

Carbon Fund Bill

Regulatory Impact Assessment

1. Policy Context

The European Community and all Member States have ratified the Kyoto Protocol, and the Community has undertaken to reduce greenhouse gas emissions to 8% below 1990 levels in the five-year commitment period 2008-2012. The Protocol came into effect in February of this year and the Community's emission reduction target is now legally binding. As part of an EU burden-sharing agreement, Ireland has agreed to limit growth in emissions, to 13% above 1990 levels.

As part of an overall approach to the national target, the Government has publicly signalled intent to purchase up to 18.035 million carbon credits, i.e. 3.607 million credits in respect of each year of the five-year commitment period. The amount of credits to be purchased is influenced by the extent to which emission reductions can be identified in areas of the economy other than the sectors involved in emissions trading under the EU emissions trading scheme.

2. Statement of Objectives

General Objectives

To establish appropriate institutional arrangements for the purchase of carbon credits by the State in the Kyoto Protocol commitment period 2008-2012 and beyond. It is estimated that the cost of purchasing credits for the purpose of meeting Ireland's target for the purpose of the Kyoto Protocol could be as much as €270 million. Purchases in the period beyond 2012 are probable but an estimate of the likely cost is not possible at this time. Key considerations in identifying and establishing appropriate institutional arrangements are to provide legal clarity and certainty in terms of the proposed functions assigned to the Ministers for Finance, and Environment, Heritage and Local Government, and the National Treasury Management Agency, as well as transparency and accountability.

Specific Objectives

- 1) Set up a Carbon Fund under the remit of the Minister for the Environment, Heritage and Local Government.
- 2) Provide for the payment of monies into this Fund.
- 3) Designate the NTMA as the agent of the Minister for Environment, Heritage and Local Government in managing the Fund,
- 4) Allow for direction by the Minister for Environment, Heritage and Local Government in how the Fund operates.
- 5) Designate the Chief Executive Officer of the NTMA as the accounting officer of this Fund

3. Identification of options/choices

- A) NTMA manage Carbon Fund on behalf of the Minister for the Environment, Heritage and Local Government (as proposed in Bill).
- B) NTMA or other body identifies purchasing options and payments are made from the DEHLG Vote.
- C) DEHLG acts as Purchasing Agent.
- D) Meet Kyoto targets through domestic action (Do Nothing).
- E) Delegation of purchasing role to a Private Sector intermediary.

4. Analysis of Associated Risks, Costs, Benefits and Impacts

The matrix below analyses the risks, costs benefits and impacts of each of these options. From this analysis, Department of the Environment, Heritage and Local Government concludes that Option A, as proposed in the Bill is the most pragmatic option.

In addition, the Department of the Environment, Heritage and Local Government points out that Option D (do nothing) is not a realistic option in that the business sector (including electricity generators) would have to bear a greater share of the burden in meeting the national target for the purpose of the Kyoto Protocol, which would have an unnecessary negative impact on the competitiveness of the economy. Doing nothing would also put the Government under enormous pressure to bring the overall carbon intensity of the economy down to the Kyoto target by the end of 2012. As well as being a huge challenge, such an approach would be a huge risk for the economy.

The screening RIA also examined the following:

- impacts on the socially excluded or vulnerable groups,
- environmental impacts
- whether the proposals involves a significant policy change in an economic market including impacts on competition and consumers
- rights of citizens
- compliance burden

The Department of the Environment, Heritage and Local Government concludes that no particular impacts should arise for these in the context of the proposed legislation.

Option	Description	Risks	Costs	Benefits	Impacts
A	NTMA manage Carbon Fund on behalf of the Minister for the Environment, Heritage and Local Government (as proposed in Bill)	Given the financial expertise within the NTMA, the risks associated with this option are low.	Overall costs for the purchase of 18.607m credits are estimated at €270m over the Kyoto period, based on an assessed price of €15 per credit. Prudent investment by the NTMA across a range of different investment options may reduce this cost	Utilises expertise of NTMA. Uses existing resources to get cost effective purchases Resources in central Government are not unnecessarily tied up.	
B	NTMA identifies purchasing options and payments are made from the DEHLG Vote.	This option is possible. However, there would be administrative issues, particularly in terms of duplicating resources and reducing flexibility for the purchasing agent. Inflexibility of Estimates/Budget process may result in lost opportunities	Opportunities to obtain carbon credits may be lost due to time delay. Resources in central Government will be unnecessarily tied up.	Utilises expertise of NTMA. Provides simplicity in funding/accountability: funding directly from DEHLG Vote	
C	DEHLG acts as Purchasing Agent	DEHLG does not have the required expertise. The Minister for Finance recognised this, and he nominated the NTMA to be the Purchasing Agent for the State; the agency has a high level of relevant expertise in managing, inter	On top of the actual cost of the allowances (plus fees), DEHLG would have to buy in or contract out for specialist advice.	Benefits in terms of Funding/Accountability as identified for option B.	

Option	Description	Risks	Costs	Benefits	Impacts
		<p>alia, the national debt and the Pension Reserve Fund.</p> <p>Risk is associated with lack of expertise in the financial markets, which may result in a higher cost to the State.</p>			
D	<p>Meet Kyoto targets through domestic action</p>	<p>While reduced greenhouse gas emissions are desirable in the longer term, it will be absolutely essential in the first Kyoto phase to purchase allowances using the legitimate mechanisms under the Kyoto Protocol. The Government has indicated a commitment to purchase up to 3.067m allowances per annum. However, the relevant Departments will endeavour to identify further measures in the economy to reduce emissions and therefore reduce Government's purchasing requirement.</p> <p>This is an unrealistic option for the 2008 – 2012 commitment period and</p>	<p>Impossible to calculate in view of the option being unrealistic; potentially very damaging to the economy</p>	<p>Carbon intensity of the economy is reduced and Ireland will be in a better position for any further carbon reduction targets, as existing measures will be sustainable.</p> <p>There are long-term benefits in that domestic abatement measures are sustainable beyond the 2008 – 2012 period.</p>	<p>Relying solely on this option could result in significant cost impact for business which could affect competitiveness in the economy</p>

Option	Description	Risks	Costs	Benefits	Impacts
		<p>commitment period and probably beyond. This assumption is based on reports carried out for the Government by ICF Consulting with Byrne O'Clearigh in 2004 and 2006.</p>			
E	<p>Delegation of purchasing role to a Private Sector intermediary.</p>	<p>Carbon market is new and far from fully developed; private sector brokers have not yet established track records in this area.</p> <p>It would be impossible to give a private sector agent the same level of flexibility proposed for the NTMA;</p>	<p>A private company would require an element of profit, which would increase the overall costs.</p> <p>There would also be costs in terms of oversight of the role carried out by the</p>	<p>No obvious benefits</p>	

Option	Description	Risks	Costs	Benefits	Impacts
		consequential impact on purchasing options.	private contractor.		

Consultation:

Consultation with Department of Finance and the NTMA has taken place in the preparation of the Bill. Further consultation on the preparation of the guidance for the NTMA will take place through the consultation on the review of the NCCS, which was agreed by Government on 12 July. In addition, the Minister will consult further with relevant Departments before seeking approval to publish the Bill.

Enforcement and compliance:

The Bill requires that the activities of the NTMA as purchasing agent shall be audited by the C&AG, presented to the Minister and laid before each House of the Oireachtas.

Review:

Section 6 of the Bill envisages that the activities of the NTMA will be monitored through annual reports of the Agency to the Minister for the Environment, Heritage and Local Government in respect of their function as purchasing agent. In addition the Bill allows for the Minister for the Environment, Heritage and Local Government to seek advice from the Agency in regard to these functions.