

In Confidence

Minister of Transport

Cabinet Economic Development Committee

International Maritime Organisation- Climate Change Negotiation Mandate

Proposal

- 1 This paper seeks agreement to refresh the principles for engagement for New Zealand's participation in the development of measures to reduce greenhouse gas (GHG) emissions from international shipping.
- 2 A previous negotiating mandate was agreed by Cabinet in 2018 and provided a framework for New Zealand's engagement at the International Maritime Organisation (IMO). This needs to be refreshed in light of new issues being discussed at the IMO that may impact on New Zealand's interests, and to ensure alignment with New Zealand's international climate change negotiation mandate.
- 3 This paper also seeks agreement to establish a cross-agency team dedicated to engaging internationally and domestically on reducing GHG emissions from shipping.

Relation to government priorities

- 4 This proposal relates to the government's priority – *Making New Zealand proud by Creating an international reputation we can be proud of*. It feeds into the government's broader climate change work programme, including supporting an effective global response to climate change and enabling Pacific Island countries to lead their climate response.

Executive Summary

- 5 GHG emissions from international shipping are regulated by the IMO and have been growing steadily since 2012.
- 6 Shipping is critical to New Zealand's supply chains and ultimate recovery from the COVID-19 pandemic.
- 7 The IMO has agreed to implement measures that will reduce GHG emissions. However, progress on developing and agreeing these measures has been slow. [REDACTED]
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[REDACTED]
[REDACTED]
- 8 A focus for upcoming IMO meetings will include the need for increased ambition in the GHG emission reduction targets of the IMO and the use of

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market-based measures, such as carbon levies, to reduce GHG emissions from ships.

- 9 To facilitate our engagement at the IMO and ensure alignment with New Zealand's broader climate change goals and trade obligations, I am proposing the establishment of a dedicated cross-agency team to engage internationally and domestically on reducing GHG emissions from ships.
- 10 It is important that we continue to push for ambitious multilateral solutions at the IMO but we also need to understand potential impacts to New Zealand of different measures being proposed at the IMO. I propose that the cross-agency team commission research on the impacts of IMO measures to New Zealand.

Background

New Zealand's economy is reliant on international shipping

- 11 Shipping is fundamental to New Zealand's economy with 99 percent of the volume of goods New Zealand trades moved by ships. Like other island nations far from markets, New Zealand relies on supply chains maintained by a highly globalised shipping industry.
- 12 A multilateral approach to regulating shipping has been pursued since 1947 with the establishment of the IMO as a specialised agency of the United Nations. The IMO's main role is to create a regulatory framework for the shipping industry that is fair and effective, universally adopted and universally implemented.
- 13 As an active supporter of the multilateral approach New Zealand has adopted many of the key IMO treaties including:
 - 13.1 International Convention for the Safety of Life at Sea;
 - 13.2 International Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter;
 - 13.3 International Convention for the Prevention of Pollution from Ships (MARPOL); and
 - 13.4 International Convention on Standards of Training, Certification and Watchkeeping for Seafarers.
- 14 Annex VI of MARPOL is the main international agreement preventing air pollution and emissions from ships. Cabinet agreed to New Zealand's accession to Annex VI in 2019, and I expect New Zealand to be in a position to deposit the instrument of accession to the IMO at the end of 2021.

Shipping is a significant and growing contributor to GHG emissions

- 15 The latest IMO study shows the GHG contribution from shipping has increased from 2.76 percent in 2012 to 2.89 percent in 2018 and this is projected to increase.
- 16 The Paris Agreement does not require states to include international shipping and aviation emissions in their nationally determined contributions. However, achieving the Paris Agreement's goal of limiting global temperature increase to 1.5 degrees above pre-industrial levels requires sector-wide emissions reductions, including emissions from shipping. If it were a country, shipping would be the 6th largest emitting economy (in 2018). Therefore, it is appropriate that the IMO be tasked with reducing shipping emissions, given its transnational operating profile.

- 17 However, the lack of action at the IMO, as a result of differing views on the responsibility of the shipping sector for reducing GHG emissions has led to mounting action outside of the IMO. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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- 18 In its Draft Advice for Consultation, the Climate Change Commission (the Commission) commented that while emissions from international aviation and shipping are not currently part of New Zealand's 2050 emissions reduction targets, this is seen by stakeholders as an important issue. The Commission will review whether these emissions should be included in New Zealand's domestic 2050 emission reduction target by 2024.

The IMO has made slow progress to date and needs to be more ambitious

- 19 In 2018, the IMO adopted the Initial IMO Strategy on Reduction of GHG Emissions from Ships. The Initial Strategy sets out a clear vision for international shipping, the levels of ambition for reducing GHG emissions, guiding principles, and measures to be adopted to implement the Strategy².

¹ The United Nations Framework Convention on Climate Change 2021 United Nations Climate Change Conference.

² Measures are split between short, medium and long-term reflecting the period that the Marine Environment Protection Committee (an IMO sub-committee) will consider and adopt proposals. Short-term measures (between 2018 and 2023) include technical and operational energy efficiency measures for new and existing ships; mid-term measures (between 2023 and 2030) include an implementation programme for the effective uptake of alternative low and zero carbon fuels, and the use of market-based measures to incentivise GHG emission reduction; long-term measures (beyond 2030) include the development and provision of zero-carbon fuels.

20 The key commitments include:

20.1 reducing CO₂ emissions by at least 40 percent by 2030, pursuing efforts towards 70 percent by 2050, compared to 2008; and

20.2 peaking GHG emissions as soon as possible and reducing the total annual GHG emissions from international shipping by at least 50 percent by 2050 compared to 2008³.

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[Redacted]

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In order for implementing measures to be adopted, proposals must first be submitted, their impacts on States assessed (with particular attention to the needs of developing countries, especially SIDS and LDCs), and disproportionately negative impacts⁴ on States addressed.

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In November 2020, a short-term measure was approved to set energy efficiency targets for ships over a certain size. However, the levels of carbon reduction to be achieved by ships each year has yet to be determined and there are no compliance or enforcement mechanisms proposed in the measure. In addition, some States have sought exemptions to waive the requirements for vessels servicing certain routes. While the details of the measure are still being worked through, it is unlikely it will be effective in achieving significant reductions in shipping emissions.

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Some States are now pushing for the IMO to introduce more significant measures, in particular market-based measures (MBMs) such as a carbon levy or cap and trade mechanism. [Redacted]

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The options for decarbonising the shipping sector are limited in the short- to medium-term, as the alternative fuels are currently more expensive than fossil fuels, and it will take time for the technologies enabling uptake of these fuels to mature. For example, electric ships are currently suitable for short-distance shipping only; there are constraints to the supply of sustainable biofuels for the shipping sector; and technology enabling uptake of alternative fuels such as hydrogen is still approximately 10-20 years away.

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Measures that are adopted and implemented through regulations under MARPOL Annex VI will become legally binding on us. [Redacted]

³ In addition to CO₂ shipping is responsible for other GHG emissions such as methane and nitrous oxide.

⁴ Disproportionate negative impacts for SIDS and LDCs may include, for example, difficulty financing the retrofitting of old ships or investment in new ships to meet GHG emissions reductions

- 27 A revised Strategy is to be adopted by the IMO in 2023. Given the Fourth IMO GHG Study shows evidence of increasing emissions from international shipping, and given the slow progress of the IMO in developing measures to reduce emissions, I propose that New Zealand support the push to reflect more ambitious targets in the Strategy.

Market-based measures (MBMs) will increase shipping costs for New Zealand

- 28 In November 2017, the Ministry of Foreign Affairs and Trade (MFAT) and the Ministry of Transport (the Ministry) commissioned the UCL Energy Institute to research the impact of MBMs on New Zealand.⁵ The report concluded that steps to reduce GHG emissions from international shipping could increase the cost of international shipping services and this in turn could have an impact on global trade, and New Zealand's competitiveness and gross domestic product.
- 29 Initial discussions with some of New Zealand's exporters have highlighted concerns that a carbon levy may drive up costs to overseas consumers (of frozen exports). However, the estimated overall impacts of GHG mitigation related increases in costs of international shipping on the New Zealand economy are small, and appear to be similar to the world average impact, in spite of New Zealand's comparative remoteness.
- 30 Current evidence suggests that a carbon levy in the range of \$250-400/tCO₂ is ultimately needed to close the price gap between fossil fuels and zero-carbon fuels (by returning revenues to the sector to subsidise its transition). If a proportion of revenues are also used to address disproportionate negative impacts on developing countries, SIDS and LDCs, the carbon price would need to be even higher.
- 31 These impacts need to be understood and weighed up in the context of New Zealand's transition to a low emissions future which requires that we decarbonise transport and realign our production and consumption patterns to achieve our 2050 emission reduction targets. We may have to accept that consumers will face increased prices for imported products as the cost of shipping emissions is internalised, while alternative transport fuels are developed. However, we need to ensure that the IMO's GHG management regime and New Zealand's international trade obligations develop in ways that are mutually supportive.
- 32 I propose that a cross-agency team of officials commission research updating our knowledge on the economic impacts to New Zealand of MBMs to inform our position on their use going forward.
- 33 There are differing views among Pacific Island Countries and Territories regarding the application of MBMs. [REDACTED]

⁵ UCL Energy Institute (November 2017): Impact assessment of IMO Greenhouse Gas Reduction Strategies on New Zealand's economy.

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[REDACTED] An accurate understanding of potential costs in the Pacific and negotiations on how revenue from a MBM would be spent will be key.

It is important New Zealand is an active negotiator in upcoming IMO negotiations

34 New Zealand's dependence on an effective global response to climate change requires that we engage coherently across multilateral processes on international climate change issues. Consistent with this, we need to continue to advocate for measures that align international shipping with the broader global effort to meet the temperature limit goals of the Paris Agreement.

35 As a trading nation, distant from markets and reliant on foreign ships to carry our goods, we are impacted by changes in international conditions, including regulatory settings for international shipping. Shipping is critical to New Zealand's supply chains and ultimate recovery from the COVID-19 pandemic, so it is important we maintain a level playing field with international competitors; provide regulatory certainty; and give sufficient lead-time to address new requirements.

36 Consequently, New Zealand needs an ambitious, effective and fair multilateral solution to reduce these emissions. Our national interest in influencing these negotiations includes:

36.1 ensuring measures are workable, fair and not unnecessarily complex or administratively burdensome, and serve to encourage development of mutually supportive international GHG management and trade obligations; and

[REDACTED]

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37 This means we will wish to see:

37.1 an ambitious revised IMO Strategy, applicable to all ships, accompanied by a concrete schedule of pragmatic steps to ensure appropriate action is not deferred;

37.2 recognition and protection of the interests of Pacific Island countries and territories; and

37.3 operationalisation of Common but Differentiated Responsibilities and Respective Capabilities by the IMO that avoids arbitrary differentiation between developed and developing country Member State responsibilities.

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[REDACTED]

A cross-agency approach is needed to engage at the IMO and to address GHG emissions from shipping

- 38 Our engagement on shipping should be mutually supportive with other foreign policy priorities including climate change, trade and the Pacific.
- 39 To do this effectively we need to:
- 39.1 ensure New Zealand's strategy, positions and tactics are aligned with other international engagement on climate change;
 - 39.2 support our Pacific partners to participate while sensitively traversing the differences of views in the region;
 - 39.3 understand the impacts of proposals informed by effective stakeholder engagement; and
 - 39.4 ensure New Zealand agencies are joined up and skilled in the IMO negotiating environment.
- 40 The Ministry leads engagement at the IMO on GHG matters as it is the primary agency responsible for administering international obligations under MARPOL. However, decisions made at the IMO impact on global efforts to reduce emissions and combat climate change, and have potential impacts on our trade, and the broader environment. Similarly, New Zealand's domestic policies related to climate change will inform how we engage internationally. Therefore, it is critical that relevant agencies are appropriately engaged and a cross-agency approach is applied to engagement at the IMO.
- 41 To facilitate this, I am seeking your support for the Ministry to lead a dedicated team with representatives from relevant agencies (MFAT, Maritime New Zealand (Maritime NZ), Ministry for the Environment (MfE) and Ministry for Primary Industries (MPI)) to engage in discussions both internationally and domestically on reducing GHG emissions from shipping.
- 42 I propose that this cross-agency team also work towards the preparation of a national action plan to address GHG emissions from ships as recommended by the IMO, and ahead of the consideration by the Commission in 2024 to include international shipping and aviation in New Zealand's 2050 target.
- 43 The national action plan could include (but is not limited to):
- 43.1 improving domestic institutional and legislative arrangements for the effective implementation of existing IMO instruments;
 - 43.2 developing activities to further enhance the energy efficiency of ships;
 - 43.3 initiating research and advancing the uptake of alternative low-carbon and zero-carbon fuels;
 - 43.4 accelerating port emission reduction activities;

- 43.5 fostering capability-building, awareness-raising and regional cooperation; and
- 43.6 facilitating the development of infrastructure for green shipping.
- 44 This would be similar in nature to New Zealand's Action Plan for managing international and domestic aviation emissions.
- 45 A National Action Plan for managing maritime emissions would demonstrate our commitment internationally to reducing emissions across the transport system and would strengthen the government's commitment to *Getting to Zero*⁷, an initiative supported by New Zealand at the United Nations Climate Action Summit in September 2019.

Financial Implications

- 46 There are no financial implications associated with this paper.

Legislative Implications

- 47 There are no legislative implications for this paper.

Impact Analysis

Regulatory Impact Statement

- 48 A Regulatory Impact Analysis is not required for this paper. Implementation of measures adopted by the IMO would require the subsequent development of Rules and Regulations which may be subject to an Impact Analysis.

Human Rights

- 49 There are no inconsistencies with the Human Rights Act 1993 or the New Zealand Bill of Rights Act 1990.

Consultation

- 50 This paper has been developed with MFAT and Maritime NZ.
- 51 The following agencies were consulted on the contents of this paper: MfE, MPI, Department of Conservation, Ministry of Business, Innovation and Employment, the Treasury, and the Environmental Protection Authority. The Department of the Prime Minister and Cabinet has been informed.

Proactive Release

- 52 I propose to release this paper proactively subject to appropriate redactions within 30 business days of final decisions being made.

Recommendations

⁷ This is an industry-led coalition taking actions to deploy commercially viable zero-emission vessels as a key step towards decarbonising international shipping. The commitment for governments includes non mandatory supporting actions such as incentivising the energy transition, and creating an enabling policy environment.

The Minister for Transport recommends that the Committee:

- 1 **note** that the reduction of greenhouse gas (GHG) emissions from shipping is a critical component of achieving the temperature reduction goals of the Paris Agreement
- 2 **note** that the International Maritime Organisation (IMO) is the lead United Nations agency for deciding and implementing emissions reduction measures, and for determining any emissions reduction target for the maritime sector
- 3 **note** that some States have already signalled an intention to deal impose measures to reduce emissions from international shipping emissions outside of the IMO
- 4 **note** that New Zealand is participating in IMO discussions on:
 - 4.1 the adoption of measures to reduce GHG emissions from international shipping; and
 - 4.2 the revision of the Initial IMO Strategy for Reducing GHG Emissions from Ships (the Strategy)
- 5 **note** that, when New Zealand becomes party to Annex VI of the Prevention of Air Pollution from Ships (MARPOL), as intended, the adoption of measures will involve binding legal obligations on New Zealand
- 6 **note** that decisions made at the IMO will have wider implications for government with potential impacts on trade, and the broader environment beyond just GHG emissions
- 7 **note** that participation in international negotiations, and alignment with domestic efforts requires additional resourcing across agencies
- 8 **note** that, by 2024, the Climate Change Commission will review whether to include international shipping in New Zealand's national emissions budget
- 9 **note** that I will report back to the Cabinet on the impacts to New Zealand of proposed IMO measures and seek direction on New Zealand's position ahead of any decisions to be taken at the IMO
- 10 **agree** to the Ministry of Transport establishing and leading a dedicated team with representatives from relevant agencies (Ministry of Foreign Affairs and Trade, Maritime New Zealand, Ministry for the Environment and Ministry for Primary Industries) to:
 - 10.1 commission research to understand the impacts to New Zealand of proposed IMO measures; and
 - 10.2 engage in discussions both internationally and domestically on reducing GHG emissions from shipping); and
 - 10.3 prepare a national action plan to address GHG emissions from ships

- 11 **agree** that our engagement on reducing GHG emissions from shipping at the IMO should be mutually supportive with other foreign policy priorities including those relating to climate change, trade and the Pacific
- 12 **agree** that New Zealand's principles for engagement at the IMO will be to:
 - 12.1 support the revision of the Strategy in 2023, with the objective of accelerating decarbonisation of the international shipping sector
 - 12.2 continue to advocate for the Strategy's vision, ambition, and timeframe for implementation aligning with the collective commitment in the Paris Agreement to pursue efforts to limit the global temperature increase to 1.5 degrees
 - 12.3 resist approaches to differentiate responsibilities on climate action where it is not justified
 - 12.4 support the development of measures that are fair and not unnecessarily complex or administratively burdensome, and serve to encourage development of mutually supportive international GHG management and trade obligations
 - 12.5 advocate for measures that are enforceable and can be scaled to reflect increased the levels of ambition in the Strategy
 - 12.6 advocate for the interests of Pacific island countries consistent with New Zealand's national interest
 - 12.7 seek effective and efficient outcomes, including avoiding duplication of existing multilateral processes

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- 13 **note** that officials will continue to work with the Pacific, treaty partners, academia and non-government organisations to deliver on the negotiating mandate
- 14 **authorise** the Minister of Transport, in consultation with the Ministers for Climate Change, Foreign Affairs, Trade and Export Growth, Environment, and Oceans and Fisheries, to provide direction to officials as necessary on New Zealand's position if an issue emerges that meets some but not all of the provisions above

Authorised for lodgement

Hon Michael Wood

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