRA) amendments introduced and passed in 2016.

Could amend purpose of CCRA to reflect Paris Agreement and include Paris Agreement as a Schedule.

Risks:

- Perceived as symbolic and not real action.
- Tinkering with CCRA purpose without full review may cause unintended consequences.
- Truncated process could be criticised for lack of due process.

Further legislative changes in 2019 will be required.

Legislative option B: normal process

CCRA amendments introduced in 2016 and passed in 2017.

Could amend purpose of CCRA to reflect Paris Agreement, reference the Paris Agreement throughout the CCRA, and include Paris Agreement as a Schedule.

Risks:

- Perceived as symbolic and not real action.
- Amending the CCRA purpose without full review may cause unintended consequences.

Further legislative changes in 2019 will be required.

Legislative option C: amendments in 2019

CCRA amendments introduced and passed in 2019.

Could review entire CCRA to reflect Paris Agreement and international rules that will not be finalised until 2019, as well as outcomes of NZ ETS Review.

Risks:

- Criticism of delayed legislative change, mitigated by clear public communication that real action to respond to climate change is being taken through early ratification and credible plan to reduce emissions and become climate resilient (including establishing taskforce).

OPTION 2: Ratify and legislate in 2019

This option allows for greater clarity on the outcome of ongoing negotiations of rules and domestic arrangements (eg. ETS settings) before ratification.

Finalise and submit Nationally Determined Contribution

- The NDC restates the content of the INDC – economy wide target of 30% below 2005 levels by 2030
- Provisionality text is removed

+

Parliamentary Treaty Examination

- Present National Interest Analysis
- Select Committee (including public submissions)

+

Legislative option C

CCRA amendments introduced and passed in 2019

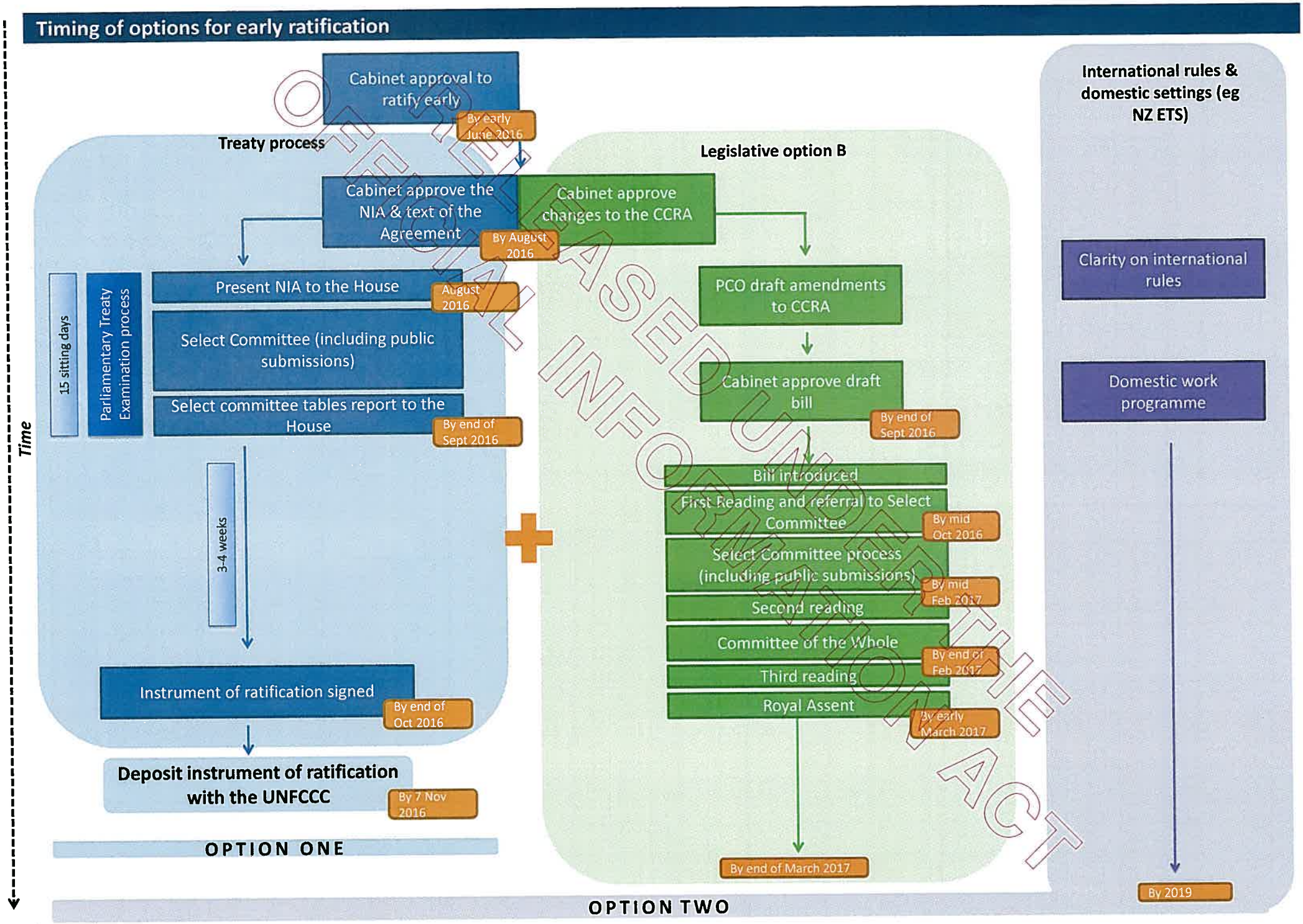
Could review entire CCRA to reflect Paris Agreement and international rules that will not be finalised until 2018, as well as outcomes of NZ ETS Review.

+ **Development of a credible plan to reduce emissions (including establishing taskforce - refer to Taskforce diagram).**

Risks:

- Would not be in step with our usual company (USA, Australia, Canada).
- If the Agreement enters into force before New Zealand has ratified, New Zealand will have no standing in decision making, including decisions on accounting and carbon market processes.
- Prolonged uncertainty for business.
- Negative reputational impacts.
- Domestic criticism due to delayed ratification.

Timing of options for early ratification



Appendix 3 Taskforce on Climate Change: stepping through the choices

NOT GOVERNMENT POLICY, IN-CONFIDENCE version 2

1 Why have a Taskforce?

What it could deliver:

- Enduring climate change policy that supports the government's wider economic and environmental goals
- Cross-sector buy-in, bringing others along
- Greater public understanding of NZ's climate challenge, including opportunities & trade offs
- Aligning science, innovation, economic growth and climate change
- *Others: independence? cross-party support?*

What questions it could investigate:

- How can we grow NZ's economy while reducing emissions?
- What are the best options for NZ to meet its 2030 and 2050 targets?
- What are the actions or 'pathways' that NZ can take to achieve a competitive low-emissions economy?
- How do we ensure NZ's economy and society is resilient to climate change impacts?
- What type of behaviour change is required?

What it will not do:

- Revisit the targets (ie Paris, 2030, 2050 ambition)
- Get involved with international negotiations
- Investigate alternative approaches to carbon pricing (such as a carbon tax)
- Write policy

2 What should the Taskforce deliver?

Option A

Taskforce tests officials advice on a climate change work programme

- Taskforce is used to test advice and provide expert input into work programmes
- Officials work through key steps of policy process and make policy recommendations
- Standard officials-led consultation process

OR

Option B

Taskforce identifies possible pathways to take NZ to a competitive low-emissions economy

- Taskforce delivers a report with a range of possible options
- Taskforce uses input from working groups
- Not policy prescriptive
- Taskforce-led engagement process

OR

Ministers could seek Taskforce recs once first report delivered

Option C

Taskforce recommends a specific set of policies to take NZ to a competitive low emissions economy

- Taskforce deliver a report with a set of policy recommendations
- Taskforce uses input from working groups
- Taskforce-led engagement process

3 How a taskforce could work

Attributes

- **Membership:** 8-10 people to provide a mixture of skills and experiences (business, science, Iwi, economics, public engagement)
- **Chairperson:** Person of stature and experience
- **Legal basis:** Cabinet appointment
- **Resources:** Chair regulates access to resources through negotiation with Director of Climate Change in MfE
- **Control:** Terms of reference
- **Transparency and public engagement:** Sector engagement, website etc
- **Link to officials and agency working groups:** Yes, through Taskforce representatives on agency working groups
- **Reporting:** Regular report (quarterly) to Ministers as they form their views

Skills

- Effective communicators
- Credible, respected figures
- Vision for NZ brand
- Māori/iwi representation
- Science and environmental expertise
- Economics, finance and investment expertise
- Sector experts (eg agriculture, forestry, power, industry etc.)

Possible add-ons

- Cross-party consultation on membership
- Taskforce could commission its own research
- Setup a series of advisory groups for the Taskforce

Taskforce on Climate Change: how it could work

NOT GOVERNMENT POLICY, IN-CONFIDENCE DRAFT

The Plan – 'New Zealand to 2050'

What's in the Plan?

- How NZ could get to 2030/2050 targets and a low emissions future
- NZ ETS: 2020 and beyond
- Sectoral challenges and policies
- A coordinated and durable approach to adaptation
- Supporting R&D into low emissions technologies
- Will be issued in 2018

Programme deliverables

2016
August – Taskforce, working groups established

2017
March – Taskforce and working group interim reports
December – Taskforce final report

2018
March – 'New Zealand to 2050' plan released

Ministerial group
(meets quarterly)
Bennett, Bridges, Joyce, Guy, Goodhew, Smith

Minister for Climate Change Issues
(Minister Bennett)

Taskforce
Identifies pathways for a competitive low-emissions economy

NRS
Deputy Secretaries

Accountability: Reports to Minister for Climate Change Issues, reports back monthly; Interim report early 2017; final report early 2018

Taskforce Secretariat: Analysis and support to help the Taskforce understand work

Taskforce Comms team: Provides the communication plan for public engagement

Working group design, work programme design, progress updates and technical discussions

Continue with NZ ETS review

Progressing the review is critical for meeting our 2030 target.

We need to consider how closely to align the NZ ETS with our international targets. Officials are leading this work, and will need technical input from sectors. We expect the NZ ETS will remain unchanged through to 2019. The outcome of the 2nd stage of the review will form part of the 2018 plan, with legislation in 2019

Free allocation | International markets | Forestry | Auctioning

Other areas present opportunities → Industrial heat

New working groups

Progressing other issues will be crucial for getting to a low emissions future

These issues are challenging, require a fresh approach, and will need Ministerial and sector buy-in.

Agriculture | Adapting to climate change | Transport

Investment in R&D – how much bang for buck are we getting, and is private investment being promoted?

Cross-party working group | Is there a role for this?

Ministers have choices about how each working group is organised:

1) **Who leads?** (eg. Minister, senior official, business leader)
2) **Type of group?** (eg. Policy group, technical advisory group)
3) **How do they report?** (eg. to Ministerial group, senior officials, to the Taskforce)

Sector engagement required across all work items, except for international markets which is subject to international negotiations