

Questions and Answers

What is the Projects to Reduce Emissions programme?

The Government has developed the Projects to Reduce Emissions programme to support initiatives that will reduce emissions of greenhouse gases. The programme is a key plank in the Government's climate change policy package. This Projects tender round was the first to be run and offered a pool of four million emission units. Businesses, organisations and individuals were invited to submit proposals for projects to reduce emissions of greenhouse gases in return for a share of the pool of emission units.

What are Projects?

Projects are a domestic mechanism incentivised by Kyoto Protocol emissions units. For an initiative to qualify as a project it must achieve quantifiable reductions in greenhouse gas emissions that would not otherwise occur. In the case of Fire-Logs (NZ) Limited, use of these wood pellets to provide heating rather than fossil fuels will reduce greenhouse gas emissions. Burning wood is considered carbon dioxide neutral because the carbon in the wood was absorbed from the atmosphere and will be reabsorbed if the harvested forests are replanted.

Projects must also be additional to "business as usual", i.e. the project owner must prove that without the award of emission units the project would not otherwise proceed.

What is an emission unit?

An emission unit is equivalent to one tonne of carbon dioxide (or its equivalent in other greenhouse gases) that would otherwise have been emitted into the atmosphere. Emission units are effectively tradable allowances for greenhouse gas emissions. Each country with targets under the Kyoto Protocol must hold sufficient emissions units to match its emissions during the first commitment period of the Protocol. International markets for carbon trading are developing, even though the Kyoto Protocol has yet to come into force, and project owners are able to sell their units on this market.

How much is an emission unit worth?

The international market sets the price for emission units. Last December, Meridian Energy's Te Apanui wind farm, one of two early projects the Government supported, was offered a contract to sell its emission units to the Netherlands Government. This involved the first sale of New Zealand's Kyoto credits. The average price for the tender round in which Meridian Energy agreed to sell its units to the Netherlands Government was NZ\$10.50 a unit. Emerging prices under the European Union Emissions Trading Scheme also provide indications of what emission units are currently worth.

What other projects have been awarded emission units in the Projects to Reduce Emissions programme?

Eleven other successful projects have been announced. They are:

- Watercare Services Limited's proposed staged installation of hydro energy turbines at three water supply dams in the Hunua Ranges and a bypass channel in the Waitakere Ranges.
- New Zealand Refining Company's proposed 84 megawatt capacity electricity and steam co-generation plant at their Marsden Point refinery.

- Southern Paprika's proposed bio-energy plant to heat glasshouses.
- TrustPower's proposed enhancement of an existing hydro generation scheme at Waipouri.
- TrustPower's proposed enhancement of an existing hydro generation in Taranaki.
- Te Rere Hau Windfarm, New Zealand Windfarms - a proposed 50 megawatt wind farm in Manawatu.
- Toronui Mini-Hydro Power Scheme, Esk Hydro Power - a proposed mini-hydro scheme on the Pask family's Toronui station in northern Hawkes Bay.
- Awapuni Landfill, Palmerston North City Council - a proposed scheme for generating electricity from landfill gas.
- Wainui Hill Wind Farm - a proposed wind farm of up to 30 megawatts on Wellington's Wainui hills.
- Genesis Hau Nui Wind Farm, Wairarapa - a proposed five megawatt extension of the existing wind farm.
- Genesis Awhitu Wind Farm, South Auckland - a proposed wind farm of 19 megawatts on the Awhitu peninsula.

Details of the remaining projects awarded emission units will be announced in due course.

What about future Projects to Reduce Emissions tender rounds?

On 18 May 2004, the Government announced that another six million emission units will be available through a second tender round later this year. The second tender round is expected to take place from late August until mid October 2004 with tender evaluation in November. Announcement of the result of the tender round should be made in mid December.

What is the status of the Kyoto Protocol?

More than 120 countries have ratified or accessed the Kyoto Protocol including the member states of the European Union, Canada, Japan, Norway, Iceland and a number of Eastern European countries. The Kyoto Protocol will enter into force if 55 countries (including developed countries that were responsible for 55 per cent of developed-country carbon dioxide emissions in 1990) ratify the Protocol. Russian ratification is the key to entry-into-force and President Putin indicated in May 2004 that Russia is speeding up its efforts to ratify.

What happens if the Kyoto Protocol does not enter into force?

If the Kyoto Protocol does not enter into force the Government's agreements with project owners will automatically be terminated.