

10. CLIMATE CHANGE – THE GOVERNMENT’S PREFERRED POLICY PACKAGE

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The purpose of this report is to provide information on the recently released discussion document as above and to determine whether the Council wishes to make submissions on the Preferred Policy Package by the due date of 14 June 2002.

CONTEXT

The Government has made an in principle decision to ratify the Kyoto Protocol on climate change and it is intended that a decision on this action will be made in July this year. Before this decision is made there are three actions to be completed. The first is National Interest Analysis that will be reported back to Parliament in May; the second is the Climate Change Response Bill that will provide for the arrangements to ratify the Protocol; and the third relates to the subject of this report, the policies to meet the obligations of the Protocol.

This Council made submissions on the first round of consultation on the Government’s intention to ratify the Kyoto Protocol. The Council submissions were to support the principles behind the Kyoto Protocol but to express its strong concern about the potential for damage to the economy if New Zealand moves to sign the Protocol in the absence of a commitment by our trading partners and competitors.

The results of that consultation assisted the Government in preparing the National Interest Analysis and in drawing up the principles to guide the development of the policies to use in meeting the Protocol commitments. These principles are as follows.

- Policies must result in permanent reductions in emissions over the long term.
- Policies need to be responsive to the changing international context.
- Policies need to be consistent with a growing and sustainable economy.
- Policies will not disadvantage the vulnerable in our society.

These principles contain sub principles that, while not fulfilling totally the request to not sign the Protocol, do address matters relating to international and economic effects

It should be noted that the proposed policies will only come into effect if the Kyoto Protocol itself comes into force. This requires at least 55 countries, which account for 55% of the 1990 carbon dioxide emissions of developed countries, to ratify the Protocol. It is expected to take a year or more before it is known whether this will occur.

RELEVANT CURRENT POLICY

The Council at its meeting on 12 December 2001 considered a report on a Climate Change Consultation Paper entitled "Kyoto Protocol: Ensuring Our Future" and resolved as follows.

1. *That the Council support the principles behind the Kyoto Protocol but express its strong concern about the potential for damage to the economy if New Zealand moves to sign the Protocol in the absence of a commitment by our trading partners and competitors.*
2. *That a submission be made on the current consultation document, based on the attached draft.*
3. *That Local Government New Zealand be asked to consider preparing a sector wide submission on the policy options to be developed in Part II.*
4. *That the Council endorse the Government’s policy on climate change.*
5. *That the Strategy and Finance Committee be asked to consider early in 2002 a proposal that the Council set targets, and decide on strategies and mechanisms, for the progressive reduction of carbon dioxide emissions from its own operations, subject to the inclusion of any required budget provision in the 2003 Financial Plan.*

DESCRIPTION OF THE PROPOSAL

- A price on carbon dioxide emissions, applied at first through an emissions charge on carbon fuels. The price will approximate the international price of carbon, but be capped at \$NZ25 a tonne of carbon dioxide equivalent, and will apply in the Kyoto Protocol's first commitment period 2008-2012 and not before 2007. Revenue will not be used to improve the Crown's fiscal position but will be recycled, for example through the tax system. The Government retains the option of introducing emissions trading as an alternative to an emissions charge if the international carbon market is functional and the price is reliably below the \$NZ25 cap.
- Provision of government incentives for projects that will deliver defined reductions in greenhouse gas emissions, in any sector of the economy. Incentives can include funds or the allocation of emissions units and the government will seek bids from firms or groups. To qualify, projects must be additional to business-as-usual. The provision of incentives will accelerate the uptake of emission reduction initiatives, including new technologies and practices, that would otherwise be uneconomic.
- Negotiated Greenhouse Agreements for sectors and industries that would face difficulty in adjusting to a full price on emissions in the first commitment period. These sectors and industries are identified as having their competitiveness at risk. Negotiated Greenhouse Agreements would comprise a contractual commitment by the industry or sector to achieve international best practice in managing emissions, in return for exemption from an emissions charge.
- Exemption for the agricultural sector from any price measure (emissions charge or trading regime) in the first commitment period for non-CO₂ emissions (i.e. methane and nitrous oxide). This exemption depends on the sector being 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.
- Government retention of the sink credits and associated liabilities allocated to New Zealand under the Protocol in recognition of the carbon sink value of post-1990 forest plantings. These credits will be retained and managed by the Government at least for the first commitment period, with a portion of the revenue used to provide incentives for the establishment and enhancement of sinks. As with emissions charges, additional revenue from the sale of sink credits will be recycled back into the economy. The Government, rather than forest owners, will assume the liability created by the Protocol for deforestation, although the liability will be capped nationally at 5% of the area of forest expected to be harvested over the first commitment period.

LOCAL GOVERNMENT'S ROLE

The consultation document raises two issues that are directly relevant to local government. The first of these is a proposal to amend the Resource Management Act (RMA), once the Kyoto Protocol is in force, so that greenhouse gas emissions are not covered by the Act. The purpose of this would be to avoid duplication in legislation, as it is expected that in time climate change price instruments will address greenhouse gas emissions in a more consistent manner than RMA controls on emissions to air. In the interim national guidelines may be developed to assist local government when considering resource consent applications that involve greenhouse gas emissions.

The second issue is a proposal for a formalised partnership on climate change between the Government and local governments. This would involve developing and implementing a New Zealand version of the International Cities for Climate Protection model in partnership with the Energy Efficiency and Conservation Authority and Local Government New Zealand. Local governments would be assisted to produce local inventories, targets, action plans and monitoring programmes to achieve further reductions in local greenhouse gas emissions.

ISSUES FOR CONSIDERATION

The general direction of the national policies appears acceptable with the emphasis being on the introduction of an emissions charge on carbon fuels, capped at \$25/tonne of CO₂ equivalent. At \$25/tonne this would result in additional costs of approximately \$5/week for a household with typical energy demands and using only petrol and electricity. The charges will not be introduced until 2007 at the earliest and will be combined with incentives for reducing emissions. The Government is committed to using revenue gained from the climate change policies for recycling back into the economy, funding projects and programmes for emissions reductions and/or providing incentives for forestry planting or indigenous forestry regeneration (see page 14 - Info Box on Sinks).

Vulnerable industries and businesses, for example those whose international competitiveness may be at risk, have the opportunity to enter into negotiated greenhouse agreements and may be fully or partially exempt from a cost on emissions. This means that such businesses will be less likely to close, reduce staff or relocate to a country with no controls on emissions. In order to protect vulnerable Christchurch industries it is important that the Government implement these measures and our submission should make that point strongly.

The exemption of non-CO₂ emissions from the agricultural sector recognises the significant negative effect charges would have, and that there are practical ways to measure or abate methane and nitrous oxide, other than reducing stock levels. The New Zealand Institute of Economic Research states that "The Canterbury economy relies on agriculture as its main revenue earner" (p.76)¹, making these exemptions significant for the economic welfare of the region and Christchurch City.

Proposed amendments to the RMA would avoid a duplication of rules and would allow emissions to be dealt with more consistently on a nationwide basis under climate change policies.

The proposed climate change partnership programme between central and local government would provide an excellent opportunity to encourage action and information sharing. It is promoted as establishing "an active partnership framework with associated tools and guidance mechanisms to help local government contribute to the delivery of New Zealand's future Kyoto Protocol obligations." (p.49 of the discussion document)².

While this is a worthy objective, concerns are held as to the funding and legal mandate for the proposal. More information is required before unqualified support can be given to the programme.

It is suggested that this Council request Local Government New Zealand to undertake a sector-wide examination of the policy preferences and a copy of any submission made by this Council be forwarded to them as part of this examination.

It is proposed that, should a submission be prepared on behalf of the Council, the above matters would be commented on.

- Recommendation:**
1. That the Council make a submission along the lines contained in this report and that in the light of the time limitations, the Council agree that this submission be approved by the Chair of the Strategy and Finance Committee and the Director of Policy.
 2. That the Director of Policy consult with the New Zealand Business Council for Sustainable Development in preparing the Council's submission.

(Note: Councillor Stewart requested that her vote against the foregoing recommendation be recorded.)

¹ New Zealand Institute of Economic Research (Inc.) (2002). *New Zealand Industries and Regions: Outlook and Issues – April 2002*. Wellington.

² Department of the Prime Minister and Cabinet (2002). *Climate Change: The Government's Preferred Policy Package – A Discussion Document, April 2002*. Wellington.