

# NGA Update

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

December 2005

## Climate Change Policy Review Announcement - Special Edition

On December 21<sup>st</sup> the New Zealand Government announced a series of decisions arising from its review of climate change policy. In this special edition we highlight the key decisions and forecast what it means for New Zealand businesses.

### Carbon Tax Scrapped

The carbon tax first announced in 2002 has been scrapped after some 3 years of policy development.

It has proved politically unacceptable due to:

- The complexity of Labour needing to work with United Future and New Zealand First both of whom sought a review of the tax; and
- The fear of further alienating voters when tax was a major issue in the last election.

Furthermore officials advised that the carbon tax would not cut emissions enough to justify its introduction.

### But not for everybody...

Although the "one size fits all" across the board carbon tax has been dropped, **Major Energy Users And Emitters** who do not meet world's best practice may face a "narrow based carbon tax".

This would be linked to the retention of **Negotiated Greenhouse Agreements (NGAs)** in some form.

This will be the subject of stakeholder consultation with feedback to the Minister in March '06.

Issues that will need to be covered include:

- Thresholds for inclusion (site or corporate based emission quantities?)
- Are thermal electricity generators included in such a scheme?
- Rebate mechanisms if the electricity market still faces a carbon price signal.
- Penalty mechanisms and flexibility arrangements
- Continuation of intensity based targets. The review recognises that most of the firms seeking an NGA are already at or close to World's Best Practice. The existing NGA policy therefore leaves the Government exposed to businesses increasing their production capacity seeing the cost of increased emissions. This is understood to be a concern for the Minister. Cap and trade type **Emissions Trading** may play a role to address this.

These issues are complex and yet need to be resolved in a short time period. To arrive at a pragmatic and workable policy, a constructive and open partnership approach will be needed between business and government.

### References:

Minister's Press Release  
<http://www.beehive.govt.nz/ViewDocument.aspx?DocumentID=24671>  
Climate Change Policy Review Document  
<http://www.climatechange.govt.nz/resources/reports/policy-review-05/index.html>

### Other Policy Measures...

The Minister's statement highlights four other areas which officials have been asked to report back on in March:

#### Incentivising Renewables

The role of the **Projects to Reduce Emissions programme (PRE)** is stated to be a success in establishing "the lowest cost wind generation in the world".

Although the policy review report recommends against a 3<sup>rd</sup> PRE round, it is likely that something will be developed in its place, perhaps on a direct incentive basis.

Furthermore it is understood that a carbon price signal for generation through a **levy on fossil fuels** for thermal generation, may be introduced.

#### Improving Energy Efficiency and Conservation

EECA's existing programme on energy efficiency and conservation will be stepped up to address the **Small to Medium Enterprises (SME)** sector.

#### Transport

The transport sector will be addressed through measures to improve vehicle fleet efficiency. Furthermore the use of bio-fuels will be promoted.

#### Forestry and Land Use

It has been recognised that "the current policy does not send strong signals to encourage land owners to keep their lands in forests and establish new forests".

Recognising the high rate of land clearance for dairy in particular, it is understood that pricing measures are to be considered.

### Our Conclusions

Although the headline news is that the Carbon tax has been abandoned it is clear that there are still major policy implications for industry and the generation sector in particular.

Contact us for advice on how these policy changes impact on your business and the actions you should be taking.

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