

Climate Change: Preferred Policy Package

The Government's Preferred Policy Package is designed to position New Zealand for the first commitment period of the Kyoto Protocol, 2008 – 2012, and beyond. It consists of a group of **foundation policies** which have already been introduced or which build on existing policies. It also includes a number of **new policies**. In developing these policies the Government has taken into account the characteristics of **four groups** within the New Zealand economy.

Foundation Policies

Foundation policies include the Growth and Innovation Framework, the National Energy Efficiency and Conservation Strategy (NEECS), the New Zealand Transport Strategy (under development), the New Zealand Waste Strategy, climate change research, partnership with local government in planning for reducing emissions and public awareness.

New Policies

The package also includes a number of new policies (detailed below). This is because the foundation policies, even at their most effective, will not on their own position New Zealand towards a permanent downwards path for greenhouse gas emissions. The new price policies will come into effect only if the Protocol itself comes into force. In developing these policies, the Government has taken into account the characteristics of the following four groups within the New Zealand economy.

Economic Groups

Competitiveness-at risk Group

This group is made up of sectors of the economy and particular industries that would find it difficult to adjust if they were expected to face a cost on emissions in the first commitment period. The Government proposes that this group be fully or partly shielded from any emissions charge, in return for a **Negotiated Greenhouse Agreement**.

General Energy Users Group

This group includes businesses, organisations, institutions and households for which energy 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 carbon dioxide emissions from fossil fuels in the first commitment period.

On-farm Agriculture

Agriculture is a major contributor to the New Zealand economy. It also contributes 55 percent of New Zealand's greenhouse gas emissions through methane and nitrous oxide. This group is exempted from any price measure on non-CO₂ emissions in the first commitment period, provided the sector is willing to invest, in partnership with the Government, in research to identify options for reducing agricultural emissions. The Government retains the option of imposing a research levy if the research effort falls below what is required for their emissions from energy, agriculture is considered part of the General Energy Users group.

“Others” Group

This group includes sectors where there are no cost-effective options for reducing emissions, eg sectors which produce synthetic gases¹, and/or it is difficult to measure emissions, eg the waste sector. These factors would make it difficult for businesses in this group to cope with a cost on emissions in the short-term. Emissions in this group will be managed by a mixture of regulation and industry agreement.

New Policies

Projects

The Government will provide incentives for Projects in any sector of the economy that will deliver defined reductions in greenhouse gas emissions. Incentives can include money or the allocation of

¹ Synthetic gases are hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

emission units. The Government will seek bids from firms or groups. To qualify for an incentive, Projects must be additional to business-as usual.

Negotiated Greenhouse Agreements

The Government proposes to use Negotiated Greenhouse Agreements (NGAs) as the primary policy approach for the Competitiveness-at-risk group. An NGA involves an agreement between the Government and a firm, sector, (or group of firms) in which the firm or sector agrees to manage its greenhouse gas emissions to an agreed level. These agreements will set a pathway for the firm or sector to move to international best practice in managing their emissions per unit of production.

A Price on Emissions

In the first commitment period, 2008-2012, the Government proposes the General Energy Users group will be subject to a price on emissions. This group will face an emissions charge on carbon dioxide emissions from fossil fuels, which will approximate the international price of carbon but will be capped at NZ\$25 a tonne of CO₂ equivalent.

Emissions Trading

The Government retains the option of introducing emissions trading, rather than an emissions charge, if the international carbon market is functional² and the price is reliably below the NZ\$25 cap. This mechanism allows firms to take on 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.

Carbon Sinks³

The Government will retain the sink credits and associated liabilities arising from forests planted since 1990 ("Kyoto forests") at least for the first commitment period. The Government will use sink credits for a range of purposes e.g. save them for future commitment periods including to cover future liabilities and possible fire or biosecurity risks; to cover deforestation liabilities (capped at 5% of the area of forest expected to be harvested); sell them and use the revenue to recycle back into the economy, fund projects or provide incentives for plantation or protection forest sinks; or to cover growth in emissions in the forest industry and other sectors, including new entrants.

Revenue Recycling

The net revenue gathered from an emissions charge or from the selling of emissions units or sink credits, and after funding policies such as Projects, NGAs and NEECS, will be recycled back into the economy. For example this may be done through the tax system.

Suggested Issues for Feedback

The Government is seeking feedback on its preferred policy package, in particular whether you agree with the approach used, believe it achieves the right balance, and if you think it treats all parties in the New Zealand economy fairly. For more information, please refer to p22 *Climate Change: The Government's Preferred Policy Package, A Discussion Document, April 2002*. For more specific questions on specific policy areas, please refer to pp 25-52.

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.

² Refer p54 of *Climate Change: The Government's Preferred Policy Package, A Discussion Document, April 2002* for criteria for determining whether an emissions trading system will provide an efficient price.

³ Carbon sinks are any natural or man-made system that absorbs and stores greenhouse gases, including CO₂ from the atmosphere. To be considered a sink, a system must be absorbing more CO₂ than it is releasing so the store of carbon is expanding.