

# Climate Change: Competitiveness-At-Risk and Negotiated Greenhouse Agreements

## Competitiveness-At-Risk

The Competitiveness-at-risk group is made up of sectors of the economy and particular industries that would find it difficult to adjust if they were expected to face a cost on emissions in the first commitment period, 2008-2012. For these sectors or industries, it may be a choice of closing, changing location to a country with no controls on emissions (carbon leakage), or reducing staff or production in the short-term to compensate for the increased costs.

The Government proposes that this group be fully or partly shielded from any emissions charge, in return for a *Negotiated Greenhouse Agreement* (see next page) during the first commitment period. This policy will be periodically reviewed as the Kyoto Protocol evolves.

## Objectives

The key objective of policies for this group is to temporarily protect industries and sectors facing competition from countries without Kyoto Protocol obligations in the first commitment period, but which are expected to have obligations in subsequent commitment periods.

Accordingly, any mechanism for Competitiveness-at-risk firms is designed as a transition mechanism to facilitate adjustment within the industries or sectors to a carbon-constrained world and to manage the effects on the workforce, shareholders and community.

In particular, policy development for this group recognises that where reductions in New Zealand production levels are made up in countries that do not have Kyoto targets, there will likely be an increase in global emissions. This undesirable outcome is referred to as carbon leakage.

## Criteria

Three high-level criteria are proposed for determining Competitiveness-at-risk status:

- there is a significant risk of industry output and emissions shifting to another country that does not impose emission costs (i.e. carbon leakage); and
- there is significant risk to the industry's/sector's competitiveness in export markets; and/or
- there is a significant risk of imports displacing domestic production.

## Proposed Policy

Those industries or sectors that meet the criteria for Competitiveness-at-risk will be eligible for a Negotiated Greenhouse Agreement (NGA). *(Please refer overleaf for a summary of an NGA).*

## Suggested Issues for Feedback

- Do you have any views on the criteria for Competitiveness-at risk?

*Feedback can be provided through consultation forums or in writing by the closing date of Friday 14 June 2002.*

## Negotiated Greenhouse Agreements

The Government proposes to use Negotiated Greenhouse Agreements (NGA) as the primary policy approach for the *Competitiveness-at-risk* group. An NGA involves an agreement between the Government and industries or sectors in which the industry or sector agrees to manage its greenhouse gas emissions to an agreed level or emissions path.

An NGA will be based around developing an agreed emissions pathway and timeline, consistent with each firm's individual circumstances, and have the overall objective of achieving world-best practice on emissions per unit of production. Competitiveness-at-risk industries and sectors that fail to reach agreement on an NGA will be treated as part of the *General Energy Users* group.

A review of the Negotiated Greenhouse Agreement is proposed for around 2006 or 2007 where Competitiveness-at-risk status would be reassessed, and if the industry or sector were still at-risk then the NGA would continue but possibly with stricter (emissions units related) consequences for excess emissions during 2008-2012.

The 2008-2012 Negotiated Greenhouse Agreement could also contain provisions to enable the industry or sector to enter emissions trading if this mechanism were established.

Criteria, including meeting a positive net benefit test, would be applied to determine eligibility for an NGA. See pp 32-33 of the Government's Preferred Policy Package, A Discussion Document, April 2002.

## Suggested Issues for Feedback

- Do you have any views on how to incentivise participation in NGAs? (Refer p32 *Climate Change: The Government's Preferred Policy Package, A Discussion Document, April 2002*)
- What should be the model for NGAs in the first commitment period? How should they be structured in relation to international benchmarking, flexibility measures and price instruments, e.g. possible emissions trading?

*Feedback can be provided through consultation forums or in writing by the closing date of Friday 14 June 2002.*

This summary is drawn from *Climate Change: The Government's Preferred Policy Package, A Discussion Document, April 2002*, available at [www.climatechange.govt.nz](http://www.climatechange.govt.nz). See pp 30-33 of the document for a full Working Paper on Competitiveness-at-risk and Negotiated Greenhouse Agreements.