

Memorandum of Understanding

Between

The New Zealand National Party and the New Zealand Labour Party

on

Climate Change Policy and the Emissions Trading Scheme

(version tendered by Labour on 14.9.09 for 15.9.09 meeting)

Purpose

The purpose of this memorandum is to record an agreement which the National Party and the Labour Party have reached regarding climate change policy and the emissions trading scheme.

Principles Underlying the Agreement

The National Party and the Labour Party have agreed a set of principles that should underlie policy development in the area of climate change.

Those principles are:

1. climate change is a major issue that New Zealand needs to address at a global, regional and national level.
2. while New Zealand recognises that on its own it cannot affect the pace and nature of climate change we must be part of concerted international action within the United Nations Framework Convention on Climate Change (UNFCCC) that sees the world moving to stabilise concentrations of greenhouse gases at prudent levels;
3. policies have to be effective to be credible. New Zealand emissions of greenhouse gases are high on a per capita basis, and growing. Any policies have to be of sufficient influence to turn this trend around, sooner rather than later;
4. policies have to address the specifics of New Zealand circumstances. New Zealand's largest emissions are from agriculture and the fastest growing sources of emissions are from electricity and transport. Forestry is also very significant with large potential emissions from deforestation but also offering large opportunities for carbon capture;
5. policies have to be enduring to be effective. If behaviour of both

households and business is to change, both groups have to be convinced that policies are here to stay. Business needs to invest in long-life assets that may lose considerable value if climate change policy is unstable. Policies that are seen as likely to be reversed at each change of government will not be either credible or effective;

6. policies also have to be fair, as between consumers and producers and as between different sectors;
7. addressing climate change will have costs as well as benefits. But New Zealand should be looking to take effective action at least cost, not at any cost;
8. market-based mechanisms are preferred, as they allow individual consumers and producers to discover the least-cost ways of achieving any given environmental outcome;
9. climate change policy should be developed in a transparent, consultative manner, with an independent assessment of the costs and benefits of proposals; and
10. where possible, and recognising differences in industrial structure, New Zealand should endeavour to work closely with Australia on climate change and, noting the close economic relationship, align and link our emission trading schemes where it is in our mutual interests to do so.

The Emissions Trading Scheme

Based on the work of the Emissions Trading Scheme Review Committee and on their direct discussions, the National and Labour Parties have agreed that an emissions trading scheme should be the principal policy instrument to constrain and reduce greenhouse gas emissions.

The Parties have further agreed that, taking account of the recommendations of the Committee and their own direct discussions, the Government will introduce a Bill to amend the Climate Change Response Act which:

- confirms an “all gases, all sectors” approach to the emissions trading scheme (i.e. agriculture and forestry will be included in the scheme);
- sets dates on which sectors will enter the scheme;
- provides transitional measures, in particular the method of allocation for trade exposed firms; and
- establishes a transparent policy development process.

Details of the proposed amendments are set out in the annex to this document.

The Bill will also include amendments identified by officials as being required for the next phase of the Scheme to come into effect. National

agrees to consult with Labour on all the details of the amendment Bill and to provide access to officials to assist Labour in its consideration of those details. The Labour Party is committed to considering the entire Bill in good faith, based on the principles outlined above.

If agreement on a Bill can be reached, the Labour Party will support the passage of this legislation through all Parliamentary stages. This includes procedural support as appropriate. The aim is to have this legislation passed prior to the UNFCCC conference in Copenhagen in December of this year, following referral to a select committee.

The National Party and the Labour Party have also agreed that given these proposed changes, no other fiscal instruments (e.g. a "low level carbon tax" or an energy tax) will be put in place as transitional measures.

Specific Exclusions

The Parties agree that the setting of targets and the development of complementary policy measures are excluded from this agreement.

International Negotiations

The Government agrees to fund the attendance of the opposition spokesperson on climate changes issues as a member of any official New Zealand delegation to UNFCCC climate change negotiations which Ministers attend, subject to the normal conventions over participation.

National agrees to keep Labour briefed on international climate change policy developments and to consult on New Zealand's negotiating position recognising that, like trade, there are advantages for New Zealand in a bipartisan position.

Invitation to Other Parties

The National Party and the Labour Party will invite other political parties represented in Parliament to adopt the principles outlined above and to support the proposed Bill to amend the Climate Change Response Act.

John Key
Leader

Phil Goff
Leader

Proposed amendments to the Climate Change Response Act

The proposed amendments are:

- stationary energy, industrial processes and transport will enter the scheme on 1st July 2010;
- agriculture will enter the scheme on 1st January 2013 (with voluntary reporting of emissions from 1st January 2011 and mandatory reporting from 1st January 2012);
- the waste sector will enter the scheme on 1st January 2013 (with voluntary reporting of emissions from 1st January 2011 and mandatory reporting from 1st January 2012);
- from 1st January 2011, on a voluntary basis, agricultural offsets will earn emissions units, which can be freely traded in the international market. The basis for earning units will be the difference between actual reported emissions and the averages used to calculate New Zealand's UNFCCC inventory;
- the price of units to be surrendered for compliance will be fixed at \$15 from 1st July 2010 to 31st December 2011 and capped at \$45 from 1st January 2012 to 31st December 2012;
- fixed-price units will only be able to be surrendered for compliance with obligations incurred before 1st January 2012. All units not surrendered will be cancelled (i.e. cannot be banked).
- capped-price units will only be able to be surrendered for compliance with obligations incurred in 2012. All units not surrendered will be cancelled (i.e. cannot be banked).
- Transitional assistance for agriculture will be provided to compensate farmers for loss of value. For the period 2013 to 2017, 165 million NZUs (approximately five times 90% of 2005 agricultural sector emissions) will be allocated to the sector, with the allocation per farm to be based on land area, location and type of farming. For 2018 to 2022, the allocation will be based on the final level of New Zealand's target determined after Copenhagen. For example, if the target is 90% of 1990 levels, the allocation will be 146 million units. A target of 80% yields an allocation of 130 million units.
- Transitional assistance for the industrial processes sector will be based on industry average intensity, within a fixed cap based on New Zealand's national emissions target. For the period the 2010 to 2017, the cap will be 90% of 2005 emissions (plus an allowance for emissions from electricity). For the period 2018 to 2022, the precise cap will depend on the national target agreed at Copenhagen, which is expected to be between 90% and 80% of 1990 emissions;

- an allocation of 90% of 2005 emissions levels from fuel used by fishing vessels will be provided for the period 1st July 2010 to 1st January 2013;
- detail provisions regarding allocation plans will be contained in primary legislation, not regulations;
- a climate change committee will be established as an independent Crown Entity. The role of the Committee will be to provide independent advice to Ministers and to promote informed public debate on the public policy response to climate change;
- for all sectors, the Committee will under take regular reviews to determine whether transitional assistance is still required, based on the spread of effective carbon pricing policies through the world.