

NGA Update

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

October 2005

Welcome to the October issue of NGA Update – An Election Outcome Special.

Election Outcome – what it means for business

Labour's deal with United future and NZ First

Contrary to much of what has been reported, we believe that the United Future and New Zealand First parties have gained only a minor concession on the Labour led Government's climate change policies.

Firstly they have not gained a review of New Zealand's membership of the Kyoto Protocol.

Secondly, the review of the carbon tax was already an element of the ongoing Policy Review initiated in June (more below).

The specific wording in the Confidence and Supply Agreements is as follows:

United Future:

A new cost benefit analysis of the proposal to introduce a carbon tax as part of our Kyoto obligations will be conducted and no legislation introduced before the analysis is completed. The criteria and/or the terms of reference for this analysis will be agreed through sector wide consultation.

NZ First:

Review the appropriateness or otherwise of progressing a carbon tax policy as a response to Kyoto Treaty obligations.

Neither party has gained a concession to drop the carbon tax. They have just formalised the need to review it.

Our Forecast Outcome

Based on off the record discussions with officials, politicians and others, we forecast that existing policies will be migrated into Emissions Trading sooner than previously anticipated.

Here's our logic:

1. Helen Clark will not want to go into the 2008 election with the carbon tax having been implemented less than 18 months prior. Emissions Trading is viewed to be benign in the voters eyes – a tax is not.
2. The Labour Party has always favoured emissions trading – the Green Party had a significant role in driving the carbon tax policy in previous terms.
3. Existing policies have always contemplated a move to emissions trading – the NGA Review Cabinet Paper (April 2005) noted that:

"If the Crown wished to continue with a NGA policy

under emissions trading, it is likely that a simple amendment to NGAs (namely, extending the coverage of relief to impacts of emission trading as well as or in place of impacts of the carbon tax) would make most NGAs and their relief provisions compatible with a transition to emissions trading."

What should business do?

We recommend that if you are already in the NGA process, continue through to completion. If you are contemplating making an application seek an NGA as quickly as possible.

Why?

1. Kyoto membership has not and will not change under this Government. Furthermore the challenge to meet targets has got harder. Policies addressing industry emissions are therefore here to stay.
2. The Climate Change Office is continuing to operate on the basis of NGAs still being required.
3. Dropping the Carbon Tax is far from certain.
4. In the event that Emissions Trading is introduced, the same pricing impacts, threatening international competitiveness will be seen.
5. An NGA may provide a basis for allocation of emission units under an Emissions Trading scheme.

In other words: "business as usual" for NGA firms.

Contact us for more information and guidance. We have full and proven experience on all stages of the NGA process.

Ministerial Portfolios

So long Pete Hodgson, hello David Parker

David Parker has been appointed to be the Minister of Energy, Minister of Transport and Minister responsible for Climate Change Issues.

Many will welcome the combining of these portfolios as all are heavily interdependent.

David (45) studied law and commerce at the University of Otago. He subsequently has a career both as an entrepreneur and a lawyer prior to entering parliament in 2002 as the Otago constituency MP. He lost the seat in 2005 and is now a list MP.

David Parker is also Attorney General.

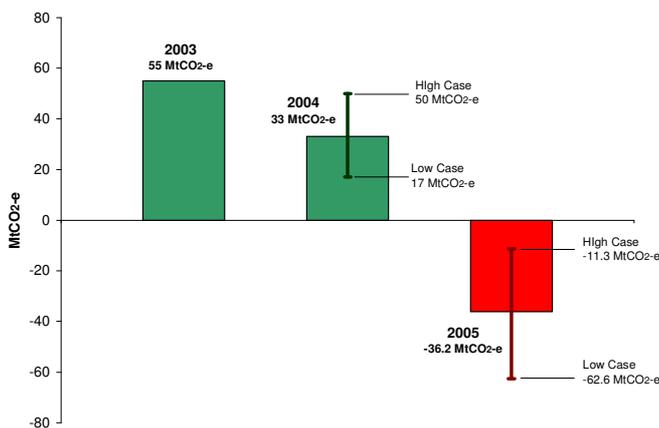
The Minister for the Environment role has been given to David Benson-Pope. This builds on his role carrying out the RMA review.

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Policy Review

As reported in the previous NGA Update, in May 2005, the Ministry for the Environment (MfE) completed revised projections of New Zealand's greenhouse gas emissions. The projected balance over CP1 by year of forecast is shown in Figure 1.

Figure 1. Projected Balance over CP1 by Projection Year



Recognising that the benign context that was the foundation of the current climate change policies has now changed (deficit for CP1 now predicted), in June the Government directed officials to undertake a review of climate change policy settings and objectives and to report back to Cabinet by 31 October 2005.

The purpose of the Climate Change Policy Review is to investigate how New Zealand should respond to the forecast CP1 deficit. It will also give consideration to New Zealand's current high-level climate change goal of reducing emission towards a "permanent downward path by 2012" (this may now be unrealistic).

The review team comprises of officials from Treasury and relevant Ministries (Agriculture & Forestry, Economic Development, Environment and Transport).

The scope of the review covers:

- near term: a strategic level review of the appropriateness, likely effectiveness and costs and benefits of New Zealand's policies (including domestic carbon taxes & emissions trading and use of Kyoto protocol flexible mechanisms – emissions trading, JI and CDM); and
- long term: implications of known information on domestic emission trends for any obligations that New Zealand may choose to adopt beyond 2012.

The output of the review is expected to be advice to the Government on:

- Strategic choices about the direction and emphasis of New Zealand's climate change goals and policies in relation to CP1 obligations; and
- A negotiation mandate and strategy for the NZ delegation attending COP11/MOP1 in Montreal in November.

Frazer Lindstrom's Activities

In the last few months we have had several projects ongoing. Here is a list of some of our recent activities

- Frazer Lindstrom project manages and co-authors "A Sustainable Energy Future for New Zealand by 2050 - A Business View" released 26 September 2005.
- Frazer Lindstrom advises PanPac Forest Products on NGA Application.
- Frazer Lindstrom prepares NGA applications on a "turnkey" basis for two companies.
- NZ Aluminium Smelters sign NGA Framework for Agreement - Frazer Lindstrom provides strategy and policy advice.
- Holcim Cement eligible for NGA - Frazer Lindstrom advises on application.
- Frazer Lindstrom presents paper to NZ wind industry conference.
- Frazer Lindstrom appointed advisors to Wind Farm Group.
- Frazer Lindstrom presents paper at Australasian Emissions Trading Forum seminar in Melbourne.
- Frazer Lindstrom article "New Zealand Climate Change Policy Update" published by Australasian Emissions Trading Forum.

We have also updated our website. Please feel free to browse www.frazerlindstrom.co.nz and contact us with any comments.

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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