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Speech Notes

Projects to Reduce Emissions: a key climate change policy

[Address to Energy Federation Projects Conference, Intercontinental Hotel, Wellington]

This conference is about one of the key new policies the Government is implementing to address climate change.

The first tender round for “Projects to Reduce Emissions” is a significant milestone. With it, New Zealand’s formal use of the mechanisms of the Kyoto Protocol really begins.

With Projects, we identify activities that reduce greenhouse gas emissions, account for those reductions under the Protocol and reward the activities using Assigned Amount Units – those things we usually refer to as emission units or carbon credits.

Projects are new and the approach taken by this country is innovative. There is no one international precedent for it so we are exploring the best possible way of rewarding quality projects.

This is an exciting opportunity to help bring on a more sustainable energy future for New Zealand.

The agreements with TrustPower and Meridian earlier this year show what can be achieved. By transferring credits to those two companies in recognition of the emissions savings their windfarm projects will bring, we have enabled them to go ahead years earlier than they otherwise would have.

New Zealand's wind energy capacity will quadruple over the next 18 months as a result. Hopefully that is just the beginning.

Responding to climate change is primarily about changing our energy habits, moving away from fossil fuels toward the next generation of energy technologies.

The countries in the vanguard will be those within the Kyoto Protocol, because the Protocol creates the conditions for change. It creates a more favourable market for renewable and low-emission energy. It also will spur innovation and efficiency in the way we use energy and natural resources.

We need to take full advantage of that.

As you will have heard from officials this morning, the first tender round for Projects will be conducted during September and October.

In early September, the New Zealand Climate Change Office will be running a short series of pre-tender briefings for anyone seriously interested in taking part in the round. The tender will be called very shortly after that.

We cannot be sure what projects will come forward in the tender round. Ultimately that is limited only by the level of innovation that New Zealand business brings to the process.

However the types of Projects likely to qualify include those using renewable energy sources such as wind or bio-energy. We also expect projects involving emission reductions associated with the waste sector, and projects that propose fuel switching to reduce carbon emissions.

We're looking for proposals from individual firms, groups of firms, other organisations and individuals. Anyone, in fact, who puts up a valid proposal that passes the eligibility tests. Again, the possible collaborations leading to successful Projects are limited only by the level of initiative people bring to bear on this.

Projects are an example of how the Kyoto Protocol creates new business opportunities. The Protocol is essentially a market mechanism: it is designed to put a price on greenhouse gas emissions, reflecting their environmental cost. In doing so it creates new opportunities for trade and profit.

We have set aside emission units totalling 4 million tonnes of carbon dioxide equivalent for this first Projects tender round. At a conservative estimate of say NZ\$10 a tonne for carbon, that's \$40 million dollars worth. If that's not enough, it will be a problem I'll be delighted to have.

Let me review, quickly, how we got to this point.

New Zealand signed the United Framework Convention on Climate Change as far back as 1992 – at the Rio Earth Summit. With that, we and most other countries accepted a voluntary target for reducing the greenhouse gas emissions that cause global warming.

That commitment still stands, but the voluntary target set by the Framework Convention was missed. It was clear to everyone that it would be missed, long before it happened. It was clear that something tougher than voluntary targets was necessary to get results, which is why we have the Kyoto Protocol. Its targets are legally binding.

But the Protocol is also flexible, because it enables countries to trade emission units and credits. The creation of this international market lets the world take up the cheapest options for reducing emissions first.

The use of project-based policy mechanisms is an integral part of the Protocol. Its Joint Implementation mechanism, for example, allows developed countries to earn emission credits through taking part in initiatives to reduce emissions in other developed countries, while the Clean Development mechanism allows credit for emission reduction projects in developing countries.

What you will be interested in is who wants these credits and how much are they prepared to pay for them.

You'll be hearing more about this during the conference, but it is clear already that there are buyers out there. One brokerage firm estimates that over 60 million tonnes of CO₂ equivalent have been traded since 1996. I expect that, when the Kyoto Protocol comes into force, the momentum around emissions trading will gather pretty quickly.

The entry into force of the Protocol now depends solely on Russia's ratification. With Russia in, countries responsible for 55% of developed country CO₂ emissions in 1990 will have ratified, and that is the final hurdle.

At this stage we can only watch and wait. There have been media reports that all the internal analysis has been done, that Russia is ready to decide, and that President Putin may make an announcement during his keynote address to the World Climate Conference in Moscow at the end of September.

The assumption has long been that Russia can be relied on to ratify, as it stands to profit from the Protocol by being a net seller of carbon credits – like New Zealand. We shall see.

Everyone knows that the Kyoto Protocol will not by itself solve the problem of climate change. It's not perfect. But it is a workable base we can build on. After ten long years of effort, we need to make a beginning.

Projects to Reduce Emissions are part of New Zealand's beginning. The Government sees this policy as key measure to encourage greenhouse gas reductions before the introduction of an emissions charge in 2007.

We want to support businesses and individuals with innovative ideas for reducing emissions, by providing an incentive to make their projects happen. We want to see a whole lot of learning occur as a result of the projects that are supported — and in time see more activities that reduce emissions become part of business-as-usual.

We are proposing to give weight in our ranking of proposals to projects that will achieve emissions reductions before 2008 as well as during the Protocol's first commitment period 2008-12. Pre-2008 reductions cannot be rewarded with

emission units, of course, but if your project delivers benefits earlier as well as later, it will have a greater chance of success.

The primary reason for this emphasis on pre-2008 gains is that, in light of recent experience, we want to see the Projects tender rounds contribute to New Zealand's near-term electricity security. Because electricity is such a significant energy source, many projects are likely to involve saving or producing it. Any opportunity to achieve both emission reductions and greater electricity security is attractive.

The Projects round is happening at a critical time for New Zealand's overall energy security. Our climate change obligations mean that we need successes from Projects and other measures such as the National Energy Efficiency and Conservation Strategy.

That strategy calls for 30PJ of new renewable energy by 2012. I expect Projects to Reduce Emissions to be a key measure in taking us towards that.

Let me close with a few remarks about where our climate change objectives stand in relation to our need to ensure a sustainable energy future for New Zealand.

Our overall goal for climate change policy is that New Zealand should have made significant greenhouse gas reductions on business-as-usual and be set towards a permanent downwards path for total gross emissions by 2012.

Some commentators are quick to assert that this climate change goal is inconsistent with New Zealand's energy needs. We will need to burn more coal, they say, and climate change policy only makes it more expensive.

I think this view ignores a number of factors.

One is the potential of renewable resources such as wind power and biofuels. We have barely begun to make use of these and there are significant opportunities to expand our use of wind and wood waste as energy sources.

Another consideration is the fact that we simply cannot ignore greenhouse gas emissions when we produce and use energy, even if the Protocol never comes into force. As a nation we have to show responsibility and address the causes of climate change over the long term, which means beginning to change the incentives now.

A third is the fact that we still have access to carbon fuels as a source of energy. We will use them as we need to, but we will pay a price that better reflects their environmental impact. We are beginning a transition away from fossil fuels, not a sudden withdrawal.

With the right mix of policies, we can achieve energy security and declining greenhouse gas emissions at reasonable costs. Projects to Reduce Emissions is one policy that will help get us there.

Thank you.

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