

Climate Change: Preferred Policy for Most New Zealanders

The General Energy Users Group

The General Energy Users Group includes businesses, organisations, institutions and households for which energy (electricity, gas, coal or transport fuels) is a cost, but may not be a major cost in their operations.

As a group it represents about a quarter of New Zealand's greenhouse gas emissions but about two-thirds of its CO₂ emissions. Most New Zealanders are in this group.

This group will face an emissions charge on fuel and energy sources that emit carbon dioxide (CO₂) in the first commitment period, starting in 2007/8. The charge will be linked to the price of carbon on the new international market that will be set up in response to the Kyoto Protocol. However, the price will be capped in New Zealand at NZ \$25 a tonne of CO₂ equivalent. The Government retains the option of introducing emissions trading¹, rather than an emissions charge, if the international carbon market is functional² and the price is reliably below the NZ \$25 cap.

The purpose of the emissions charge is to change relative prices – increasing the costs of fuel and energy that emit CO₂ is intended to encourage people to use energy and fuel more efficiently or to encourage them to switch to alternative energy sources; it will also have the effect of making energy sources that emit fewer greenhouse gases economically viable.

The price measure being imposed is therefore aimed at reducing emissions, not at improving the Government's fiscal position. Revenue raised through the emissions charge will be used to fund policies aimed at reducing emissions and/or recycled back into the economy, for example through the tax system.

Decisions on how the revenue will be recycled, will be made prior to the implementation of the emissions price.

Analysis shows that imposing a price on most firms in the General Energy Users group will not have a large impact on them, particularly if the revenue raised in this way is recycled back into the economy.

Effect of emissions charge

The estimated price increases from emissions prices based on an international price equivalent to either NZ\$10 or NZ\$25 per tonne of CO₂ equivalent are set out in the table overleaf.

Estimated price increases resulting from emissions prices				
	\$10/tCO ₂		\$25/t CO ₂	
	Residential	Industrial	Residential	Industrial

¹ A mechanism that allows firms to take on responsibility for and manage an emission obligation and their price exposure directly, with the potential to reduce their costs or add value through trading emissions units, either domestically or internationally. Firms would need to acquire and hold emissions units sufficient to cover their emissions. Surplus units can be sold, or units can be purchased to cover any shortfall.

²The market is functional when it is producing a stable, predictable price, the transactions costs of participating in the market are low and that key areas of uncertainty, including the implications for New Zealand, have been identified and addressed. The criteria for determining whether an emissions trading system will provide an efficient price are set out on page 54, *Climate Change: The Government's Preferred Policy Package, A Discussion Document, April 2002.*)

Petrol	3c/1 (2%)		6c/1 (6%)	
Diesel	3c/1 (5%)		7c/1 (12%)	
Electricity	4%	6%	9%	16%
Gas	3%	9%	8%	24%
Coal	8%	17%	19%	44%

The price increases outlined in the table need to be seen in the context of price rises resulting from other effects, e.g. changes in the international oil market can result in price increases of more than 5c per litre. A household with typical energy demands, and using only petrol and electricity, would face a weekly increase of between about \$2 and about \$5, depending on the international price of carbon.

Suggested Issues for Feedback

Considering the approach the Government has taken in formulating its policy package on climate change:

- Do you support or oppose the policy treatment for the General Energy Users Group?
- If you support it, why?
- If you oppose it, why? What other suggestions do you have?

Feedback can be provided through consultation forums or in writing by the closing date of Friday 14 June 2002.

This summary is drawn from *Climate Change: The Government's Preferred Policy Package, A Discussion Document, April 2002*, available at www.climatechange.govt.nz. See the document for full details of the Government's Preferred Policy Package.