

# NGA Update

A summary of Negotiated Greenhouse Agreement developments and related climate change policy issues for New Zealand business.



June 2005

Welcome to NGA Update. In this edition we summarise recent developments in NGA policy and how firms can apply for an NGA. We also present broader climate change issues that will have a direct impact on businesses seeking an NGA.

## NGA Basics – a refresher

A Negotiated Greenhouse Agreement (NGA) is the only policy option to get an exemption from the Carbon Tax. The Government plans to introduce the tax in 2007.

An NGA is aimed at protecting the competitiveness of businesses that are competing internationally in export markets or domestically against imports. The level of exemption is determined by a firm's actual emission intensity compared to a Target Pathway over the period 1 April 2007 to 31 December 2012. The determination for the pathway is through a World's Best Practice (WBP) Study.

## How to Apply for an NGA

### New Guidelines

Revised guidelines on how to apply for an NGA were officially issued by the Climate Change Office (CCO) on the 14<sup>th</sup> of June 2005. They incorporate the recommendations from the CCO's NGA Review, finalised in April 2005.

Applications will be processed in batches on a first come first served basis with a deadline for the first round of completed applications of Friday 29 July 2005.

### NGA Eligibility Model

The CCO has created an NGA Eligibility Information Model to help them collate the required information.

The provision of the model is a major improvement however, following an assessment of it, we raise the following notes of caution:

- Lack of Transparency – the model does not provide clear indication of whether you have passed any of the quantitative eligibility criteria.
- Simplistic Approach - the model may constrain the applicant from presenting their eligibility case fully.
- Bias in questions - the model invites the applicant to estimate the extent to which you expect to pass on the carbon tax impact higher costs into increased revenues – in turn reducing likelihood of passing eligibility criteria.
- Indirect Emissions - provision for entry of contractor / service provider emissions is not apparent.

## Recommended NGA Application Approach

We recommend that applicants do not solely rely on filling out the Eligibility Information Model.

The CCO guidelines allow for additional documents to be supplied in support of the application. This will be critical to achieve the maximum potential exemption under the NGA policy in many cases.

In preparing the case for an NGA we recommend a structured approach. This will include:

- Evaluation of the business to ensure all eligible elements are identified;
- Preparation of a robust case for international competitiveness recognition. This includes identifying policy differences where competition is from a Kyoto ratified country;
- Assessment of business against eligibility criteria to ensure a robust case is developed prior to making a formal application;

For more information on the proven structured approach we take see [www.frazerlindstrom.co.nz/NGASteps.htm](http://www.frazerlindstrom.co.nz/NGASteps.htm).

Contact us for more information on how you can get past this critical first step to getting an NGA.

## NGA Uncertainties

The NGA Review was concluded in April 2005 ([www.frazerlindstrom.co.nz/NGADetails.htm](http://www.frazerlindstrom.co.nz/NGADetails.htm)).

A number of issues are still unresolved and are due to be consulted on. These include

- Exclusion of electricity generation (including cogeneration) from NGA scope;
- Terms of Reference for WBP consultant and validator;
- Revised Model NGA agreement;
- Details on fuel switching criteria; and
- Rebate of indirect carbon tax impacts from electricity.

Frazer Lindstrom is closely tracking these issues and can keep you informed on these developments. Contact us for this service.

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## Carbon Tax Consultation

On 4 May 2005, the Inland Revenue Department released a consultation paper titled "Implementing the Carbon Tax".

Refer [www.frazerlindstrom.co.nz/CarbonTax.htm](http://www.frazerlindstrom.co.nz/CarbonTax.htm)

The paper details how the tax will work, including the exemption mechanism for businesses with an NGA. Industry specific issues are also covered in detail.

We strongly recommend that businesses critically review this paper.

Frazer Lindstrom has reviewed the paper and is preparing submissions for a number of our clients.

If you are thinking of making a submission and need assistance please contact us urgently – the closing date is 8 July 2005.

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## Climate Change Office Changes

### Structure

The Climate Change Office has undergone some restructuring lately. Key Positions are:

- Bill Bayfield (General Manager Sustainable Industry & Climate Change) leads the office.
- Clive Gower-Collins (Climate Change Policy Implementation Manager) oversees price-based measures including NGAs, the Projects to Reduce Emissions programme and the carbon tax.
- Julie Iommi (Climate Change Policy Manager) oversees policy development, major stakeholders and the international programme.

These groups are supported by a communications team. The science & inventory team is now part of the Ministry for the Environment's Reporting & Review group.

### Staff Changes

With the completion of the NGA review, a number of contract staff, including review leader Bruce McLean, are departing. There are also permanent staff changes.

The CCO is therefore recruiting Senior Operators and Senior Advisers with adverts placed under the heading "Does Protecting New Zealand's International Competitiveness Matter To You?".

Significant staff changes may present policy creep risk to the detriment of business. Identifying policy creep and correcting it, is an area where our experience and in depth policy knowledge is highly valued by our clients.

### Location of CCO

From Monday 27 June, the CCO will be located at Environment House, 23 Kate Sheppard Place, Thorndon, Wellington.

The new phone number is 04 439 7400

## New Zealand's Kyoto Position

On June 16 2005, Hon Pete Hodgson revealed that New Zealand's projected balance of emission units over the first commitment period of the Kyoto Protocol was now a net deficit of 36.2 Million Tonnes CO<sub>2</sub>-e.

This compared to previously reported projected surpluses of 55Mt CO<sub>2</sub>-e (2003) and 32.6Mt CO<sub>2</sub>-e (2004).

New Zealand will now be a buyer on the international carbon credit market, not a seller as previously projected.

The Minister has requested a report on options to address this imbalance by end of October this year.

Potential impacts on existing policies are as follows:

- NGAs – more stringent assessment of eligibility.
- Projects to Reduce Emissions – if the 3<sup>rd</sup> tender round proceeds it is likely the economic additionality test may come under closer scrutiny.
- Carbon Tax – The Government may take earlier steps to increase the rate from \$15/tCO<sub>2</sub>-e up to the NZ\$25 cap or remove the cap altogether in order to better reflect international trading prices (pre-Kyoto CP1 EU emissions allowances are currently trading at €21 i.e. over NZ\$36).
- Emissions Trading – It is possible that the Government may accelerate implementation of a domestic "Cap and Trade" system with international linkage.

New policies to address transport emissions and incentives for harvested forest planting are also possible outcomes.

## More Information

**Frazer Lindstrom Limited** is an independent climate change and energy sector consultancy business.

We have specific skills and experience in the areas of climate change and energy that are highly valued by our customers.

We are currently assisting individual companies at all stages in the NGA process. We are also engaged by industry groups to assist with potential sectoral NGAs.

For direct assistance in protecting your business from the carbon tax contact us urgently.

For more information on Frazer Lindstrom or any of the issues raised in this NGA Update edition contact us at:

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