Climate Change: Projects

Preferred Policy for All Sectors of the Economy

Projects are an important new policy in the Preferred Policy Package. A Project is a specific activity aimed at delivering defined reductions in greenhouse gas emissions, in return for an incentive from the Government. The incentive could be in the form of money or the allocation of emissions units. These units would be of value to a firm directly, if it had an obligation under emissions trading, or the firm will be able to sell them.

Reductions in greenhouse gas emissions targeted by a Project might come from using new technologies and practices, including energy efficiency and renewable energy, or the enhancement of carbon sinks. Typical examples could include upgrading the efficiency of energy-using plant, replacing a fossil fuel with bio-fuels in a boiler, taking up proven methane reduction techniques on a farm, or establishing new forests.

Such activities would not be currently economic without incentives, or market barriers would exist to prevent them being taken up. Both the investment and activity would be over and above business as usual.

Summary of Proposed Policy Approach

It is proposed that the Project framework:

- includes Projects both before 2008 and from 2008 – 2012, applied consistently with, and in support of, the other elements of the preferred policy outline
- focuses on sectors where there is no efficient emissions price signal
- where the full price exists, only provides for Projects to be used in circumstances where market failure exists[1], and where there are no other better responses and using a Project provides a net benefit
- facilitates broad access to a Projects mechanism
- uses a contestable approach to accessing Project support where feasible
- includes criteria to ensure Projects do not cover activities that would have occurred anyway
- focuses on low transaction costs so Project benefits are maximised.

And in particular for the pre-2008 period, Projects would:

- be widely available to reduce emissions below business as usual across the economy (without "double-dipping" opportunities)
- involve funds or emission units as the incentive, consistent with other pre-2008 measures and the sector involved
- compete for a fixed quantity of emission units or funds, and successful projects would be those that provided the greatest emission reduction benefits per unit of incentive
- be consistent with renewable energy implementation under the National Energy Efficiency and Conservation Strategy

[1] A market failure may occur if the price is not transferred to the point of end use or if other market barriers exist that means the price fails to encourage an efficient response.

- focus on having a prompt start to reduce investment uncertainty
- when overseas interests invest in a Project in return for emission units, favour trading out the units through emissions trading mechanisms rather than formally hosting joint implementation (JI) Projects
- be reviewed in 2005 to reflect experience to date and the expected 2008-2012 policy.

In 2008-2012 (subject to review findings), Projects would:

- be less widely applied than before 2008, having a lesser role in sectors subject to an international emissions price
- have a potentially greater role in the agriculture sector, as options for reducing emissions move from research to on-farm implementation and Projects become feasible
- have a potentially greater role in sectors not exposed to an international emissions price.

Suggested Issues for Feedback

- What are your views on the proposed approach for Projects?
- Should the Government use funds or emissions units to incentivise Projects?
- Do you think firms that have Negotiated Greenhouse Agreements[2] should be eligible for Projects? In which circumstances?
- Do you have any ideas about how to avoid funding Projects that would have occurred anyway?
- How might a bid-in system for Projects work best?

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 pp 34-36 of the document for a full Working Paper on Projects.

[2] Negotiated Greenhouse Agreements (NGAs) are contractual agreements between the Government and Competitiveness-at-risk firms or sectors to reduce greenhouse gas emissions in return for partial or full exemption from an emissions price, such as a levy or emissions charge. The emissions path agreed to would be consistent with each firm's individual circumstances and have the overall objective of achieving international best practice in managing emissions per unit of production.