

Chair
Cabinet Policy Committee

CLIMATE CHANGE POLICY: THE WAY AHEAD

Proposal

1. I propose that Cabinet recognises climate change as a long term strategic issue for New Zealand within the broader context of economic transformation, national identity, and other leading issues, for example, water quality and flood control.
2. To give effect to this strategy, I seek approval for a series of whole-of-government climate change policy work programmes as required by Cabinet in December 2005 [CBC Min (05) 20/10 refers]. The work programmes involve the Ministers of Finance, Agriculture, Forestry, Energy, Transport, Foreign Affairs and the Minister Responsible for Climate Change Issues, and their relevant departments. I, as the Minister Responsible for Climate Change Issues, will take a co-ordinating role with support from the Department of the Prime Minister and Cabinet and the Ministry for the Environment.

Executive Summary

3. New Zealand is a great place to live, work, invest in and to bring up our families. We all have a part to play to preserve our healthy environment and high quality of life. Our daily activities are increasingly generating environmental challenges and of all the environmental and economic challenges, climate change is probably the most serious facing mankind today.
4. The international debate on climate change has moved beyond discussion of whether it is happening to what must be done. The need for the world to dramatically reduce emissions of greenhouse gases over the next 30-40 years is now accepted by almost all world leaders, scientists and commentators.
5. Concerted international action by the world's largest emitters of greenhouse gases, both developing and developed countries, is essential for reducing the risk of climate variability in New Zealand and elsewhere; reducing dependence on increasingly insecure fossil fuel supplies is a concurrent objective.
6. There is little doubt that New Zealand's climate will become more unstable in the years ahead – sufficient greenhouse gas emissions have already entered the atmosphere to bring about change. As a biologically based economy, we need to put far more effort into assessing the impacts of and preparing for a changing climate. This includes being ready to take advantage of the opportunities that will arise from climate change. For example, we should be able to grow and export new commercial crops or cultivate existing crops in new areas of the country.

7. Notwithstanding the above, many New Zealanders still view climate change as an international issue of little relevance to their daily lives. The Kyoto Protocol is perceived by some in a negative light. Some public comment has tended to focus on the volatile net Kyoto balance and so misses the point that we have to meet the significant and growing long-term challenge posed by climate change.
8. Until recently, we thought we were well situated to meet our Kyoto obligations, but the stronger than expected growth in net emissions, as well as analytical adjustments, means we face a greater than anticipated challenge. The imperative to act is stark, and momentum is already building towards international prices for emissions to which we will have to respond. But, we are perhaps better placed than we think to make innovative adjustments. It is clear, however, that adjustment will take far longer than the period covered by Kyoto Commitment Period 1 (2008 to 2012).
9. There is a growing body of support for action at the local level – as seen through our successful Communities for Climate Protection–NZ programme. There are many other recent examples of growing public awareness and concern. Successfully tackling climate change requires us to engage with and galvanise the support and enduring effort of the community.
10. This suggests that our approach to climate change should focus on a far longer period than the five years under Kyoto. I therefore recommend that the Government's climate change focus be:
 - long term and strategic;
 - on balancing durable efforts to reduce emissions with preparations for the impacts of a more variable climate;
 - on engaging with and inspiring the wider public and business to energise their willing, effective and long term involvement; and
 - on international engagement that advances our national interests.
11. We still need to work towards meeting our Kyoto liabilities, but we need to ensure our immediate work programmes are consistent with our overall, longer term approach.
12. The nature of the climate change challenge means we need to take a genuinely durable and integrated approach. We need explicitly to draw together related issues – e.g. catchment protection where forestry will both sequester carbon and offer solutions for adapting to more volatile weather – and economic transformation where New Zealand has the environmental credentials i.e. brand and scientific capability to be at the forefront of developing and exploiting new environmental technologies.
13. Decisions in December [CBC Min (05) 20/10 refers] identified a number of work programmes with different Ministerial responsibilities and this paper describes the key elements. I propose an additional communication and stakeholder engagement work programme to support climate change as a long term issue of strategic importance to New Zealand. This work programme will include initiatives to assist us as we lead on this issue and engage the wider community.[withheld under OIA s 9 (2) (f) (iv)]the programme will be sufficiently developed to support the other work programmes.
14. Work programmes put forward in this paper recognise that New Zealand is reliant on global efforts to address climate change; that action on a number of

fronts is necessary; and our actions must first and foremost protect and advance New Zealand's interests.

15. As part of descriptions of the different work programmes (Appendices 2 and 3), I highlight key decision points and propose deliverables, including future reporting back to Cabinet.
16. The forestry challenges we face - an increasing trend to harvest forests and convert to other land uses, and historically low, new planting rates – are the subject of immediate work programme development.
17. Over slightly longer time frames, work programmes will start to signal to stakeholders that there will be a price for emissions in New Zealand.
18. In regard to future Cabinet report-backs, I have sought an interim report [withheld under OIA s 9 (2) (f) (iv)] on progress in implementing the work programmes, with a focus on priority areas. A first tranche of decisions on future climate change policy [withheld under OIA s 9 (2) (f) (iv)] will focus on development of a draft strategic framework for climate change (2030 and beyond); forestry policy to address the short as well as the long term challenges; agriculture and land use policy; some immediate measures to improve fuel efficiency and import standards for vehicles; development of a strategy on how to approach our preparations for the impacts of climate change and assess the likely significance of and possible timing of any effects; and a supporting communication and stakeholder engagement programme. In addition, guidance will be sought, shorter-term, on a purchasing strategy for Kyoto-compliant emission units.
19. A separate, but intimately related process will develop a National Energy Strategy and the review of the National Energy Efficiency and Conservation Strategy on a similar time frame. The three specific energy-related work areas have been subsumed into a combined Energy work programme.
20. A second tranche of reports to Cabinet [withheld under OIA s 9 (2) (f) (iv)] will focus on alternatives to the carbon tax (for the electricity generators and major industrial direct emitters); energy policy; and further transport policy.
21. Important, but less urgent decisions (on funding and priorities) can be addressed [withheld under OIA s 9 (2) (f) (iv)]. These include decisions on climate change research and development priorities (although it is expected that research associated with energy and agriculture will be covered within the sectoral work programmes); and the benefits of an incentives programme to reduce emissions across or within specific sectors.

Overview

22. Cabinet, in December 2005, invited the Minister Responsible for Climate Change Issues, on behalf of a Ministerial Reference Group, to report to POL by 3 April seeking approval for a series of whole-of-government work programmes for climate change policy [CBC Min (05) 20/10].
23. Ministers were assigned responsibility for elements of the climate change work programme [CBC Min (05) 20/10] as set out in Appendix 1. Officials have provided their relevant Ministers with details including: programme scope,

tasks, timelines, suggested future report-backs, resource requirements and matters for consultation.

24. In addition, Cabinet sought two other reports – one from the Treasury covering compensatory measures, and the other from the Ministry for the Environment providing advice on emission reductions resulting from the Projects to Reduce Emissions programme.
25. To provide the necessary direction for policy development, I recommend that the Government's climate change focus be:
 - long term and strategic;
 - on balancing durable efforts to reduce emissions with preparations for the impacts of a more variable climate;
 - on engaging with and inspiring the wider public and business to energise their willing, effective and long term involvement;
 - on international engagement that advances our national interests.
26. It is also essential, in my view, for the credibility of the policy signals and for sound long term investment decisions that the fundamentals of domestic climate change policy endure over a prolonged number of years.

Engaging the Community

27. I have considered whether a new over-arching climate change goal is needed to help engage the public. The UK has adopted a bold goal to reduce domestic carbon dioxide emissions to 60% below 1990 levels by 2050. Sweden is aiming to break its dependence on fossil fuels and reduce total emissions to 25% of 1990 levels by 2020. My view is that such a goal will be helpful at some stage, but not yet. Too great a focus on emissions runs the risk of remaining somewhat high level and distant from everyone's day to day lives. In the first instance, therefore, I suggest we concentrate on setting some bold goals or objectives, but at a level that people will be better able to relate to. For example - and these are no more than suggestions:
 - In energy it may be appropriate to set a goal for levels of (non-transport) renewable energy – even going 100% renewable or carbon neutral in a long term timeframe. This could be progressed through the developing National Energy Strategy.
 - In forestry/catchment protection we need look no further than the impacts of major flooding events. Appropriate targets could be set to reforest unstable lands with a wide range of benefits – including expansion and diversification of the forest estate.
 - In agriculture we already have an international reputation for efficiency and innovation – by setting targets related to water quality, run-off, or agricultural emissions per unit of production we could strengthen the environmental (and innovative) credentials of New Zealand produce.
 - Other possibilities include take-up of bio-fuels, and wealth generated through developing and commercialising new environmental technologies.
28. As part of ongoing work, I invite Ministers to consider bold goals or objectives relevant to their work programmes.

29. Taken as a whole, climate change links to a number of cross-cutting issues and opportunities. These include:
- How climate change policy can align with the government's Economic Transformation and National Identity focus, the Sustainable Development Programme of Action, and other work programmes which aim to 'future-proof' New Zealand;
 - Opportunities for industry, central and local government to work together through the climate change work programmes and related programmes (eg Water Programme of Action) to maximise the strong synergies between reducing greenhouse gas emissions, and improving both economic productivity and environmental sustainability;
 - Acknowledgement of biodiversity considerations, including the effect of policies on the conservation estate and enhancement of indigenous habitats;
 - Maintaining a watching brief on trends and movements in climate change science, economics, international policy development, and international carbon markets; and
 - The need for ongoing departmental cooperation to ensure that policies developed through the work programmes are consistent with New Zealand's international trade obligations.
30. A communication and stakeholder engagement work programme, led jointly by the Ministry for the Environment and the Department of Prime Minister and Cabinet, is to be developed. This work programme will outline an approach to support engagement with opinion leaders, business and interest groups as well as the wider public on climate change as a long term strategic issue.
31. Given that climate change policy is an issue which impacts on a number of other portfolios, I intend to regularly brief the Prime Minister and other key Ministers on the sequencing, timing and coordination of climate change work programmes, including arrangements for and implementation of the communication and stakeholder engagement work programme.
32. I also see benefit in the establishment of a Climate Change Science and Technology Panel, for which I intend to develop terms of reference.

International Engagement

33. Inter-governmental discussion on climate change is accelerating and some form of global framework for reducing emissions will evolve over time; the United Nations Framework Convention on Climate Change, its Kyoto Protocol and other initiatives such as those found in the G8 and Asia Pacific Partnership on Clean Development and Climate (AP6) will all contribute. Momentum is likely to build over time towards an international price on carbon emissions. The challenge for a small trading nation, such as New Zealand, is finding a pathway through this uncertainty to a future that allows us to grow our economy, while improving our well being and sustaining our environment. We need to avoid making choices that will make us less competitive, and could strand major investment or create trade distortions.
34. As a strong supporter of the principle of collective responsibility for action to manage global problems, and based on the need to protect our own economic

activity base and our natural environment, New Zealand needs to play its part and do its fair share in addressing climate change.

35. But as a minor emitter on the global stage, New Zealand should focus on those areas in which it can add special value to international efforts, for example through a focus on tackling pastoral agricultural emissions.
36. New Zealand's unique emissions pattern presents a particular set of challenges and opportunities. We are the only developed country with half our emissions coming from agriculture. Given adequate time, research investment and effort, New Zealand could become a leader in technologies to reduce agricultural emissions from ruminant animals while also increasing farm productivity.
37. [withheld under OIA s 9 (2)(j),s 6 (a)]
38. New Zealand clearly has a broad interest in international arrangements to dramatically reduce global emissions of greenhouse gases.

Work Programmes

39. Turning to the detailed work programmes, the sequencing of efforts will need to recognise the imperative of positive public engagement, as well as addressing both the urgent (e.g. deforestation policy) and the important (e.g. a price for carbon emissions in the economy).
40. In the longer run the most effective policy mix is likely to include mechanisms that introduce a price (cost) of greenhouse gas emissions. There would be some advantage in signalling such a mechanism sooner rather than later in order to influence the natural 30- 40 year investment cycles for equipment and infrastructure and minimise the risk of stranded assets.
41. I propose that reports to Cabinet for decisions on the work programmes are grouped as follows:

Interim report-back - An interim report to outline progress in implementing the climate change work programmes, with a particular focus on priority areas [withheld under OIA s 9 (2) (f) (iv)];

- *First stage* – reports on a draft strategic framework for climate change; a communication and stakeholder engagement programme; preparation for and adapting to climate change; forestry measures; transport measures; agriculture and land use; and development of a purchasing strategy for Kyoto compliant emission units [withheld under OIA s 9 (2) (f) (iv)];
- *Second stage* - reports on an international negotiating mandate in preparation for the intergovernmental climate change conference in Nairobi in November, [withheld under OIA s 6 (a), 9 (2)(j), s 9 (2) (f) (iv)], finalised strategic framework, consultation on the draft National Energy Strategy and National Energy Efficiency and Conservation Strategy; further transport measures; and alternatives to the carbon tax [withheld under OIA s 9 (2) (f) (iv)];
- *Third stage* – reports on the work programme on incentives to reduce emissions across or within sectors, plus further details on: alternatives to the

carbon tax update on energy work programmes; and research and development [withheld under OIA s 9 (2) (f) (iv)].

42. The relevant Ministers will take responsibility for the different reports and I, as the Minister Responsible for Climate Change Issues, will take a co-ordinating role with support from the Department of the Prime Minister and Cabinet and the Ministry for the Environment.

Budget

43. The Treasury has prepared advice for the Minister of Finance on possible measures to compensate the operating balance for the decision not to implement the carbon tax. The Minister of Finance has decided that the revenue shortfall for 2006/07 year will be counted against the operating balance in Budget 2006. It is anticipated that a further decision on compensatory measures will be taken in time for Budget 2007.

Other Matters

Projects to Reduce Emissions programme

44. In line with Cabinet's directive, officials are working on "how to achieve greater assurance that the emissions reductions resulting from projects [units allocated under the Projects to Reduce Emissions Programme by way of a contract] will be greater than the [quantity of] emission units given away".
45. Early advice indicates that the level of assurance could be tightened by updating the guidelines around managing amendments and termination of existing Projects to Reduce Emissions Agreements. Officials are now reviewing the guidelines and will provide updated guidelines to the Minister Responsible for Climate Change Issues and Minister of Finance for their consideration.

Future Report on Kyoto "Net Position"

46. Officials are updating the projected balance of emission units for the first commitment period (2008-2012) of the Kyoto Protocol, known as the 'net position' report. The 2006 'net position' report incorporates the latest energy emissions projection based on the information in the 2006 Energy Outlook and updated agriculture and forestry projections. It is due to be reported to me by the end of May 2006 and will be used as a basis to update the Crown's financial statements.

Consultation

47. The following departments were consulted: The Treasury, Te Puni Kokiri, the Ministry of Economic Development, the Ministry of Agriculture and Forestry, the Ministry of Foreign Affairs and Trade, the Department of Prime Minister and Cabinet, the Ministry of Transport, the Ministry of Research, Science and Technology, the Department of Building and Housing, and the Energy Efficiency and Conservation Authority.

Financial Implications

48. There are no fiscal, financial or economic implications of decisions sought by the paper, although there are a number of noting financial recommendations.

Legislative Implications

49. There are no legislative implications of decisions sought by this paper. Individual work programmes may, however, propose legislative options in the future.

Publicity

50. As there is a high level of interest in climate change policy matters, I recommend this paper be made available publicly, at the appropriate time, subject to consideration of sensitive material that would be withheld under any Official Information Act request.
51. In addition, the clear direction for how New Zealand will approach the issue of climate change should be communicated following development of the communication and stakeholder engagement work programme (ref paragraph 30). Given that climate change policy is a cross-cutting issue which impacts on a number of other portfolios, I intend to regularly brief the Prime Minister and other key Ministers on the sequencing, timing and coordination of climate change work programmes, as well as arrangements for and implementation of the communication and stakeholder engagement work programme.
52. There will also be interest in the specific details of the work programmes. Communication around this will likewise need to be integrated with the communication and stakeholder engagement work programme.

Recommendations

53. As Minister Responsible for Climate Change Issues, I recommend that the Committee:
1. **Note** that New Zealand can expect to experience increased climate variability as a consequence of greenhouse gas emissions that have already been emitted over the past century and that this presents major risks, as well as opportunities, to our biologically based economy;
 2. **Note** that the need for the world to dramatically reduce emissions of greenhouse gases over the next 30-40 years is now accepted by almost all world leaders, scientists and commentators and that action by the world's largest emitters of greenhouse gases, both developing and developed countries, is essential for reducing the risk of climate variability in New Zealand and elsewhere;
 3. **Note** that the Kyoto Protocol is an early step towards co-ordinated international action and New Zealand remains resolved to meet its commitments;
 4. **Agree** that the Government's climate change focus be:
 - 4.1 long term and strategic;
 - 4.2 on balancing durable efforts to reduce emissions with preparations for the impacts of a more variable climate;

- 4.3 on engaging with and inspiring the wider public and business to energise their willing, effective and long term involvement; and
- 4.4 on international engagement that advances our national interests;
5. **Agree** that New Zealand has a broad interest in international arrangements to dramatically reduce global emissions of greenhouse gases;
 6. **Agree** that it is essential for the credibility of the policy signals, and for sound long term investment decisions, that the fundamentals of domestic climate change policy endure over a prolonged number of years;
 7. **Direct** officials to proceed with the whole-of-government work programme for climate change discussed in this paper;
 8. **Direct** officials to review their respective work programmes on a regular basis to ensure consistency with this paper and subsequent decisions by Cabinet on climate change policy;
 9. **Agree** that respective Ministers will sign off any amendments to work programmes for which they are responsible;
 10. **Invite** respective Ministers to consider bold goals or objectives as part of their ongoing work programme responsibilities;
 11. **Direct** officials from the Ministry of Transport to engage with the transport sector on policy options including investigating fuel efficiency standards (based on world's best practice) and raising the minimum requirement for imported petrol and diesel vehicles through the use of harmful emission standards;
 12. **Direct** officials from the Ministry for the Environment and the Department of Prime Minister and Cabinet to coordinate the development of a whole-of-government communication and stakeholder engagement programme on climate change matters;
 13. **Agree** to reports to Cabinet on the whole-of-government climate change work programme as follows:
 - 13.1 *Interim report-back* [withheld under OIA s 9 (2) (f) (iv)]– An interim report to outline progress in implementing the climate change work programmes, with a particular focus on priority areas;
 - 13.2 *First stage* [withheld under OIA s 9 (2) (f) (iv)] – reports on a draft strategic framework for climate change; a communication and stakeholder engagement programme (Minister Responsible for Climate Change Issues); preparation for and adapting to climate change (Minister Responsible for Climate Change Issues); forestry measures (Minister of Forestry); transport measures (Minister of Transport); agriculture and land use (Minister of Agriculture); and development of a purchasing strategy for Kyoto compliant emission units (Minister of Finance);
 - 13.3 *Second stage* [withheld under OIA s 9 (2) (f) (iv)]– reports on an international negotiating mandate in preparation for the intergovernmental climate change conference in November 2006 (Minister of Foreign Affairs and Trade); and [withheld under OIA s 9 (2) (f) (iv)] - finalised strategic framework (Minister Responsible for Climate Change Issues); consultation on a draft National Energy

Strategy and review of the National Energy Efficiency and Conservation Strategy (Minister of Energy); further transport measures (Minister of Transport); alternatives to the carbon tax (Minister Responsible for Climate Change Issues);

14. **Note** that reports to Cabinet for the work programme dealing with incentives to reduce emissions across as well as within specific sectors, plus further details on: alternatives to the carbon tax; updates on energy work programmes; and research and development, will be presented [withheld under OIA s 9 (2) (f) (iv)];
15. **Note** that relevant Ministers will take responsibility for the different reports and that I, as the Minister Responsible for Climate Change Issues, will take a co-ordinating role with support from the Department of the Prime Minister and Cabinet and the Ministry for the Environment;
16. **Note** that I intend to regularly brief the Prime Minister and other key Ministers on the sequencing, timing and coordination of climate change work programmes, including arrangements for and implementation of the communication and stakeholder engagement work programme;
17. **Note** that there will be further discussion among key Ministers about how the policy direction set by this paper will be publicly communicated;
18. **Note** that I intend to establish a Climate Change Science and Technology Panel for which I will be shortly developing terms of reference;
19. **Note** that as Minister of Energy I will shortly be submitting the terms of reference for the development of a National Energy Strategy to the relevant Cabinet Committee;
20. **Note** that the Ministry for the Environment will provide updated guidelines for the management of existing Projects to Reduce Emissions Agreements to the Minister Responsible for Climate Change Issues and Minister of Finance for their consideration;
21. **Note** that the 2006 'net position' will be reported to the Minister Responsible for Climate Change Issues [withheld under OIA s 9 (2) (f) (iv)] ;
22. **Note** the Treasury has provided advice to the Minister of Finance on measures to compensate the operating balance for the removal of the carbon tax;
23. **Note** that further decisions on compensatory measures will be taken in time for Budget 2007.

Hon David Parker

Minister Responsible for Climate Change Issues

APPENDIX 1

Ministers and the Climate Change Work Programmes for which they have responsibility

(Refer CBC Min (05) 20/10 recommendations 35.1 to 35.15)

[Note: short hand references used in Appendices 2 and 3 are given in parenthesis].

Minister Responsible for Climate Change Issues

- revisiting New Zealand's internally set goal that "New Zealand be set towards a permanent downward path for total gross emissions by 2012" in the context of a strategic framework (Strategic framework /Domestic goal)
[withheld under OIA s 9 (2) (j), s 6 (a)]
- work on alternative measures to the announced carbon tax, including consideration of emissions trading and new, possibly voluntary, arrangements to replace Negotiated Greenhouse Agreements (Alternatives to Carbon Tax)
- appropriate research and technology investment priorities, excluding agriculture and energy (Research)
- the benefits of, and possible future shape of, incentive programmes such as the Projects to Reduce Emissions programme (Cross-sector initiatives)
- an extension of existing work to help New Zealand prepare for and adapt to the impacts of climate change (Preparation for and adapting to climate change)

Minister of Finance

- purchasing and other strategies for acquiring emission units for the first Kyoto commitment period (2008-2012) from appropriate sources (Purchasing of Kyoto Units)

Minister of Agriculture

- land-use and the links between forestry and agriculture policies (land use change)
- treatment and reduction of agricultural emissions including research (Agriculture)

Minister of Forestry

- work on forestry policy options for managing deforestation and encouraging afforestation (new tree planting) and reforestation (reversion to indigenous forest or replanting) (Forestry)
- land-use and the links between forestry and agriculture policies (land-use change)

Minister of Energy

- incentives for renewable energy or disincentives for fossil fuel based electricity generation (Energy)
- opportunities to reduce energy emissions generally, including through development of the National Energy Strategy and energy research and priorities (Energy)
- review of the National Energy Efficiency and Conservation Strategy (Energy)

Minister of Transport

- incentives or disincentives for purchase and use of transport modes and vehicle efficiency (Transport)

Minister of Foreign Affairs

- continuation of work to ensure that New Zealand's international interests in climate change are protected and advanced (International)

Key Deliverables from the Climate Change Work Programmes

(Reports to Cabinet identified)

[withheld under OIA s 9 (2) (f) (iv)]

- An interim report to outline progress in implementing climate change work programmes, with a particular focus on priority areas.

[withheld under OIA s 9 (2) (f) (iv)]

- Communication and Stakeholder Engagement Programme – engagement with the public, opinion leaders, business and interest groups;
- Strategic framework – an evaluative framework and initial consideration of possible domestic goal/s on which to build a durable framework for climate change policy. To include underpinning analytical work to compare different policy approaches;
- Preparation for and adapting to climate change – recommendations on priorities and resource needs;
- Forestry – initial focus on short term deforestation and afforestation;
- Transport – project scope to develop vehicle import controls for fuel efficiency standards - resource requirements and timing;
- Agriculture and Land-use change – advice to Cabinet on the contribution of research to mitigation in the agricultural sector; report on incentives for the uptake of mitigation technologies (e.g. nitrification inhibitors); and the likely impacts of price-based measures - taxes and nitrogen cap and trade schemes;
- Purchasing of Kyoto Units – a short term strategy for purchasing Kyoto compliant emission units.

[withheld under OIA s 9 (2) (f) (iv)]

- International – confirmation of New Zealand’s negotiating position at the next major intergovernmental climate change conference (Nairobi, November 2006).

[withheld under OIA s 9 (2) (f) (iv)]

- Forestry – consultation with stakeholders on the preferred option(s) followed by Cabinet decisions and communication of option(s);
- Agriculture - consultation with stakeholders on the preferred option(s) followed by Cabinet decisions and communication of option(s);
- Energy – formal consultation on Cabinet approved draft National Energy Strategy and replacement National Energy Efficiency and Conservation Strategy;
- Strategic framework /Domestic Goal/s – finalised climate change Strategic Framework – aligned with final energy strategies (see below);
- Alternatives to Carbon Tax – proposals on preferred tools to reduce emissions from the industrial and electricity generation sectors and the basic parameters for policy measures;
- Transport – multi-year project scope on economic instruments to incentivise individual behaviour change towards low emission fuel and vehicle use including differential registration fees; and report on progress developing a fleet operators’ commitment programme, including provision of information

and training to drivers of heavy fleets, and opportunities for offset schemes (planting of trees to offset transport carbon dioxide emissions).

[withheld under OIA s 9 (2) (f) (iv)]

- Cross-sector initiatives – [withheld under OIA s 9 (2) (f) (iv)] on preferred policy and implementation strategy for initiatives or incentive programmes to reduce emissions within or across sectors of the economy;
- Alternatives to Carbon tax – [withheld under OIA s 9 (2) (f) (iv)] (depending on policy measure) – decision on detailed design of the policy measure pre-2012 (e.g., narrow tax, emissions trading, voluntary agreements, or other measures)[withheld under OIA s9(2)(f)(iv)]– Report to Cabinet on design of a longer-term policy measure post-2012 (e.g., economy-wide emissions trading);
- Research –[withheld under OIA s 9 (2) (f) (iv)] on identification and prioritisation of gaps in our current climate change research, coordinating with reports on climate change research for agriculture, land use and energy. Note: this report date is subject to progress on policy development because research needs are policy dependent;
- Energy – report on final National Energy Strategy and new National Energy Efficiency and Conservation Strategy[withheld under OIA s 9 (2) (f) (iv)]and implementation of initiatives;
- Agriculture and Land-use change – development of a national climate change action plan for agriculture.[withheld under OIA s 9 (2) (f) (iv)]
- International – on-going negotiations in international fora post 2012.

Climate change work programmes with lead agencies identified

Communication and Stakeholder Engagement – (Lead coordinators - Ministry for the Environment and the Department of Prime Minister and Cabinet)

A comprehensive communication and stakeholder engagement work programme will be developed [withheld under OIA s 9 (2) (f) (iv)]. The programme will ensure engagement with the community and business and interest groups is coordinated and appropriately targeted, and will be designed in consultation with departments and key stakeholders.

Strategic framework/domestic goal (Leads - Ministry for the Environment and the Department of Prime Minister and Cabinet)

Elements of the strategic framework include: developing a broadly supported internal goal/vision for New Zealand, objectives or milestones to track progress toward the goal, and more detail on a “balance sheet” i.e. how the merit of different policies will be assessed and help coordinate the goals in each of the other work programmes. This work programme extends the scope of the work to revisit New Zealand’s internally set goal [CBC Min (05) 20/10].

Preparing for and adapting to climate change (Lead - Ministry for the Environment)

A priority is to engage with the community on the importance of preparing and planning for the impacts of a more variable climate. Another priority is to take a strategic approach - to focus on the impacts considered most likely to impact significantly at a regional, national or sectoral level, and the expected timing of such trends. This includes identifying actions to take in the short-term to minimise future costs and lost opportunities. Local government can play a key role in this area.

Forestry (Lead - Ministry of Agriculture and Forestry)

Challenges in the forestry work programme include tackling the trend to harvest trees and then change land use (deforestation) and addressing the low rates of new forest planting (afforestation). The key challenge, especially in the short-term, is to discourage deforestation. In the medium-term, consideration of enhanced rates of tree planting on marginal land may bring a range of synergistic benefits e.g. erosion and flood control.

Short-term, key decisions will be whether to expose investors through legislation to the value of emission credits and associated deforestation liabilities under the Kyoto Protocol, or whether non-legislative approaches are preferred, or whether some combination of the two should be used. As part of this process, decisions will be required on the interlinked issues of whether to devolve sink credits and associated liabilities to forest owners, and whether and how to make a deforestation cap operational. One initiative that could be progressed is the Permanent Forest Sink Initiative. Officials are currently preparing a paper on proposed changes and will seek the approval of Cabinet to proceed with the Initiative. The scope also covers looking

at options for the management of Crown owned land and the responsibilities of State owned enterprises.

Transport (Lead - Ministry of Transport)

This work includes the continuation and expansion of existing initiatives, new initiatives and more strategic long term initiatives.

Existing initiatives include vehicle fuel consumption information and point of sale material, appropriate vehicle emissions tests, improvement to the Vehicle Fleet Emissions Model, government fleet management and procurement initiatives (Govt3), consultation on the Auckland Road Pricing Evaluation Study, and investigation and development of a biofuels sales obligation. A report-back on the biofuels programme is expected [withheld under OIA s 9 (2) (f) (iv)].

Of the new initiatives, one of the priorities is to investigate import controls. Agreement is sought from Cabinet to consult on fuel efficiency standards (based on world's best practice) and raising the minimum requirement for both imported petrol and diesel vehicles through the use of standards that control harmful emissions, such as the fine particles from diesel combustion.

The long term priority is to develop proposals for the use of economic instruments to incentivise individual behaviour change towards low-emission fuel and use of low-emission vehicles.

Purchasing of Kyoto Units (Lead – The Treasury)

In the short-term (up to 2012) one of the measures that can assist New Zealand to meet its Kyoto Protocol obligations will be to purchase Kyoto compliant units internationally. The first stage of the work is to report to Cabinet on a strategy for purchasing Kyoto compliant emission units [withheld under OIA s 9 (2) (f) (iv)]. Should Cabinet agree to purchase, the final quantities involved will depend on the development of the “balance sheet”, under the strategic framework, to assess the costs and benefits of the different emission reduction options. Key issues for purchasing, should it be agreed, include: when to purchase, how many units to purchase, and what types of unit to purchase. Although a short-term obligation, decisions about purchasing should be consistent with long term global objectives and positioning of New Zealand.

International (Lead - Ministry of Foreign Affairs and Trade with support from the Ministry for the Environment and others)

The international work programme focuses on intergovernmental discussions and negotiations on future action to address climate change. The outcomes of these processes are expected to have significant implications for New Zealand. Protecting and advancing our national interests, including the special circumstances which differentiate us from other developed countries, in the pre-negotiating phase and eventual negotiations on a post-2012 climate change regime will require work to develop a more detailed "New Zealand Inc" position on future action.

[withheld under OIA s 9 (2) (j), s 6 (a)]

Developing a “New Zealand Inc.” position will assist New Zealand to have a strong, constant and coordinated presence at the negotiating table and for our position to be

regularly and effectively injected into international discussions. Further exposure of New Zealand's international position depends on the development of a domestic strategic framework and broad policy settings for the medium-term.

[withheld under OIA s 6 (a), 9 (2)(j), 9 (2)(g)(i)]

A key date for international negotiations is the forthcoming intergovernmental climate change conference in Nairobi in November 2006.

Agriculture (Lead - Ministry of Agriculture and Forestry)

Agriculture continues to be a significant challenge, both in terms of policies to reduce emissions and support for these by the sector. The policy focus will be to develop leadership in the sector, find new technologies through research and encourage their wide adoption. Measures proposed to assist this include development of a National Climate Change Action Plan for agriculture (to be part of the overall Communication and Stakeholder Engagement Strategy covered above), enhanced research efforts for field measurements and mitigation tools, investigation of the likely impacts of price-based measures on nitrogen use and technology uptake, and voluntary measures such as greenhouse gas reporting, and demonstration of best management practices to reduce emissions.

Land-use change (Lead - Ministry of Agriculture and Forestry with support from the Ministry for the Environment)

The work to strengthen links between forestry and agricultural land use will be subsumed into the work programmes on forestry and agriculture. The impacts of other policies on land-use – both within and outside the climate change work programme, for example under the Sustainable Development Programme of Action - will be assessed. A key focus will be on policy measures to discourage conversion of land from forestry and on the scope for synergistic benefits including reduced soil erosion, integrated water catchment management and enhanced biodiversity.

Alternatives to the carbon tax (Lead- Ministry for the Environment)

This work programme covers large direct emitters of greenhouse gases in both the electricity generation and industrial sectors. The work links with the analytical work supporting the strategic framework and goal as providing an appropriate, durable price signal is important for influencing investment decisions, particularly in regard to long-lived assets. It includes assessing in detail three policy measures: a narrow-based tax on emissions; carbon emissions trading based on either an absolute cap or baseline/credit trading; and new (possibly voluntary) arrangements to replace Negotiated Greenhouse Agreements. Note: there are strong links to the energy work programmes.

Energy (Leads - Ministry of Economic Development and the Energy Efficiency and Conservation Authority)

The work programme is principally focused on the development of the National Energy Strategy and the replacement of the National Energy Efficiency and Conservation Strategy. Attention will be focused on optimising efficient use of energy, incentives for supply of energy from non-fossil sources, disincentives for fossil fuel electricity generation, a possible narrow carbon tax on electricity generation, and energy research. Use of solar water heating is expected to be a focus, led by the Energy Efficiency and Conservation Authority, and the Department of Building and Housing is leading work on buildings: short-term initiatives to improve energy efficiency and a more substantive review of the Building Code by the end of 2007.

Cross-sector initiatives (Lead - Ministry for the Environment)

In addition to specific sectoral work programmes, incentives to reduce emissions can operate across sectors as well as within specific sectors. The Projects to Reduce Emissions programme was an example of this. The work programme will examine the value of incentive programmes and the type of programme that may be appropriate. Attention will be focused on emissions from industrial and commercial businesses (except large energy users and industrial emitters as considered elsewhere), agriculture (except ruminant methane), waste, and the household sector. This will form the basis for recommendations on the need for and type of possible interventions to reduce emissions.

It is expected that a report back [withheld under OIA s 9 (2) (f) (iv)] will cover this work, along with further details on alternatives to the carbon tax, updates on energy work programmes and research and development.

Research (Lead – split between agencies)

Because of the diverse nature of research, the lead is divided between the Ministries of Economic Development, Agriculture and Forestry, Research Science and Technology and Environment. The focus is identification and prioritisation of gaps in our current climate change research. It is important to coordinate with work programmes covering climate change research for agriculture, land use and energy. A general research report back [withheld under OIA s 9 (2) (f) (iv)] is subject to progress on policy development because research needs are policy dependent. Terms of reference will be developed for a Climate Change Science and Technology Panel.

Other work programmes

Other relevant work programmes are continuing, but do not have specific report backs. These include: consideration of opportunities to address climate change under the Resource Management Act (relevant to a number of work programmes, including energy); the Communities for Climate Protection programme involving engaging with local government; the Energy Intensive Business programme being run by the Energy Efficiency and Conservation Authority; and climate change science.