The New Zealand (JI) Projects Mechanism

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New Zealand has a population of around 4 million people and is approximately the size of Great Britain. Although New Zealand is a small player in the global economy, it relies on an environmentally friendly image to sell its commodity products and attract tourists. Therefore, the issue of climate change is taken seriously.

Introduction

Having ratified the Kyoto Protocol in December 2002, the New Zealand Government created policies to achieve its target of reduced GHG emissions. One of the policies is the programme for *Projects to Reduce Emissions*, where tradable emission units are awarded to projects that fulfil the policy requirements.

The New Zealand Projects Mechanism policy is intended to provide businesses with an incentive to develop marginal projects to reduce GHG emissions.

To be eligible for these emission units a project must prove that it would not have occurred unless it received these units, *i.e.* it is economically additional. The project would also have to show, *i.e.* it is environmentally additional, that is the project reduces emissions beyond the level where no project incentives were available.

The awarded emission units are tradable on the international market.

Background

The New Zealand Projects Mechanism could be seen as the JI projects mechanism. This policy has two clear objectives, which are:

1) Projects must contribute to the New Zealand Government's target of an additional 30 Petajoules of consumer energy from renewable resources by 2012; and
2) Projects must contribute to the achievement of New Zealand's Kyoto Protocol commitments while reducing its GHG emissions.

The Projects Mechanism is one of three 'Price Based Measure' Kyoto policies that the New Zealand Government has introduced, the other two being:

- An *Emissions Charge* (or 'carbon tax') to be introduced from 2007.
- *Negotiated Greenhouse Agreements* (NGAs), to prevent the risk of economic production 'leaking from New Zealand.

How does the New Zealand Projects Mechanism work?

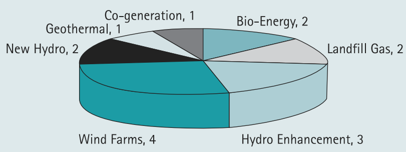
The New Zealand Projects Mechanism, announced in April 2003, provides incentives through the award of tradable Kyoto Protocol emissions units, commonly called 'carbon credits', in return for the emission reductions the project achieves.

To be eligible for the emissions units, projects have to:

- achieve a minimum reduction in emissions of 10,000 tonnes of CO_2-eq. during 2008-2012;
- be additional to 'business as usual' *i.e.* they have to be *economically addditional;*
- achieve reductions in emissions that would not occur without the project – *i.e.* they are *environmentally additional;*
- achieve reductions equal to or greater than the number of emission units requested; and
- be implemented in New Zealand.

In December 2003, 15 projects were awarded emissions units in the first tender round. The breakdown of these projects by type is shown in Figure 1 below:

Figuur 1: Type of Projects Awarded Emission Units in 2003 Tender Round



The New Zealand Projects Mechanism's second tender round closed on 15 October 2004. The tender process was largely the same as in the 2003 round. The successful project company enters into a contract with the New Zealand Crown.

In the agreement, the Crown effectively agrees to:
"purchase emission abatement in exchange for the promise to transfer a Crown asset (units) at regular intervals during the 1st Kyoto Commitment Period (CP1 i.e. 2008-12) following delivery of the abatement."

A Project Company will be able to sell the rights to the expected emission reduction units prior to the commitment period.

Trading of Kyoto compliant units is developing rapidly. A recent example of trading awarded emission units is Meridian Energy who successfully tendered their Te Apiti wind farm emission units to the Netherlands Government through its 3rd Emissions Reductions Unit Procurement Tender (ERUPT)[1]. The introduction of the EU Emissions Trading System (EU-ETS) from 2005 would provide a large and active market for potential sale of New Zealand ERUs if the projects fulfil the JI requirements of the investing country.

The New Zealand Projects Mechanism model is fundamentally a JI mechanism and it could be readily adapted for use by all Annex B countries, and thus provide an incentive for emissions reduction projects. Although the most obvious candidates are those with surplus units available, the policy could also be applied in other Annex B countries as a means to lower their GHG emissions.

Conclusion

The New Zealand Projects Mechanism is a working example of a government-led climate change policy that is structured to take advantage of the Kyoto Protocol flexibility mechanism of JI.

Through bilateral agreements the marketability and value achieved by projects is likely to be enhanced. This will assist in countering concerns over the low number of credits traded to date and the high transaction costs relative to the number of credits generated by the typically small scale New Zealand projects.

For other countries looking to reduce their long-term emissions, the New Zealand experience provides a sound starting point from which to develop a similar policy.

For further information, please visit the website http://www.crl.co.nz/

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[1] http://www.senter.nl/asp/page.asp?id=i000003&alias=erupt