Please note all redactions have been made under s(9)(2)(a) of the Officials Information Act 1982 to protect the privacy of natural persons

Ameera Clayton

From:	Clare Backes
Sent:	Thursday, 16 September 2021 8:49 am
To:	etsconsultations
Subject:	review of industrial allocation NZ ETS.

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Submission on the review of industrial allocation (also known as free allocation) in the New Zealand Emissions Trading Scheme (NZ ETS).

Phase out all ETS industry allocations by 2030

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Clare Backes



From:	Josh Cumberland
Sent:	Thursday, 16 September 2021 9:15 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocation
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards,

Josh Cumberland

From:	
Sent:	Thursday, 16 September 2021 9:20 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Ingrid Perols

From:	Vanessa Rushton
Sent:	Thursday, 16 September 2021 9:22 am
То:	etsconsultations
Subject:	Submission to end carbon credit hand outs

MFE CYBER SECURITY WARNING This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

I have a 3 month old and am worried for his future. Please ensure your are doing everything possible to protect his prospects for a secure and climate safe future.

Best regards Vanessa Rushton

From:	Sandra Anderson
Sent:	Thursday, 16 September 2021 9:30 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag: Flag Status:	Follow up Flagged

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting
 with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Sandra Anderson

From:	Bronwyn Phillipps
Sent:	Thursday, 16 September 2021 8:51 am
To:	etsconsultations
Subject:	Phase out all ETS industry allocations by 2030!!!

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and **not having a sustainable long-term plan to** transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must **incentivise industry to transition to carbon neutral**, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. <u>Don't fund high-emitting industries to keep emitting - make</u> <u>them commit to decarbonisation</u>, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Bronwyn

From:	Valerie Morse
Sent:	Thursday, 16 September 2021 8:57 am
To:	etsconsultations
Subject:	End ETS allocations NOW

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I write this submission with gritted teeth as I contain the rage that I feel about the NZ government's failure to adequately address the climate emergency. In particular the continued allocation of free emissions credits to big polluters and the ongoing exemption of agriculture to the scheme is a criminal rort.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future. If they can't decarbonise, then they should be shut down.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation by REGULATION, and if necessary, help fund the transition by direct grants in
 response to verifiable, ambitious industry decarbonisation plans with significant penalties for failure.

We have no more time to wait for industry to decarbonise.

Ngā mihi, Valerie Morse

From:	Chris Morey
Sent:	Thursday, 16 September 2021 9:06 am
To:	etsconsultations
Subject:	The NZ government must phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

- New Zealand needs to immediately phase-out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon-neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- Concerning industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.
- Let's bite the bullet and crack on with it!

Kind regards Chris Morey

From:	Sahra Kress
Sent:	Thursday, 16 September 2021 9:52 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Sahra Kress Nāku noa Sahra Kress RM, BM, PG Dip, MMid Kapiti Coast https://kapiti.nikaumidwives.com/sahra-kress/

From:	Rob Burrell (CMDHB)
Sent:	Thursday, 16 September 2021 9:53 am
To:	etsconsultations
Subject:	Phase out free carbon credits

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Re: Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.
- New Zealand needs to behave with morality, and act with bravery.

Robert Burrell

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If you are looking for medical jobs in New Zealand, your career in health starts with us.

From:	ANDREW SUTHERLAND
Sent:	Thursday, 16 September 2021 9:54 am
То:	etsconsultations
Subject:	dirty secret addictions we share

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Re: Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to
 verifiable, ambitious industry decarbonisation plans.

Best regards

andrew sutherland

lets air our dirty addictions and save the world

From:Judy and Murray MillsSent:Thursday, 16 September 2021 9:59 amTo:etsconsultationsSubject:ETS Proposals

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Nga mihi koutou katoa.

I understand that dealing with CO2 emissions is a highly complex matter, but as a grandmother and greatgrandmother I have great concerns for the future we are passing on.

I have also just read David Attenborough's "A Life on our Planet" which has reinforced these concerns. In the chapter on "Switching to Clean Energy" he writes on p 139, "We have less than a decade to switch from fossil fuels to clean energy." I am therefore making my contribution to the discussion on the ETS.

In view of the urgent need to slow down the contributing factors to climate change, I believe the government should act more rapidly to discourage the use of fossil fuels, and incentivise the transition to cleaner energy in all industries. We cannot accept 2050 as an appropriate date for this. Instead, in view of the fact that we as a country have agreed that climate change is an emergency, an earlier date, such as 2030, would be acceptable.

I understand that we might have to expect some consequences in our standard of living but I believe the majority would accept this if they were convinced of the seriousness of the situation. There would be worse consequences if action is delayed. Sincerely

Judy Mills QSO

From:	Hilary Robson
Sent:	Thursday, 16 September 2021 9:37 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Re: Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to
 transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Hilary Robson

From:	Nancy Bell
Sent:	Thursday, 16 September 2021 9:38 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Re: Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards NJ Bell



From:	Jenny Easton
Sent:	Thursday, 16 September 2021 9:41 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Jenny Easton

Jenny Eastor	n	

From:	Lindsay Jeffs
Sent:	Thursday, 16 September 2021 9:47 am
To:	etsconsultations
Subject:	Emissions Trading Scheme Ammendments

MFE CYBER SECURITY WARNING

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To Whom It May Concern

New Zealand should instead of reviewing the Emission Trading Scheme format abandon it in its entity.

There is no evidence that such a framework actually works in practice as the marketplace cannot rectify a market failure.

This is at least the third attempt to fix a failed system. The first ETS scheme was an embarrassment and the new scheme is face mirroring that disaster.

We call on the Government and its advisors to be honest and admit their collective failure to meet our obligations under both the Kyoto and Paris climate agreements and to abandon the nonsense of an ETS marketplace.

The future of today's and future generations of humans depend upon sensible decisions today not tomorrow and to learn from past mistakes rather than repeating them.

A carbon tax is the only sensible solution.

If the Government will not see sense then we demand that:

- New Zealand immediately phases out, and find ways to decarbonise all of our emitting industries, starting with the highest emitters. Agriculture must be included. High greenhouse gas emitters are not something that taxpayers should subsidise as it cannot be a part of our future.
- By continuing to subsidise New Zealand's biggest emitters, we are exposing those companies to the
 risk of being subject to a carbon border adjustment mechanism in other countries, for not having a
 sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support a just transition and needs to include both
 carrots and sticks in the form of regulations, taxes and penalties.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Stop funding high-emitting industries to keep

emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

• The Mandatory Climate-Related Financial Disclosures now required for all companies listed on the New Zealand Stock Exchange should be extended to all of our high GHG emitting companies. This would give the public some insurance that the Government is serious in tackling the climate crisis by putting the responsibility on the polluters rather than the consumers and taxpayers.

Yours

Lindsay Jeffs Carbon Neutral New Zealand Trust

2030
2

Follow Up Flag: Flag Status: Follow up Flagged

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Tena koutou katoa. I'm writing in regard to the government's ETS industry allocations, to express my belief that these need to be phased out as soon as possible, and certainly no later than 2030.

New Zealand needs to transition to carbon neutral - we need to do this ambitiously and urgently. By continuing to subsidise our biggest emitters, we obviate the need for a sustainable long-term plan to transition off fossil fuels, and away from high-emission industries.

Don't fund high-emitting industries so that they keep on emitting; make them commit to decarbonisation.

Thank you.

Regards, Margie Thomson

written.co.nz

From:	David Moorhouse
Sent:	Thursday, 16 September 2021 9:44 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Hi

It is completely unacceptable during te current climate crisis that New Zealand continues to subsidise our biggest emitters of CO2 with tax payer money.

We need to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

I ask that the government takes the following steps:

- Instead of increasing risk to industry, and giving out free emissions credits, incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, set the precedent for how the future will look and enable industry to support this. E.g.Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

David Moorhouse

From:	Richard Green
Sent:	Thursday, 16 September 2021 10:42 am
To:	etsconsultations
Subject:	Submission on ETS indistry allocations

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

To whom it may concern,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

....Richard Green

From:	Mary Wilson
Sent:	Thursday, 16 September 2021 10:43 am
To:	etsconsultations
Subject:	Phasing out subsidies

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

To: <u>etsconsultation@mfe.govt.nz</u>

Re: Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

I couldn't write more concise reasons to call upon the Government than that expressed by the Coal Action Network Aotearoa

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Mary Tierney-Wilson

From:	Francis Palmer
Sent:	Thursday, 16 September 2021 10:44 am
To:	etsconsultations
Subject:	Ban free allocations by 2030

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to
 transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to
 verifiable, ambitious industry decarbonisation plans.

I emphasise in particular the logical imperative to ban free allocations which allow dangerously high emissions in order to produce steel for export to armaments manufacturers. I do NOT want my taxes, or public subsidies to support the production and export of products which will be converted into kill products. Our steel production then becomes a double edged sword. Given the govt's failure to support Lanzatech which was working to reduce NZ Steel's emissions, the 'leakage' argument is an invalid excuse.

NZ allows huge coal imports from dirty production elsewhere to fuel this dark industry. It's time to show some 'metal' in NZ's resolve to reign the heaviest pollution in.

Regards

Frances Palmer

From:	Diana Clarke
Sent:	Thursday, 16 September 2021 10:51 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to
 transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to
 verifiable, ambitious industry decarbonisation plans.

Best regards

Diana Clarke

From:	Craig Drown
Sent:	Thursday, 16 September 2021 9:32 am
To:	etsconsultations
Subject:	Reforming industrial allocation in the NZ ETS

MFE CYBER SECURITY WARNING

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Morena,

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards,

Craig Drown

The mSupply Foundation

https://msupply.foundation

From:Phil and Viola PalmerSent:Thursday, 16 September 2021 10:57 amTo:etsconsultationsSubject:subsidy

MFE CYBER SECURITY WARNING

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Re: Calling on the government to phase out all ETS industry allocations by 2025

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2025. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a
 precedent for how the future will look and enable industry to support this. Don't fund
 high-emitting industries to keep emitting make them commit to decarbonisation, and
 if necessary, help fund the transition by direct grants in response to verifiable,
 ambitious industry decarbonisation plans.

Best regards

Viola Palmer

From:	ronny Groenteman & Raviv Carasuk	
Sent:	Thursday, 16 September 2021 11:00 am	
To:	etsconsultations	
Subject:	Calling on the government to phase out all ETS industry allocations by 2030	
Follow Up Flag:	Follow up	
Flag Status:	Flagged	

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Tēnā koutou katoa,

The New Zealand Government has made a climate emergency declaration. However, at the same time The New Zealand Government has subsidise our emitting industrys. By continuing to subsidise our emitters, we're prolonging a sustainable long-term plan to transition off fossil fuels. Instead of giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Raviv Carasuk

From:	Jill Burnell
Sent:	Thursday, 16 September 2021 10:03 am
To:	etsconsultations
Subject:	ETS submission

Follow Up Flag: Flag Status: Follow up Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards, Jill Burnell

From: Sent: To: Subject:

Thursday, 16 September 2021 10:06 am etsconsultations New Zealand's Emissions Trading Scheme - submission on free emission credits

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Calling on the government to phase out all ETS industry allocations by 2030

The need to take more steps to reduce emissions and respond to the effect these have on climate is urgent. We should not be facilitating and encouraging high use emitters, public or private, through financial incentives. Rather, any incentives should go towards industries who show a clear pathway in a set time frame to reducing their emissions and phasing out use of fossil fuels to be carbon neutral.

Why support industry to continue "business as usual". Why not support those showing commitment and innovation, to being part of the solution rather than the problem? This is a moment when NZ government has the opportunity to guide how the future will look and enable industry in achieving positive action in reducing climate effects.

Helen P Jones .

Sent from Mail for Windows

From:	Angus de Lange
Sent:	Thursday, 16 September 2021 10:10 am
To:	etsconsultations
Subject:	Decarbonising all ou NZ industry
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Angus de Lange

Attention: This e-mail message is privileged and confidential. If you are not the intended recipient please delete the message and **notify the sender**.



From:	Jan Lorier
Sent:	Thursday, 16 September 2021 10:11 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Jan Lorier

From:	Peter McQuarrie
Sent:	Thursday, 16 September 2021 10:12 am
То:	etsconsultations
Subject:	Stop funding polluting industries

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Govt must find ways to decarbonise our energy industries. Take a quick route to getting out of using fossil fuels.

Please stop giving free emissions credits to the fossil fuel industries asap. Perhaps help fund the transitioning to renewable energy.

Thank you Peter McQuarrie



From:	Maureen Mooney
Sent:	Thursday, 16 September 2021 10:16 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Ngā mihi Maureen Mooney

From:	Ruth Irwin
Sent:	Thursday, 16 September 2021 10:30 am
To:	etsconsultations
Subject:	free carbon credits

MFE CYBER SECURITY WARNING

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If a market for carbon offsets is to be taken at all seriously then free carbon credits for multinational monoliths must not be on the table. This completely undermines any concept of a free market. Carbon credits are an important part of the toolbox to encourage companies and organisations to become net zero which is now urgent. We know that the carbon balance left from modern society will be used up in less than 10 years unless organisations radically reduce emissions. The requirement to do so is helped considerably by the availability of realistically priced offsets.

Putting free offsets into the mix completely disrupts the levers being set by the market. The Liberal government should understand this simple economic premise and make sure that nothing so deleterious takes place. Halt all free carbon credits. Do not subsidise fossil fuels. And stop this nonsense about gas being a 'transition' when it is simply more emissions.

regards, Professor Ruth Irwin

From:	Jenny Lewis
Sent:	Thursday, 16 September 2021 10:26 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Jennifer Lewis

From:	Peter Beaver
Sent:	Thursday, 16 September 2021 10:39 am
To:	etsconsultations
Subject:	Please phase out all ETS industry allocations by 2030

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This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

I am extremely distressed that we seem to continue to treat the climate emergency as a casual sort of a problem. I expect (hope perhaps) that you need no reminding of the extreme gravity of the problem of AGW.

Therefore I respectfully suggest that:

- New Zealand immediately decarbonise all emitting industries, starting with the highest emitters.
- We must not give out free emissions credits. It is madness for the NZ taxpayer to subsidise climate change!
- We incentivise industry to transition to carbon neutral, develop solid roadmaps to reduce their emissions, and commit to carbon zero by 2030 with a just transition.
- Regarding industry-specific funding, don't fund high-emitting industries to keep emitting. Make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Kind Regards,

Peter Beaver, PhD.
From:	Ottilie Stolte
Sent:	Thursday, 16 September 2021 12:17 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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TÄ"nÄ koutou katoa,

New Zealand needs to **immediately** phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is **not something we should subsidise** as it cannot be a part of our future.Ā

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.Ā

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.Ā

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.Ā

Best regards

Ottilie Ā Dr Ottilie Stolte, Senior Lecturer, Te Kura Whatu Oho Mauri, School of Psychology, University of Waikato, Private Bag 3105, Hamilton, New Zealand Office JK1.02, Phone: +64 7 837-9231

http://www.waikato.ac.nz/fass/about/staff/ottilie Ā

From:	Emily Mabin Sutton
Sent:	Thursday, 16 September 2021 12:20 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
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Best regards,

Emily Mabin Sutton

From:	Krista Holtz
Sent:	Thursday, 16 September 2021 12:07 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

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Best regards, Krista Holtz

Krista Holtz AFY Teacher Phone +64 9 306 2610

KHoltz@studygroup.com taylorscollege.ac.nz

TaylorsCollege

75 Karangahape Road Auckland 1010 New Zealand

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From:	Richard Wesley
Sent:	Thursday, 16 September 2021 1:07 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Richard Wesley



From:	James Barber
Sent:	Thursday, 16 September 2021 1:39 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

Mea tuatahi, kia pai tō koutou wiki o te reo Māori.

I am writing to submit on the ETS Industry Allocations Review 2021.

The first point I would like to make is, I am involved in environmental community groups and the first I heard about this was today from a friend on Facebook. I understand that submissions close tomorrow.

For consultation on such an important issue this is woefully inadequate and I can only think deliberately done to avoid lots of people making submissions.

My opinions are:

1. New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

2. By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

3. Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

4. With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Yours with immense frustration, `Āku mihi makariri,

James Barber Ōtautahi --Ngā mihi James Barber



From:	Sunshine Yates
Sent:	Thursday, 16 September 2021 1:40 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
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Ngā mihi nui,

Sunshine Yates

www.sunshineyates.co.nz

From:	Deborah Yates
Sent:	Thursday, 16 September 2021 11:05 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

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- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
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Best regards

Deborah Yates

From:	Donna Mummery
Sent:	Thursday, 16 September 2021 11:16 am
To:	etsconsultations
Subject:	Phase out all ETS Industry allocations by 2030

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
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 if necessary, help fund the transition by direct grants in response to verifiable,
 ambitious industry decarbonisation plans.

Best regards

Donna Mummery

×

From:Rocky & ReginaSent:Thursday, 16 September 2021 11:31 amTo:etsconsultationsSubject:ETS Allocations

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Dear MfE staff for ETS consultations

I am a scientist who has followed the climate carbon issue for over 4 decades, frustrated by political failure to take action. Now it is accepted that significant action must happen this decade.

The history of the ETS in the EU showed what a failure it is to hand out billion in subsidies to the largest industrial carbon polluters. It is good to see the current NZ government talking about phasing those out in our NZ ETS. The big C polluters will only be part of the solution if ETS pressure comes to bear soon.

Do not dally if you want to achieve the essential mitigation that is so urgent. End the industry allocation of free C credits this decade!

Sincerely, A R (Rocky) Renquist

From:	Rhys E Taylor
Sent:	Thursday, 16 September 2021 11:54 am
To:	etsconsultations
Subject:	Industrail allocations under the ETS

MFE CYBER SECURITY WARNING

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A brief personal submission .

New Zealand needs to decarbonise all of our carbon-emitting industries, starting with the highest emitters. It is not something we should subsidise to continue carbon emissions, through free ETS credits at public cost, which does not help NZ to stop using so much gas and coal in industry, as we must now do to meet international obligations.

I favour incentives for industry to transition to carbon neutral, by developing plans to quickly reduce their emissions and commit to carbon zero by 2030. There may need to be public grants to enable faster technical changes, as seen recently for alternatives to coal burning alternatives at milk power plants.

Carbon trading does not help reduce the warming atmosphere if high emitters are 'bailed out' by the rest of the public who are trying to do the right thing – such as my own efforts to reduce frequency of car travel, to work from home, walk and cycle locally and to encourage longer-stay lower kms visitor travel.

Rhys Taylor

From:	Shaked From
Sent:	Thursday, 16 September 2021 12:00 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Shaked From

From:	Chris Leigh
Sent:	Thursday, 16 September 2021 11:56 am
To:	etsconsultations
Subject:	I'm calling on the government to end all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Kind regards, Chris

--Chris Leigh BE(Mech). Le Heron Leigh Consulting Limited

ITSD is now LLCL. Same company, new name.

From: Sent:	Josh Salter Thursday, 16 September 2021 12:02 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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To whomever is concerned:

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting
 with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Joshua Salter

Dr.Joshua Salter -----

From: To: Subject: chris-sigrid

etsconsultations

Calling on the government to phase out all ETS industry allocations by 2030

Follo	w l	Up	Flag:
Flag	Sta	tu	s:

Follow up Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Sigrid

From:	Beverley Parton	
Sent:	Thursday, 16 September 2021 12:12 pm	
To:	etsconsultations	
Subject:	Stop carbon emissions	

MFE CYBER SECURITY WARNING

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Tēnā Koutou Katoa

As a grandparent, I am very concerned about my grandchildren's future on this planet with what science is telling us about climate change, and many are undeniably experiencing.

All subsidies to emitting industries must cease.

All emitting industries must decarbonise.

Transition plans from carbon emitting to zero emissions must be ambitious, there is no time for palavering around.

While I am concerned for my grandchildren's future, globally too many children are currently suffering.

Incentivise

Be the government that is radically foresighted to commit to support industries to change positively with subsidies for evidenced -based technologies. Care about and for the earth.

Penalise

Create a legal framework for zero carbon emissions with significant penalties for industries tardy to consider their responsibilities to generations now and to come. Take responsibility, and legislate for the earth's protection.

Ngā mihi

Beverley Parton



Submission on the Reforming industrial allocation in the New Zealand Emissions Trading Scheme consultation document

Federated Farmers of New Zealand 17 September 2021





SUBMISSION ON THE REFORMING INDUSTRIAL ALLOCATION IN THE NEW ZEALAND EMISSIONS TRADING SCHEME CONSULTATION DOCUMENT

TO: Ministry for the Environment

DATE: 17 September 2021

ADDRESS FOR SERVICE

Name	Position	Phone Number	Email Address	Postal Address
Macaulay Jones	Senior Policy Advisor – Climate Change			PO Box 715, Wellington 6140

OTHER CONTACTS

Andrew Hoggard	National		PO Box 715,
	President and		Wellington 6140
	Climate		
	Change		
	Spokesperson		
Nick Clark	Manager –		PO Box 20448,
	General		Bishopdale,
	Policy		Christchurch
	-		8543

ABOUT FEDERATED FARMERS

Federated Farmers of New Zealand is a membership organisation, which is mandated by its members to advocate on their behalf and ensure representation of their views. Federated Farmers does not collect a compulsory levy under the Commodities Levy Act and is funded from voluntary membership.

Federated Farmers represents rural and farming businesses throughout New Zealand. We have a long and proud history of representing the needs and interests of New Zealand's farmers.

Federated Farmers aims to empower farmers. Our key strategic priorities as an organisation are that we:

- Be the respected voice of farming.
- Foster an inspired leadership network.
- Support vibrant rural communities.

SUBMISSION ON THE REFORMING INDUSTRIAL ALLOCATION IN THE NEW ZEALAND EMISSIONS TRADING SCHEME CONSULTATION DOCUMENT

- 1. Federated Farmers of New Zealand (the Federation) welcomes the opportunity to submit to the Ministry for the Environment (MFE) on the Reforming Industrial Allocation in the New Zealand Emissions Trading Scheme consultation document (the consultation document).
- 2. The Federation has a long history of engaging in climate policy both in New Zealand and internationally. This includes engaging in both policies designed to mitigate greenhouse gas (GHG) emissions as well as policies designed to improve New Zealand's ability to adapt to the impacts expected to occur as a result of climate change.
- 3. We are committed to the New Zealand agricultural sector achieving a 2050 goal of becoming warming-neutral, consistent with the 2015 Paris Agreement. Such a goal requires that short-lived flow GHG emissions (biogenic methane) are reduced, but not to net-zero, by 2050 and that long-lived stock GHG emissions (being mainly carbon dioxide and nitrous oxide) are reduced to net-zero by 2050.
- 4. Federated Farmers interest in climate change policy has led to an interest in the New Zealand Emissions Trading Scheme (NZ ETS) and its impacts on our farmer members. New Zealand farmers are not only impacted by the ill-advised possible inclusion of agricultural emissions into the NZ ETS. They, like other businesses and households, bear the burden of the NZ ETS through its impact on necessary farm inputs such as electricity and fuel. A number of farmers are also more directly affected by the NZ ETS as they have forests on their land, many of whom are either entered into the ETS or are considering planting options.
- 5. The Federation supports industrial allocation (IA) as a means of reducing the risk of the NZ ETS price driving emissions intensive trade exposed (EITE) firms, their production, and their associated emissions overseas. This emissions leakage would have negative social and economic impacts in New Zealand and could even result in increased global emissions if this production is replaced by another country that is less emissions efficient or operating without a capped ETS.
- 6. In our 2019 submission on the Climate Change Response (Emission Trading Reform) Amendment Bill, the Federation cautioned against unreasonably adhering to a rigid timeline for phasing down industrial free allocation, as doing so risks emissions leakage. New Zealand climate action should not seek to shrink domestic economic activity and drive emissions offshore, as this risks serving as a cautionary warning rather than as a motivating example for larger nations to follow. New Zealand can make a much larger global impact towards tackling climate change by demonstrating leadership and serving as a template for larger countries, than it can by pursuing policies that divisively cut GHGs and economic activity domestically.
- 7. When submitting on this consultation document, we would like to note the wider context of regulatory uncertainty in New Zealand. There have been many recent legislative and regulatory changes to not only the NZ ETS and climate change more generally, but also wider policy changes to areas such as industrial relations, immigration, freshwater management, and the Resource Management Act. We are growing increasingly concerned that many of these policies are being designed in silos without regard for the combined impacts on small and medium businesses (including

but not limited to farms) and the wider context of business uncertainty these changes are fostering. This regulatory uncertainty has been amplified by the COVID-19 pandemic and the resultant disruption to international supply and logistic chains.

- 8. In reforming the industrial allocation framework of the NZ ETS we also caution New Zealand regulators to take care to not set an example for international competitors that may wish to use GHG industrial allocation policy as a technical barrier to trade (TBT). Alternative frameworks such as direct payments to industry and a carbon boarder adjustment mechanism (CBAM) could be used by international agricultural competitors as a means of advantaging their farmers against New Zealand imports. We therefore recommend that the existing industrial allocation framework is improved, and not replaced.
- 9. The Federation's concerns relating to the alternatives put forward to the IA system are amplified in the case agricultural emissions are priced via the ETS. Operating without significant government subsidies and continuously innovating are key aspects that drive efficiency and promote New Zealand's agricultural sector. We are concerned that alternatives proposed to the current IA system raise trade concerns, such as in the case of a carbon border adjustment mechanism or direct payments to EITE firms. We are also concerned they risk stifling innovation, as in the case of partial exemptions from NZ ETS surrender obligations. We also question how taxing imports of agricultural products such as beef, lamb and dairy would offset the impact of pricing agricultural emissions in New Zealand, given that the majority of New Zealand produce competes in international markets and not domestically.
- 10. In the interest of ensuring that the data used to inform the improvement of IA policy is accurate and up to date it is reasonable to require firms receiving IA to report this data to the government. It is however, less reasonable to compel these firms to make this data publicly available. We therefore request that if firms that receive IA are required to report information such as emissions, revenue, and production data annually, care should be taken to ensure that this data is aggregated and anonymised.
- 11. Along with the risks to commercial information faced by all firms in making this data public, If agricultural emissions are priced via the NZ ETS (as legislated in the backstop to He Waka Eke Noa), there are additional risks to making individual participants' emissions data publicly available. There are real risks that on-farm emissions data being made public using the inaccurate GWP100 metric will portray a misleadingly high figure that does not adequately factor in the short-lived nature of biogenic methane. Carelessly reporting misleadingly high on-farm emissions data risks both needlessly vilifying farmers and raises serious privacy and security concerns for our members.
- 12. Industrial Allocation is a key means of ensuring that the NZ ETS functions as a means of efficiently driving emissions reductions, in a manner that supports international competitive economic activity, and does not simply drive emissions and economic activity oversees. It is concerning that the consultation document appears to move away from this core purpose of balancing domestic emissions reduction with international competitiveness and places domestic emissions reduction ahead of other concerns. On page 20 the consultation document states.

"Although IA should continue to address leakage, this should not be at the expense of our legislated climate change commitments."

13. Legislated climate change commitments, both domestic (such as the Climate Change Response Act) and international (such as the Paris Agreement), have strong regard to

the social and economic impacts of climate change policy. These sometimes conflicting considerations and objectives of legislated climate commitments should be made clear when seeking feedback on relatively technical issues such as industrial allocation. It is concerning that this has not occurred in this consultation document.

Submission ends

From:	CORLETT, Antony (Tony)
Sent:	Thursday, 16 September 2021 3:01 pm
То:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

Re: Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

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Also note, the views expressed in this message may not necessarily reflect those of the New Zealand Police. If you have received this message in error, please email or telephone the sender immediately



P O Box 76134, Manukau 2241 Ph 09 2624846

10 September 2021

Industrial Allocations review,

Ministry for the Environment,

PO Box 10362,

Wellington 6143

Sent by email to etsconsultation@mfe.govt.nz

From Nick Collins, Chairman of ALENZ.

About ALENZ

The Aluminium Extruders Association of New Zealand is a committed group of **aluminium extruders** who work collaboratively to improve manufacturing for New Zealand business. We are largely privately owned businesses who are passionate about the future of New Zealand manufacturing, maintaining high value jobs in New Zealand's regional economies and continuing to supply our customers with high quality, innovative solutions which meet the high standards demanded by the diverse needs of the New Zealand construction, transport and manufacturing sectors.

ALENZ members are committed to New Zealand's transition to a low emission circular economy. Predominantly, and where ever possible our members rely on low carbon virgin billet from NZAS at Tiwai Point, which has a Certified CO_2 content $4tCO_2$ /tAl or below, compared to a global average of $12tCO_2$ /tAl¹.

Our members lead the way with recycled production waste, which is either returned to NZAS at Tiwai Point, where it is used to cool molten metal (thereby reducing energy demand) or shipped to the McKechnie recycling plant in New Plymouth where it becomes feedstock for extrusions – with possibly the lowest carbon footprint of any aluminium extruder, globally –

¹ <u>https://www.riotinto.com/-/media/Content/Documents/Products/Aluminium/RT-Aluminium-RenewAl-fact-sheet.pdf?rev=f89b8d105e15400fa053d58a364c3be8</u>

ALENZ submission: Reforming industrial allocation in the New Zealand Emissions Trading Scheme. Sept 2021.



achieving a carbon footprint of 1.21kg of CO_2e per Kg of Aluminium on a Scope 1 and 2 emissions.²

ALENZ's programme of work is focused on the future of New Zealand manufacturing, upholding fair and free trade principles and ensuring all aluminium extrusion products comply with New Zealand standards and Building Code requirements. ALENZ's programme of work is currently managed by Metals New Zealand. <u>www.metals.org.nz</u>

ALENZ position focuses on alternative mechanisms to address emissions leakage

ALENZ members have chosen to specifically comment on Section 6 of the Industrial Allocation consultation document, (Questions 23 & 24)– **alternative mechanisms to reduce emissions leakage.**

Why New Zealand government needs to address emissions leakage

ALENZ members are concerned that imports of extruded aluminium products that are like those manufactured in New Zealand, and which have a significantly higher carbon footprint, are unencumbered by any carbon charge – unlike those manufactured here.

In particular, imports of Aluminium extrusions from China, (like those products manufactured in New Zealand³), have increased almost four-fold over the last six years from 1368 tonnes in 2014 to 4077 tonnes.

Unlike New Zealand aluminium smelter / downstream manufacture, which is fired by renewable energy, extrusion imports of Chinese origin have a carbon footprint as the primary energy source is coal, (both in the smelting and in the downstream manufacturing process) – carbon footprints estimated to be between 16 CO2kg per kg AL to over 20 CO2kg per kg AL.

ALENZ members monitor imported volumes closely – as imports are frequently low quality products, and commonly bring our industry into disrepute – evidenced in the leaky building facades imported by Mainzeal Construction^{4.}

Our monitoring also includes costs of imported products. Over time (and benchmarked against international manufacturers) ALENZ have constructed a best manufactured cost model incorporating raw material, production, freight costs and currency fluctuations – there is no allowance for profit in this model it is solely cost.

² <u>https://www.mckechnie.co.nz</u>

³ Corresponds to tariff codes 7604290900, 76042100.

⁴ Refer <u>https://www.nbr.co.nz/article/leaky-buildings-chinese-supply-botch-fell-mainzeal-over-just-20m-bd-135457</u>



Detailed analysis of import shipments over the period Jan 2019 to July 2020 is graphically represented in figure 1 below, along with estimated best manufactured cost (black trending line).





Figure 1 demonstrates that these imported high embodied carbon aluminium extrusions, are being dumped in the New Zealand market place, below the best manufactured cost internationally.

Carbon border adjustments are being adopted / considered by New Zealand's trading partners

ALENZ members are advocating that the New Zealand Government addresses carbon leakage arising from imported products by adopting a carbon border adjustment tax (based on average carbon footprint in country of origin where imports are manufactured).

On 14 July 2021 the EU adopted a carbon border adjustment to address carbon leakage created by imports, acknowledging:

Climate change is a global problem that needs global solutions. As we raise our own climate ambition and less stringent environmental and climate policies prevail in non-EU countries, there is a strong risk of so-called 'carbon leakage' – i.e., companies based in the EU could move carbon-intensive production abroad to take advantage of lax standards, or EU products could be replaced by more carbon-intensive imports.⁵

⁵ <u>https://ec.europa.eu/taxation_customs/green-taxation-0/carbon-border-adjustment-mechanism_en</u>

ALENZ submission: Reforming industrial allocation in the New Zealand Emissions Trading Scheme. Sept 2021.



US President Biden,

...is exploring the idea of a border adjustment tax that would slap a levy on imports from countries with weaker climate policies.⁶

Summary

High carbon footprint products that are like those manufactured in New Zealand are imported into New Zealand, frequently either subsidised or dumped.

Local manufacturing is further disadvantaged that these imported products, which have a carbon footprint in excess of four times greater than locally manufactured product, bear no costs of the carbon embodied in the product. Frequently these same products are non-compliant or poorly performing, placing a further cost on the owners to those buildings.

New Zealand needs to move away from cheapest capital cost to looking at life cycle costs and the value delivered by local manufacturing, by introducing a **carbon border tax on imported products** like those manufactured in New Zealand, otherwise New Zealand will continue to export our emissions in search of the lowest initial cost.

An example of the value delivered by aluminium extrusion businesses and associated manufacturing / logistics is detailed below.

Aluminium's importance to Waikato economy and community

Waikato's aluminium industry businesses are estimated to have an annual turnover of approximately \$1 billion as of 2019 – and represent some of the world's most sophisticated aluminium extrusion and processing businesses.

The Waikato has three large extruders (the process where aluminium is forced through a 'die' to form products like window frames): Independent Extrusion (INEX), Altus, and Ullrich Aluminium.

They are crucial suppliers to almost all residential and commercial buildings in New Zealand, producing some 25,000 tonnes of the world's lowest carbon extruded aluminium annually used in high-quality windows, doors, and other applications. In addition, Waikato-made extrusions are widely used across road transport and marine sectors.

As an industry, over 90% of all aluminium scrap is recycled, and even dies are recycled at the end of their useful life. This allows the industry to minimise waste by extracting value from

⁶ <u>https://www.bloomberg.com/news/articles/2021-04-23/biden-exploring-border-adjustment-tax-to-fight-climate-change</u>

ALENZ submission: Reforming industrial allocation in the New Zealand Emissions Trading Scheme. Sept 2021.



spent product. INEX also maximises this directly as it has a relationship with the smelter to return pre-consumer extrusion offcuts for recycling in New Zealand.

More on the value of aluminium to the Waikato economy can be found at: <u>https://www.metals.org.nz/wp-content/uploads/2020/08/ALENZ-Waikato-Aluminium-Case-Study-FINAL-20200622.pdf</u>

ALENZ members

ALUMINIUM EXTRUSION	Aluminium Extrusion Company is a Wellington based, precision extruder specialising in small profiles, significantly lower initial set- up costs enabling cost effective supply of smaller orders possible. <u>https://alexco.co.nz</u>
Industrial Aluminium & Window Systems	Altus is a leading New Zealand manufacturer and exporter of innovative designs in aluminium extrusions and extrusion-based building systems. We are the union of two great companies; Fletcher Aluminium and NALCO [™] . We have a rich history of providing market leading innovations and business systems for the construction and industrial sectors. <u>https://altus.co.nz</u>
INDEPENDENT EXTRUSIONS LTD	Shaping Concept into Reality Independent Extrusions Limited, or INEX as it is known, is an acknowledged leader in the aluminium extrusion industry. We supply extruded aluminium to the manufacturing and fabrication industries throughout New Zealand and Australia. <u>https://www.inexmetals.co.nz</u>
WcKechnie Transforming Aluminium	Leading global brands trust McKechnie [®] to manufacture and deliver high quality aluminium components that create successful products. With our culture of advanced thinking and design innovation, when it comes to transforming aluminium, almost anything is possible with McKechnie [®] . McKechnie [®] are the only aluminium extruder in NZ to have a remelt, meaning that's its products have a high recycled content and a low carbon footprint. McKechnie [®] is the only NZ Aluminium extruder to achieve third-party CEMARS [®] product certification by Enviro-Mark Solutions Ltd. <u>https://www.mckechnie.co.nz</u>

From:S & B HambidgeSent:Thursday, 16 September 2021 3:27 pmTo:etsconsultationsSubject:Coal Subsidies

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Please stop all ETS credits to fossil fuel companies.

William Robert Hambidge





Attn: IA Review Ministry for the Environment PO Box 10362, Wellington 6143

E-mail: etsconsultation@mfe.govt.nz

16 September 2021

<u>SUBJECT:</u> Submission on the "Reforming industrial allocation in the New Zealand Emissions Trading Scheme" Consultation Document

Evonik Peroxide Limited thanks the Ministry for the Environment for the opportunity to make this submission on its Reforming industrial allocation in the New Zealand Emissions Trading Scheme consultation document.

Recognising the importance of industrial allocation for our trade exposed hydrogen peroxide manufacturing site, our detailed submission is attached.

Evonik welcomes any clarification questions the Ministry may have on this submission and would also welcome the opportunity to meet and discuss the complexity of the issues raised in this consultation.

FOR EVONIK PEROXIDE LTD

Arnold Yeoman Site Manager



Submission on Reforming industrial allocation in the New Zealand Emissions Trading Scheme

1 Introduction

Evonik Peroxide Limited (Evonik) would like to thank the Ministry for the Environment for the opportunity to make this submission on the *"Reforming industrial allocation in the New Zealand Emissions Trading Scheme"* Consultation Document which was published 8 July 2021.

Evonik supports the framework introduced by the "Zero Carbon Act" through which Aotearoa New Zealand can develop and implement clear and stable climate change policies that contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels.

Evonik also strongly supports continued emphasis on the New Zealand Emissions Trading Scheme (NZ ETS) as the primary policy tool to address domestic greenhouse gas emissions. However, increased uncertainty of policy settings and the high frequency of changes undermines the foundations for decarbonisation investment that a stable NZ ETS should provide.

To provide the context to our submission points please find below a brief overview of our Company and the uses of our hydrogen peroxide products.

1.1 Company Overview

Evonik Peroxide Limited (Evonik) is a wholly owned subsidiary of Evonik Industries (<u>www.evonik.com</u>):

- Evonik Industries is an industrial group from Germany which is a global leader in specialty chemicals.
- Evonik Industries is convinced that corporate responsibility is one of the prerequisites for success in the long run. This flows through to company sustainability strategies and emissions reduction targets.

In New Zealand Evonik owns and operates New Zealand's only hydrogen peroxide manufacturing facility, located in Morrinsville:

- The manufacture of hydrogen peroxide is energy intensive and therefore emissions intensive. The major Hydrogen and Hydrogen Peroxide process steps are shown in Attachment 1.
- The hydrogen peroxide product is used domestically in a wide range of applications as shown in Table 1 below. It is also exported to Australia.



Table 1 - Common Applications of our Hydrogen Peroxide Products

Industry	Application
Pulp and paper	Bleaching wood pulp
Drinking and wastewater treatment	An oxygen additive
Packaging	Aseptic packaging of milk and fruit juice
Textile bleaching	Bleaching of cotton fabrics
Wool scouring	Bleaching of wool
Mining	Detoxification of cyanide tailings

• Evonik faces competition from producers located in Australia, China, Indonesia, and Thailand, countries where a national carbon pricing mechanism (carbon tax or cap and trade system) is not in place.¹ The manufacture of hydrogen peroxide is therefore "trade exposed".

1.2 Evonik Peroxide Limited's Exposure to the NZ ETS

Evonik's operations are directly impacted by the New Zealand Emissions Trading Scheme (NZ ETS):

- The manufacture of hydrogen peroxide is an Emissions Intense Trade Exposed (EITE) activity, the primary inputs being natural gas and electricity.
 - It uses natural gas for feed to the steam methane reformer to produce hydrogen and as high temperature process heat fuel.
 - o It uses electricity to power motors, for pumps and compressors.
 - More details are provided in Attachment 1.
- Evonik's operations are exposed to NZ ETS costs passed through by energy suppliers and second round impacts including freight costs and inflationary pressure.
- Evonik's operations are also dependent on the competitive viability of its larger customers, the pulp and paper industry of New Zealand.

1.3 Ongoing Improvements

Evonik continues to seek energy and emissions reductions through optimisation and capital improvements to the existing manufacturing facility.

Currently Evonik is completing an Energy Transition Accelerator (ETA) study as part of its long-term decarbonisation strategy supported by EECA. This is a good example of business and Government working together to reduce emissions.

¹ Evonik acknowledges that there are regional schemes in China, however from Evonik Industries' experience for hydrogen peroxide manufacture under the Shanghai pilot ETS, allocation equivalent to (or greater than) 100% of emissions is provided.



1.4 Our Vision - Future Manufacturing Options

Evonik is one of the few New Zealand companies experienced in hydrogen manufacture, currently through steam methane reforming of natural gas feedstock. We agree with the Climate Change Commission that hydrogen production will be required in New Zealand's low carbon fuels future energy mix.

Evonik is currently working with partners to review alternative mechanisms for producing hydrogen and the supply of surplus hydrogen for uses other than hydrogen peroxide manufacture.

Included in these is hydrogen production from electrolysis powered by renewable electricity. Although this is a rapidly developing technology, our assessments to date suggest that full scale implementation and replacement of natural gas would only occur in the period beyond the third budget period (2031-2035).

We also observe that different technologies are emerging, including carbon capture technology in conjunction with natural gas or biofuel options. These may compliment or even supersede electrolysis with its reliance on an abundant, reliable and affordable supply of renewable electricity.



2 Summary of Submission

A summary of our key submission points is provided below, followed by "Detailed Submission Points" where further explanation and recommended alternatives are provided.

- A. Investment risk has increased: Until the first signals of this wide-ranging review of industrial allocation was signalled in late 2020, Evonik's opinion was that the sovereign risk of climate policy for investing in New Zealand was reducing:
 - through the passing of the Climate Change Response (Zero Carbon) Act; and
 - the release of the Emissions Trading Reform Bill which was a clear evolution of prior NZ ETS policy development and consultation processes under the current and previous Government.

Regulatory risk has now markedly increased, undermining Evonik's emissions reduction and wider investment planning.

- **B.** The Risk of emissions leakage is increasing: The steeply increasing price of NZUs, combined with the ongoing fragmented international carbon pricing, is increasing the emissions leakage risks for EITE firms.
- **C. Eligibility reassessment is fraught:** Any reassessment of eligibility must consider the increasing emission costs since the 2010 assessment. International eligibility precedents should be considered.
- D. Addressing overallocation: Where the Government has concerns of material over allocation (units received greater than emissions) the reassessment of allocative baselines is supported. However frequent updating further undermines investment confidence and so should only be every 10+ years.
- E. Isolation of parameters is not appropriate: This consultation on eligibility and industrial allocation excludes consideration of level of assistance phase-out and development of a new electricity allocation factor methodology. All industrial allocation parameter changes must be evaluated together to assess cost, leakage risk and future legislative predictability.
- **F. The bigger picture:** Decisions on industrial allocation will have impacts of national importance. Evaluation of changes must consider:
 - future energy, hard to abate industry and primary sector strategies;
 - industry links, in Evonik's case with the pulp and paper sector and municipal water treatment; and
 - broader economic matters.



3 Detailed Submission Points

3.1 Background to Submission Points

Evonik recognises that New Zealand and the world are embarking on a transition to a lower emissions economy. However, this does not mean that it is logical to lose economic activity in New Zealand and displace emissions offshore (emissions leakage):

- a) In the case of hydrogen peroxide (H_2O_2) manufactured at Evonik's Morrinsville plant, the domestic demand for the output of that activity will remain for many decades to come.
- b) Until a (more) level playing field is achieved through other nations placing a price on emissions, industrial allocation remains the most appropriate policy measure to avoid emissions leakage and negate premature closure of domestic manufacturing.
- c) Evonik supports the current industrial allocation methodology where allocation is calculated using the formula:

Allocation = Production (tonnes H_2O_2) * Allocative Baseline (AB) * Level of Assistance (LA)

The Climate Change Response (Emissions Trading Reform) Amendment Bill (2019) provisions for industrial allocation clearly evolved from the comprehensive and lengthy policy development and consultation process that originated in 2015 and on which Evonik has participated. Evonik has consistently submitted:

- a. that it accepts that allocation is a temporary measure, and that phase-out overtime is appropriate as global action increases and emissions leakage risks diminish.
- b. the appropriate variable to adjust is the Level of Assistance (LA).

The Bill, subject to amendments, was therefore a positive step forward in delivering the high level of predictability of industrial allocation settings required to enable the significant long-term capital investments needed to reduce emissions.

In late December 2019, midway through the window to prepare submissions on the Bill for the Environment Committee, Evonik learnt that a wider review of industrial allocation policy had been agreed to by the Cabinet and is now the subject of this consultation.

For Evonik and other stakeholders the scope of this 2021 review, as set out in the consultation document, is unprecedented since the original policy design work in the period 2007-10:

- a. The complexity of the issues raised, especially regarding eligibility warrants detailed engagement with industry, policy specialists and officials.
- b. The resulting high level of uncertainty risks undermining the very investments required to reduce emissions and transition to a low carbon economy.

This consultation step should therefore be treated as just the 1st engagement of a comprehensive consultation process. It is vital to get any policy changes right to avoid further ad-hoc interventions.

Our submission points below follow the structured questions in the consultation document.


3.2 Response to Submission Questions

<u>Criteria</u>

Q1. Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

Evonik agrees with the five criteria identified and notes that they highlight the competing pressures on industrial allocation policy design.

We suggest caution is required on the determination of what "unacceptable levels of overallocation" in Criterion 2 means:

- The definition of overallocation introduced in the consultation document; *"greater than intended under the Act to reduce the risk of leakage*" risks becoming a circular argument when the consultation is around changes to the Act²;
- The more commonly understood definition of overallocation being the receipt of more emission units than the direct and indirect emissions from the activity may be a better assessment criteria when evaluating policy options.

Of the five criteria, Criterion 4. "*Regulatory certainty and predictability*" is critical with typical investment horizons for hydrogen and hydrogen peroxide technology being 10+ years.

Allocation Calculations

Q2. Should allocative baselines be updated using new base years? Why, or why not?

Evonik supports the updating of allocative baselines using new base years.

- We understand the Government has collated data from a limited number of activities which have identified sectoral or other changes that have identified evidence of overallocation.
- Evonik supports the statement on p22 of the consultation document, that:

"Updating the baselines with data from new base years would realign allocations to reflect the current emissions intensities of industrial activities. This would reduce over-allocation, and future allocation would reflect the current risk of leakage"³

• Through resetting allocative baselines now all stakeholders can (re)gain confidence in the industrial allocation policy.

Q3. Should the reassessment be a one-off update, or a periodic update? Why, or why not? and

Q4. If periodic reassessment is legislated, what would be an appropriate period – every year, 5 years, 10 years, or something else? Why?

Evonik supports a periodic update every 10 years or more:

² The consultation document highlights that changes to the Climate Change Response Act 2002 will be required.

³ Consultation Document p22



- A one-off update creates ongoing future uncertainty and a risk of a-hoc intervention on allocative baselines, as is the case currently. A legislated periodic update is therefore recommended.
- The appropriate period is 10 years or longer as more frequent updating undermines the financial incentive to invest in emissions abatement.

We suggest more policy development work is required to:

- ensure that firms investing close to a reassessment date receive a deferment of the allocative baseline update to avoid the perverse incentive to defer implementation; and
- ensure that firms who have reduced their emissions do not see returns eroded through changes to Level of Assistance resulting from Climate Change Commission assessment recommendations ahead of the next allocative baseline reassessment.⁴

Q5. Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not? and

Q6. Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?

Evonik recommends the inclusion of the most recent years.

- As an essential industry, hydrogen peroxide manufacture continued through Covid-19 Level 4 restrictions.
- Use of more recent data increases the credibility for all stakeholders.

<u>Eligibility</u>

Q7. Should eligibility be reassessed using new base years?

Reassessment of eligibility introduces substantive uncertainty for many EITE firms, including Evonik.

The original assessment criteria of emissions per million \$ revenue was adapted from the Australian Carbon Pollution Reduction Scheme and based on a one-off assessment of cost impacts at A\$20. While perhaps "fit for purpose" as a one-off screening exercise in 2009/10, driven by the then need for trans-Tasman alignment, reapplication of this test with the existing thresholds would not be appropriate.

For Evonik, despite an apparent reduced tCO₂/\$million revenue intensity, due to emissions reduction efforts under our control and commodity product pricing that has risen marginally, trade exposure has increased markedly:

• For Evonik and all other EITE firms, the true driver of leakage risk over time are the emission costs that need to be absorbed, not emissions per \$ revenue.

⁴ CCRA s5ZOB includes over allocation as one of many parameters that the Commission should assess in recommending accelerated phase-down rates.



- The current test does not recognise the increased leakage exposure due to the rise in carbon price and the move to a full surrender obligation.
- Since 2010, the carbon price has risen from the maximum of \$25 under the Fixed Price Option to the current price of over \$60, more than doubling the cost exposure based on carbon price alone.
- An eligibility assessment made now must take account of the expected carbon price range for the future eligibility assessment period in question. With increased auction price controls recently announced following the recommendations of the Climate Change Commission, further significant price rises are expected and required to transition the economy). The doubling in price by 2030 is signalled.⁵

Should the Government wish to proceed with retesting eligibility, Evonik strongly recommends alternative approaches should be used. Options to be considered may include:

- a. International Precedents.
- b. Alternative Financial Ratios e.g. carbon cost impacts on profitability assessments or Energy costs (with Carbon cost) as a proportion of operating costs.⁶

Of these international precedents would be the most straightforward approach from an administrative burden and international equity perspective. They will also give the Government assurance that eligibility is warranted as substantive analysis on leakage risk has been carried out in these larger jurisdictions

In Evonik's case, hydrogen peroxide manufacture would be classified as eligible for the highest level of industrial allocation support in the EU ETS, California Cap-and-Trade Program and the South Korean ETS (KETS). Details are provided in Attachment 2.

Our answers to the more detailed eligibility questions below are provided in the context that the Government still elects to reassess eligibility using the current emissions / revenue ratio.

Q8. Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not?

Yes, any new emissions intensity thresholds must consider the change in cost exposure from the rise in carbon price (current and across the future eligible assessment range).

If a New Zealand EAF is adopted (refer Q11) the thresholds should also be adjusted to reflect this change as it will otherwise adversely and unfairly impact electricity intense EITE activities.

For firms/activities which do not meet the existing criteria when reassessed, more detailed assessments such as those as identified in response to Question 7 should be applied.

Q9. Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate? and

⁵ Refer Climate Change Commission Final Advice Box 7.1

⁶ Variations of these were applied under New Zealand Negotiated Greenhouse Agreement (NGA) Policy.



Q10. Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?

Under the current or revised eligibility tests, any activity assessed to drop below an intensity threshold should have the step change impact moderated through the introduction of more threshold levels and / or a sliding scale.

Q11. Should the New Zealand EAF be used when determining eligibility? Why, or why not? and

Q12. Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?

The current eligibility criteria were set based on an EAF of 1.0. If a New Zealand EAF is to be used, the eligibility criteria should be updated as well, considering the true cost exposure.

The question of what value of New Zealand EAF is appropriate is a further complication:

- The EAF methodology is currently under review
- If an ex-post approach to determining the EAF is adopted (as proposed by the Government) there will be variance from year to year (potentially dampened through a rolling average). Recalculation of eligibility based on annual updates to the EAF could introduce substantive uncertainty for activities close to eligibility thresholds.
- Q13. Question 13: Should the trade exposure test be changed? Why, or why not? and

Q14. Question 14: What would be a more appropriate method to determine trade exposure?

Evonik sees no benefit in changing the trade exposure test.

More detailed assessment could be considered for those activities where there are no international eligibility precedents.

Summarising Evonik's Position on Eligibility:

- 1) Reassessment of eligibility introduces substantive uncertainty for many EITE firms, including Evonik.
- 2) The current eligibility test is no longer fit for purpose at the current threshold levels as it does not account for the increased carbon price impacts.
- 3) The simplest way forward is to verify the current eligibility against international precedents.
- 4) If a New Zealand eligibility test is to be applied, it should be developed with clear consideration of the rise in the forward carbon price, and:
 - a) Threshold effects should be minimised.
 - b) Eligibility changes due to EAF volatility should be avoided.
- 5) Overallocation is still addressed through the allocative baseline adjustment which Evonik supports.



Other reforms to industrial allocation

Q15. Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

Evonik supports this proposal, however it should be clearly restricted to changes to emission factors, EAF or other listed technical parameters:

- Wider changes to allocative baselines should go through a full review process.
- The simplified process does not introduce uncertainty through unconstrained changes.

Q16. Are there other changes to sections 161A-E of the Act that could better streamline IA processes?

Evonik proposes that a full review of the sections 161A-E of the Act should be made once highlevel decisions on the review have been reached.

- Q17. Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not? and
- Q18. Should new activities be able to seek eligibility? Why, or why not? and
- Q19. Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?

Evonik supports the proposal to clarify the eligibility process for new activities. As New Zealand's industry transitions it is likely that new products or variations on existing activity definitions will be commercialised.

These new activities should be able to seek eligibility as in some cases they may be competing with existing EITE firms and/or for international capital.

An assessment of global greenhouse gas emission benefit is appropriate.

- Q20. Question 20: Should firms that receive IA be required to report their emissions, revenue and production data annually? Why, or why not? and
- Q21. Question 21: Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?

Evonik supports the proposal for industrial allocation recipients to report production and emissions data. There must however be clear guidelines and opportunity for firms to provide associated commentary with any public dissemination of the information:

- <u>Production data</u> is already submitted to the EPA in allocation returns and the resulting allocation is published by applicant name.
- <u>Emissions data</u> may already be partially or fully submitted to the EPA should the firm be the point of obligation. However, in our case (and for many other activities) all our emissions are



not currently reported due to an upstream point of obligation on gas and the use of grid electricity.

- For grid electricity, if the purpose is to compare allocation against emissions the appropriate emissions factor is the Electricity Allocation Factor.
- The requirement for the opportunity to provide commentary is to enable a firm to explain changes in emissions and/or allocation and to highlight variance from other corporate greenhouse gas reporting which may use different inventory boundaries and emission factors.

For revenue data, Evonik supports voluntary disclosure as:

- For many activities this information will be commercially sensitive, revealing product price when matched against production/allocation data.
- For some activities revenue is already reported or product pricing is closely linked to a published index.

Q22. Should the five-year transition period for changes in eligibility status remain, or be changed? Why, or why not?

Should the Government proceed with eligibility reassessment (refer Question 7), the five-year transition period for changes in eligibility status should remain.

Where the eligibility status change has resulted from a firm's investment in emission reduction, an extension beyond five-years is warranted to ensure the payback time for the investment is not undermined.

Future of industrial allocation

Q23. Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

and

Q24. What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?

Evonik stresses that the primary focus of the industrial allocation review should be on providing regulatory certainty and predictability for EITE firms on a medium to long-term basis (10-15 years).

Evonik is aware of the EU's proposed Carbon Border Adjustment Mechanism (CBAM) and we have discussed this with our head office in Germany:

- While the current proposals are not yet legislated, should CBAM be adopted in the EU, the plan is to phase in liabilities on imports in parallel with a phase out of industrial allocation over a 10-year period.
- This clearly signals that emissions leakage risk will be fully covered during the policy transition to CBAM, with EU manufacturers no worse off than if they were to continue with industrial allocation alone.

Should the Government choose to further investigate a CBAM policy, Evonik recommends that:



- This should be clearly signalled with the criteria for progression published; and
- Clear and binding assurance should be provided to EITE firms that the level of emissions leakage protection will be no worse than that under industrial allocation settings.

In the absence of this, the lack of regulatory certainty and predictability will stall investment.

Q25. Should IA policy or any alternative explicitly encourage firms to reduce emissions? Why, or why not?

and

Q26. Question 26: What method could be used to encourage emissions reductions?

Evonik supports the current allocation method as being the most appropriate for the NZ ETS.

The current output-based allocation methodology provides a clear incentive to reduce emissions intensity. This would be undermined through frequent allocative baseline updates and eligibility reassessment using emissions-based criteria.

Q27. Should IA decisions or any alternative include wider considerations – such as economic, social, cultural and environmental factors – when determining support for industry? Why, or why not?

and

Q28. How would these new considerations interact with the goal of reducing emissions leakage?

Evonik strongly recommends that wider considerations should be evaluated when assessing industrial allocation reforms.

A singular focus on emissions leakage is out of step with international policy thinking and does not recognise the challenges of decarbonising hard to abate industries as recognised by the Climate Change Commission.

For hydrogen peroxide, the security of supply that Evonik provides to its customers should be recognised. Supply disruption could lead to closure of pulp mills and drinking water shortages. The economic benefits of retaining domestic production are therefore many multiples of the direct employment at our Morrinsville site.

Other comments

Q29. Do you have any other comments, ideas or critical feedback that could help support the Government form final policy decisions?

The consultation document indicates that any changes "are likely to be progressed through an amendment to the Climate Change Response Act introduced in 2022 and later through changes to the industrial allocation regulations. Any actual changes to allocations or eligibility are unlikely to take effect until 2024".

Evonik strongly believes that reform of industrial allocation should encompass all parameters simultaneously and not lead to piecemeal legislative amendments in isolation.

In this context, the current requirements for the consideration of *CCRA s84B Regulations setting increased phase-out rates* for the budget period commencing 1 January 2026, introduces further policy uncertainty just 2 years after the industrial allocation review change are implemented.



Consequently, Evonik proposes that the CCRA amendments arising from the review should include:

- the deferment of any increased phase out rates to the budget period commencing 1 January 2031; and
- a prioritisation of considerations under *CCRA s84C Procedure for regulations setting phase-out rates* to focus on those addressing emissions leakage.

For further insight and details please refer to the extract from Evonik's submission to the Environment Committee on the Climate Change Response (Emissions Trading Reform) Amendment Bill in Attachment 3.⁷

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⁷ Full submission can be found at https://www.parliament.nz/en/pb/sc/submissions-and-advice/document/52SCEN_EVI_92847_EN20069/evonik-peroxide-ltd



Attachment 1 - The Hydrogen Peroxide Manufacturing Process

This section is intended to give an overview of the hydrogen peroxide manufacturing process covering the different steps to reach the final hydrogen peroxide product.

Hydrogen Production

1) The hydrogen production consists of three major process steps as below:

Step 1 - Reforming

- 2) The reforming of Methane/hydrocarbon feed stocks with steam in the presence of a nickel catalyst is an established process.
 - a) The feedstock is natural gas (process gas).
 - b) The reforming step requires significant energy input. This energy is supplied by natural gas (fuel gas) in combination with waste gas from the Pressure Swing Absorption unit (refer Step 3 below).
- 1. The reaction is as follows:-
 - $CH_4 + H_2O \leftrightarrow 3H_2 + CO$
- 3) The output from the reforming process is a gas mixture containing H₂, CO and CO₂ together with varying amounts CH₄ methane which is fed into the High Temperature Shift Conversion (HTSC).

Step 2 - High Temperature Shift Conversion (HTSC)

- 4) In the presence of an iron oxide/chromium (Fe_3O_4/CrO_2) catalyst, carbon monoxide reacts with the excess steam from the reformer to produce more hydrogen and carbon dioxide.
 - CO + $H_2O \leftrightarrow CO_2$ + H_2 + Heat

Step 3 - Pressure Swing Absorption (PSA)

5) The PSA is based on the unique selectivity of molecular sieve which allows H_2 to pass while trapping impurities such as CO, CO_2 and CH_4 .

Hydrogen Peroxide Production

- 1) Hydrogen Peroxide (H₂O₂) is produced on an industrial scale by the anthraquinone⁸ oxidation (AO) process.
- 2) It involves the sequential hydrogenation and oxidation of an anthraquinone precursor dissolved in a mixture of organic solvents (Commonly called the working solution) followed by liquid-liquid extraction to recover H₂O₂.

Hydrogenation

 Hydrogenation (reduction) of the anthraquinone-containing work solution is carried out by contact of the latter with hydrogen in the presence of a palladium catalyst in a stirred reactor vessel (refer Figure 2).

 $^{^{\}rm 8}$ an aromatic organic compound with formula $C_{14}H_{\rm 8}O_{\rm 2}$



Figure 2 – Hydrogenation of Anthraquinone to Anthraquinol



Oxidation

4) The oxidation step converts the anthraquinol (anthrahydroquinone) back to anthraquinone and simultaneously forms H₂O₂ which remains dissolved in the organic work solution at low concentration

Figure 3 - Oxidation of Anthraquinol to Anthraquinone



Extraction

- 5) The H₂O₂ produced in the work solution during the oxidation step is separated from the work solution in an extraction step, using demineralized water.
- 6) The "crude" H_2O_2 taken from the extraction column is typically around 40% by weight.

Concentration

7) Sales of H_2O_2 are typically in strengths of 35, 50, 60 and 70 weight percent. The concentration stage basically boils off excess water.

Transportation & Storage

- 8) H_2O_2 Product is stored on site and as required shipped from the Morrinsville site by:
 - Road tanker for delivery to North Island Customers.
 - ISO containers for delivery to the South Island and export to Australia.



Process Diagram





Attachment 2: International Eligibility Precedents

The assessments below are preliminary in nature and are targeted at identifying how hydrogen peroxide manufacture is or would be treated in other jurisdictions.

From the analysis below it can be seen that international schemes are well documented, industry eligibility details are available, and that hydrogen peroxide is included in the industry sectors that are deemed eligible for allocation at the highest level in the respective trading schemes.

EU ETS

The EU ETS is the longest operating and largest emissions trading scheme for greenhouse gases. For Phase IV of the EU ETS for the years 2021-2030, industry eligibility is published. This is commonly referred to as the Carbon Leakage List.⁹ An extract of the list is shown below:

1. Based o	on the criteria set out in Article 10b(1) of Directive 2003/87/EC
NACE Cod	le Description
1021	ivianulacture of veneer sneets and wood-oased panels
1711	Manufacture of pulp
1712	Manufacture of paper and paperboard
1910	Manufacture of coke oven products
1920	Manufacture of refined petroleum products
2011	Manufacture of industrial gases
2012	Manufacture of dyes and pigments
2013	Manufacture of other inorganic basic chemicals

NACE Code 2013 Manufacturer of other inorganic base chemicals is on the list and Hydrogen Peroxide is listed under NACE Code 2013 as shown below¹⁰:

⁹ <u>https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/1146-Carbon-Leakage-List-2021-2030 en</u> Annex - C(2019)930

https://tnvgroup.org/admin/download_files/NACE-CODE%20REV%202.pdf



			TNV Ce (NACE C	rtification Pvt. Ltd. ode Revision 02.xls)
С		C2013	Manufacture of other inorganic basic chemicals	Acid (inorganic) mfr, Aluminium compounds mfr (excluding bauxite and abrasives), Alums mfr, Black carbon mfr, Bromine and bromides mfr, Calcium and calcium compounds mfr, Calcium carbide mfr, Carbon mfr, Chemical elements (except industrial gases and basic metals) mfr, Chlorine and chlorides mfr, Chromium compounds (excluding prepared pigments) mfr, Decolouring or other activating carbon (except wood charcoal) mfr, Distilled water mfr, Enriched thorium mfr, Enriched uranium mfr, Fluorine, hydrolluoric acid and fluorides mfr, Fuel elements for nuclear reactors mfr, Halogen and halides mfr (inorganic), Hydrochloric acid mfr, Hydrogen peroxide mfr, Hydrosulphite mfr, Inorganic acids (except nitric acid) mfr, Inorganic chemical periodic (excluding formulated preparations) mfr, Iodine and iodides mfr, Inorganic chemical periodic (excluding formulated preparations) mfr, Iodine and iodides mfr, Inorganic chemical periodic (excluding formulated preparations) mfr, Otome and iodides mfr, Inorganic achemical periodic (excluding chemical except in inorganic compounds mfr, Oxygen compounds of non- metals mfr (excluding carbon dioxide), Phosphorous compounds (excluding phosphatic fertiliser) mfr, Plutonium processing mfr, Radioactive isotopes of uranium, thorium and plutonium mfr, Sodium and sodium

This confirms that the manufacture o hydrogen peroxide would have industrial allocation eligibility in the EU ETS.

California Cap-and-Trade Program

The California Cap-and-Trade Program (CA CAT) introduced compliance obligations from 2013. Hydrogen Peroxide production would be a covered (compliance) entity due to the presence of hydrogen manufacture – the first and most energy and emissions intensive step in hydrogen peroxide manufacturing (also refer Attachment 1):¹¹

§ 958	§ 95811. Covered Entities.				
This a	This article applies to all of the following entities with associated GHG emissions				
pursu	uant	to section 95812:			
(a)	O	perators of Facilities. The operator of a facility within California that has			
	on	e or more of the following processes or operations:			
(1	I)	Cement production;			
(2	2)	Cogeneration;			
(3	3)	Glass production;			
(4	4)	Hydrogen production;			
(5	5)	Iron and steel production;			
(6	5)	Lime manufacturing;			
(7	7)	Nitric acid production;			
A-47					

[note continues to next page]

Allocation to industrial covered entities is provided at a uniform level for the purposes of industry assistance for industrial sectors listed in Table 8-1 of the legislation (see extract below).

[&]quot; https://ww2.arb.ca.gov/sites/default/files/classic/cc/capandtrade/finalregorder.pdf



Leakage Risk	NAICS Sector Definition	NAICS Code	Activity(a)	Industry Assistance Factor (AF _a) by Budget Year		
Classification				2013- 2014	2015- 2017	2018- 2020
	Crude Petroleum and Natural Gas Extraction	211111	Thermal EOR Crude Oil Extraction Non-Thermal Crude Oil	100%	100%	1009
	Natural Gas Liquid Extraction	211112	Extraction Natural Gas Liquid Processing	100% 100%	100% 100%	1009 1009
	Potash, Soda, and Borate Mineral Mining All Other Nonmetallic Mineral Mining	212391	Mining and Manufacturing of Soda Ash and Related Products	100%	100%	100%
		212399	Diatomaceous Earth Mining	100%	100%	100
	Paper (except Newsprint) Mills	322121	Tissue Manufacturing	100%	100%	100
High	Devery and Mills	322130	Recycled Boxboard Manufacturing Recycled Linerboard	100%	100%	100
			(Testliner) Manufacturing Recycled Medium (Fluting)	100%	100%	100
	All Other Petroleum and Coal Products Manufacturing	324199	Coke Calcining	100%	100%	100
	All Other Basic Inorganic Chemical Manufacturing	325188	All Other Basic Inorganic Chemical Manufacturing	100%	100%	100
	All Other Basic Organic Chemical Manufacturing	325199	All Other Basic Organic Chemical Manufacturing	100%	100%	1009
	Nitrogenous Fertilizer Manufacturing	325311	Nitric Acid Production Calcium Ammonium Nitrate	100% 100%	100% 100%	100 ⁰ 100 ⁰

NAICS Codes follow a similar structure to the EU NACE codes and hydrogen peroxide manufacture is classified in the "All Other Basic Inorganic Chemical Manufacturing Sector" 325188 (2007 NAICS, now reassigned to 325180 under more recent NAICS code updates).¹²

<u>2007</u> <u>NAICS</u>	<u>2012</u> NAICS	<u>2017</u> <u>NAICS</u>	Index Entries for 325180
325188	325180	325180	Hydrocyanic acid manufacturing
325188	325180	325180	Hydrofluoric acid manufacturing
325188	325180	325180	Hydrofluosilicic acid manufacturing
325188	325180	325180	Hydrogen peroxide manufacturing
325188	325180	325180	Hydrogen sulfide manufacturing
325188	325180	325180	Hydrosulfites manufacturing
325188	325180	325180	Hypochlorites manufacturing
325188	325180	325180	Hypophosphites manufacturing

¹² https://www.naics.com/naics-code-description/?code=325180



Republic of Korea ETS (K-ETS)

The Korea ETS (K-ETS) was launched on 1 January 2015, becoming East Asia's first nationwide mandatory ETS and, at the time, the second-largest carbon market after the EU ETS. 28 subsectors receive 100% free allocation as determined by a carbon leakage index.¹³

A Google translation of the Korean language Greenhouse gas emission trading system 3rd planning period (2021-2025) National Emission Permit Allocation Plan¹⁴ shows that KSIC Code 201 Basic Chemicals is included in the Classification of industries that are allotted free of charge during the 3rd plan period (refer extract below).

Classification of industries that are a	allotted f	ree of charge o	luring the 3rd plan period
Sectors KSI	Trade C intensity	expense vincidence	all free Whether
code	(A, %)	(B, %)	whether
Pulp, Paper and Paperboard Manufacturing	g 48.15	4.65 2.237	0
petroleum refining manufacturing 192	56.00	3.15 1.766	0
Basic chemical manufacturing 201	60.30	5.90 3.556	•

Where KSIC code 201 includes manufacture of other basic inorganic chemicals (KSIC code 20129).¹⁵

Korean Standard Statistical Cle	assification			HOME SITEMAP KOREAN
Industrial Classificat	ion	Classification of Occupati	ons	Classification of Diseases
Industrial Classification	Search "Show the tree	structure of Korean Standard In	dustrial Classification 1	." > Korean Standard Industrial Classification > Searc
•Search >	 17. Manufacture 18. Printing and 19. Manufacture 20. Manufacture 201. Manufact 2011. Manufact 2012. Manu 2012. Manu 2012. Manu 2012. Manu 	of pulp, paper and paper products reproduction of recorded media of coke, briquettes and refined petroleur of chemicals and chemical products; exc ure of basic chemicals facture of basic organic chemicals facture of basic inorganic chemicals anufacture of industrial gases anufacture of other basic inorganic chem	n products ept pharmaceuticals and r iicals	▲ nedicinal chemicals

¹³

 $https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems\%5B\%5D=47\ ^{14}$

https://www.law.go.kr/%EB%B2%95%EB%A0%B9/%EC%98%A8%EC%8B%A4%EA%B0%80%EC%8A%A4%EB%B0%B0%EC%B6% 9C%EA%B6%8C%EC%9D%98%ED%95%A0%EB%8B%B9%EB%B0%8F%EA%B1%B0%EB%9E%98%EC%97%90%EA%B4%80%ED%9 5%9C%EB%B2%95%EB%A5%A0%EC%8B%9C%ED%96%89%EB%A0%B9

¹⁵ http://kssc.kostat.go.kr/ksscNew_web/ekssc/main/main.do#



Attachment 3: Extract from Evonik's Submission to the Environment Committee on the Climate Change Response (Emissions Trading Reform) Amendment Bill

s84B Regulations increasing phase-out rate for specific activities

- 16. Evonik supports the inclusion of provisions to increase phase-out rate for specific activities and sees the following scenarios as valid reasons to implement them:
 - a. Reduced risk of emissions leakage for that activity resulting from a significant proportion of the activity's trade competitor jurisdictions imposing similar or more stringent policy measures considering:
 - i. The level of carbon-pricing, through trading or a carbon tax;
 - ii. The level of allocation/subsidy; and
 - iii. Other support mechanisms including non-tariff barriers.
 - b. "Legacy over-allocation", where the level of allocation exceeds the cost of meeting the emissions trading scheme obligation (direct and indirect costs noting the upstream point of obligation in the energy sector) which resulted from the sectoral average emissions intensity used for the calculation of Allocative Baseline (2006-2009 data) having included less efficient operations that have subsequently closed.
- 17. Evonik is however concerned that the Bill's list of parameters to be considered could lead to increased phase-out in scenarios which are in our view invalid and jeopardise future emissions reduction investments:
 - a. Inappropriate assessment of over allocation that results from a firm having invested in emission abatement (section 84C(3)(d)):
 - i. Currently EITE firms are incentivised to reduce their emissions through the price of carbon, regardless of whether they receive a free allocation or not.
 - ii. This incentive is undermined if having made an investment to reduce emissions which is reliant on (partial or full) abated emissions costs, the savings are then withdrawn through a determination that as emissions have now reduced, the allocation phase-out rate should be increased.
 - b. The potential for allocation to be "squeezed" to address emissions targets or budgets being under pressure through under delivery in non-EITE sectors e.g. slow electric vehicle uptake (section 84C(3)(a)).
 - c. The focus being on the cost to the taxpayer of providing allocations for the activity, with no reference to the benefits e.g. financial, employment, strategic importance, security of supply, absorptive capacity foundation for a just transition, etc. (section 84C(3)(i).



- d. Other parameters that are outside the influence of the EITE activity and/or which are not readily tracked or predictable (section 84C(3)(b),(e),(g),(h),(j),(k)), further undermining the predictability of future allocation and the business case for investment.
- 18. The negative impact on investment predictability of the increasing phase-out rates amendments is amplified by short notice timing and uncapped phase-out rates:
 - a. The earliest implementation is from the commencement of the next emissions budget period – specifically from 1 January 2026. This results in potentially less than 1-year's notice (Section 84B(1)). Note that reduced phase out rates only commence from 2031 (Section 84A(2)).
 - b. There is no maximum phase-out rate in the Bill, thus negating any of the predictability inferred by the default phase-out rates.
- 19. Evonik recommends that the Bill be amended to:
 - a. Amend the "over allocation" provisions in Section 84C(3)(d) so that investment in emissions abatement is not subsequently undermined.
 - b. Prioritise the parameters to focus on the core consideration for industrial allocation the risk of emissions leakage (Section 84C(3)(c)).
 - c. Introduce a minimum 5-year notice period (next budget + 1 year) for introduction of increased phase-out rates. Precedent for a 5-year notice period currently exists under section 161B of the Act.
 - d. Introduce a cap on the maximum phase-out rate of 0.03 p.a. which can only be overruled under specific circumstances e.g. if an international sectoral agreement is reached for that activity.
- 20. Evonik recommends that the Bill introduce a requirement for the Climate Change Commission to consult with EITE firms on the development of assessment rules and methodologies for the introduction of increased phase-out rates:
 - a. If addressed as a priority, this will help reduce unpredictability and avoid stalled investment decisions. A similar approach was taken regarding EITE eligibility assessments in the early days of the NZ ETS.
 - b. This requirement to consult will also need to incorporate the wider industrial allocation review.

From:	elizabeth dooley
Sent:	Thursday, 16 September 2021 3:46 pm
To:	etsconsultations
Subject:	Free Carbon Credits to Industry

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Please don't do this. Fund any moves to transition these industries to move away from being a climate disaster. Why would you use taxpayer money to fund unsustainable industries.

Elizabeth Dooley



From:	David and Chris Henderson
Sent:	Thursday, 16 September 2021 3:47 pm
То:	etsconsultations
Subject:	There is no such thing as a free lunch

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Mrs Chris Henderson,

Thank you for this opportunity to comment on the proposal to phase out all ETS industry allocations by 2030. *I support this proposal in principle remembering the phrase from the 1960's 'There is no such thing as a free lunch', meaning for every action there is a reaction, in so many ways.

Nothing improves if our biggest emitters continue business as usual, as we found out with previous ETS regimes. *Time is not on our side, and to continue business as usual, blanketing our land with exotic plantations as a palliative for the short and long- term impacts of high carbon and other greenhouse gaseous emissions, for example, is swapping one sort of negative environmental impact for another potential one.

*We need to support these industries to transition to other low-carbon alternatives if possible, or acknowledge...as with many historical examples...that the writing is on the wall for high carbon emitting industries.

*One example is the smelter at Tiwai. Much is made of the carbon-free electricity sourced from West Arm hydroelectric power station when the true and continuing environmental impacts of the decision to harness the water of two lakes and the second largest river by volume to provide cheap power for the smelter have been put to one side in the name of Climate Change. We have financially subsidised that energy ,and the river , lakes, estuaries , coast and Sounds have paid dearly for the well-documented negative results from reducing the lower Waiau river from an average 550 cumecs to between 14 and 16 cumecs with some natural and required additional flows from time to time.

*This, coupled with the greenhouse gases emitted by the smelter(fewer tonnes per tonne of aluminium, but more tonnes of product since the

upgrade) mean that it still contributes to New Zealand's carbon profile significantly.

*Until the Waiau river, in this case, is put first our decisions regarding tackling Climate Change will be found wanting.

I wish to speak to my submission. Yours Sincerely,

Chris Henderson MNZM for services to Conservation

From:	Linda Asgodom
Sent:	Thursday, 16 September 2021 1:46 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards,

Linda Asgodom

Von <u>Outlook</u> gesendet.

From:	Carlo Wiegand
Sent:	Thursday, 16 September 2021 2:11 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Good Afternoon

The fact of free carbon credits that the Government hands out to big industrial carbon polluters concerns me deeply and distorts the working principles of the ETS. That's why

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting
 with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Kind Regards | Ngā mihi

Carlo Wiegand

From:	Steve Judge
Sent:	Thursday, 16 September 2021 2:28 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

From:	Deb Hogan
Sent:	Thursday, 16 September 2021 2:29 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Deb Hogan

From:	Maren Behrend
Sent:	Thursday, 16 September 2021 2:37 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I am writing to ask that you take strong action to reduce our carbon emissions immediately:

- Please phase out carbon emissions as soon as possible and find ways to decarbonize all of our emitting industry.
- Instead of giving free emissions credits, please incentivize industry to become carbon neutral
- Don't fund high-emitting industries to keep emitting make them commit to decarbonization, and help fund their transition by direct grants in response to verifiable decarbonization plans and hold the company and its directors accountable for failure.

Ngā mihi,

Maren Behrend

From:	Trish
Sent:	Thursday, 16 September 2021 9:29 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I am emailing to make a submission about the ETS Industry Allocations Review 2021.

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Kind regards,

Trish Wilson

From:	Clare Gillard
Sent:	Thursday, 16 September 2021 9:30 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou,

I want to believe in an Aotearoa that is a world leader on climate action. Our little island nation has so many advantages - abundant renewable energy sources, a huge wealth of indigenous knowledge from mana whenua and our Pacific neighbours, a thriving community of citizens who care about climate change, and a relatively accountable and straightforward governing system which allows us to make big changes. As our elected leaders you have already squandered so many changes to take meaningful action on climate change - please don't let another opportunity pass us by.

Aotearoa needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. By continuing to offer subsidies, we are telling these companies that they don't need to change, when we all know the opposite is true. Industries that are high carbon-emitters must work to change how they operate, and must be supported to do so - instead of encouraged to keep the status quo.

Instead of giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Ngā mihi, Clare Gillard

From:	jason brooke
Sent:	Thursday, 16 September 2021 9:52 pm
To:	etsconsultations
Subject:	submission on the ETS Industry Allocations Review 2021. $\ref{eq:submission}$

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

The following is my submission on the ETS Industry Allocations Review 2021.

To address our climate challenges as a nation we ideally need to decarbonise all of our emitting industries, starting with the highest emitters. This transition, although challenging, isn't something we should be asked to subsidise as taxpayers. Heavy polluting industries and corporations already receive the benefit of indirect public subsidies; government currently allocates taxpayer money to mitigate the impacts of climate change in the form of flood, drought and forest fire relief. These impacts will only continue to increase in future. It's time the big emitters contributed their own resources to this transition.

By continuing to subsidise our biggest emitters, we're also exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and encouraging our industry to not have sustainable long-term plans to transition away from fossil fuels usage.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government currently has before it the opportunity to set a precedent for how the future will look and enable industry to support this. Our opportunity is to make these industries commit to decarbonisation. This opportunity exists if we don't continue to fund high-emitting industries to keep emitting and legislate for real emission reductions, whilst creating regulations which discourage market-based avoidance techniques. If necessary Government could help fund the transition by offering direct grants in response to verifiable, ambitious industry decarbonisation plans.

Ngā Mihi Nui

Jason Brooke 🍞

Sent from my iPhone

From:	Alison Burt
Sent:	Thursday, 16 September 2021 10:23 pm
To:	etsconsultations
Subject:	End handouts of free carbon credits to big business by 2030

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards Alison Burt

Sent from my iPhone

From:	Rosemary Penwarden
Sent:	Thursday, 16 September 2021 10:23 pm
То:	etsconsultations
Subject:	ETS Industry Allocations Review 2021

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

This email is a personal submition on the ETS Industry Allocations Review 2021.

- New Zealand needs to phase out, and find ways to decarbonise all of our emitting industry, starting
 immediately with the highest emitters.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries. All of these companies must have a long-term plan to phase out of fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

In summary: I am calling on the government to phase out all ETS industry allocations by 2030

Regards, Rosemary Penwarden

From:	jen.olsen
Sent:	Thursday, 16 September 2021 10:16 pm
То:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Nga mihi

Jen Olsen



From:	Sarah Mansell
Sent:	Thursday, 16 September 2021 10:43 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting
 industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a
 part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
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- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Ngā mihi nui

Sarah Mansell.

From:	David and Chris Henderson
Sent:	Thursday, 16 September 2021 3:47 pm
То:	etsconsultations
Subject:	There is no such thing as a free lunch

MFE CYBER SECURITY WARNING

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Mrs Chris Henderson,

Thank you for this opportunity to comment on the proposal to phase out all ETS industry allocations by 2030. *I support this proposal in principle remembering the phrase from the 1960's 'There is no such thing as a free lunch', meaning for every action there is a reaction, in so many ways.

Nothing improves if our biggest emitters continue business as usual, as we found out with previous ETS regimes. *Time is not on our side, and to continue business as usual, blanketing our land with exotic plantations as a palliative for the short and long- term impacts of high carbon and other greenhouse gaseous emissions, for example, is swapping one sort of negative environmental impact for another potential one.

*We need to support these industries to transition to other low-carbon alternatives if possible, or acknowledge...as with many historical examples...that the writing is on the wall for high carbon emitting industries.

*One example is the smelter at Tiwai. Much is made of the carbon-free electricity sourced from West Arm hydroelectric power station when the true and continuing environmental impacts of the decision to harness the water of two lakes and the second largest river by volume to provide cheap power for the smelter have been put to one side in the name of Climate Change. We have financially subsidised that energy ,and the river , lakes, estuaries , coast and Sounds have paid dearly for the well-documented negative results from reducing the lower Waiau river from an average 550 cumecs to between 14 and 16 cumecs with some natural and required additional flows from time to time.

*This, coupled with the greenhouse gases emitted by the smelter(fewer tonnes per tonne of aluminium, but more tonnes of product since the

upgrade) mean that it still contributes to New Zealand's carbon profile significantly.

*Until the Waiau river, in this case, is put first our decisions regarding tackling Climate Change will be found wanting.

I wish to speak to my submission. Yours Sincerely,

Chris Henderson MNZM for services to Conservation

From:	Flynn Washington
Sent:	Thursday, 16 September 2021 5:06 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to
 verifiable, ambitious industry decarbonisation plans.

Best regards Susan Washington

From:	
Sent:	Thursday, 16 September 2021 5:48 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up

MFE CYBER SECURITY WARNING

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Hello,

Flag Status:

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- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Lianne Kooiman and Marco Groot



From:	Janet Marks
Sent:	Thursday, 16 September 2021 6:00 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand should immediately start phasing out all ETS industry allocations, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this.
- Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if
 necessary, help fund the transition by direct grants in response to verifiable, ambitious industry
 decarbonisation plans.

Yours sincerely, Janet Marks

From:	Andy Soundy
Sent:	Thursday, 16 September 2021 7:11 pm
To:	etsconsultations
Subject:	ETS Industry Allocations
Follow Up Flag:	Follow up

Flag Status: Flagged

MFE CYBER SECURITY WARNING

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I am writing to submit on the ETS Industry Allocations Review 2021.

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards,

Andy
From:	Peter Olorenshaw
Sent:	Thursday, 16 September 2021 8:58 pm
To:	etsconsultations
Subject:	Submission on ETS industrial allocation reform

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ETS industrial allocation reform

- 1. There must be a set timetable down to zero free allocations by 2030. To clarify, by 2030 there must be no free allocations and the current free allocations must follow a step down regime starting next year.
- 2. Emissions Leakage danger is being replaced by the danger of us being penalised for not reducing emissions.
- 3. A better path is to expose our high emitting industries to the costs of their emissions but also charge a carbon tariff on goods coming into the country for which there has been no or insufficient carbon charge placed on their emissions. By way of an example, one of the reasons we keep using concrete floor slabs for 95% of our houses is that concrete is so cheap. If the building industry was exposed to the real cost imposed on the climate by the production of cement we would be putting in far more timber floors: this would not only result in less emissions from swapping out concrete for timber, but the second whammy of storing sequestered carbon in the timber flooring, the subfloor framing and the piles. So this is a clear example of the distortionary effects of the free allocation of ETS units stopping innovation and climate reductions. Thee is no getting around we need high emitting industries to think: they need to pivot as business have during covid, but pivot to a low carbon product.
- 4. It is completely ridiculous that the ETS free allocation is supporting NZ production of out of season produce grown in hothouses. Its not a matter of whether we should be eating NZ hothouse cucumbers or imported ones from overseas, its that we should be eating in-season products, not importing them from the other side of the world or growing them here through winter. Your current support for them makes them reluctant to move from coal fired heating of the greenhouses to carbon neutral wood. The ETS is creating bizarre incentives to both eat out of season produce and for growers to keep using coal. A number of other things on this list is causing distortions of what we are doing eg you support for the emissions from the production of glass containers is hindering the move back to reusing of bottles and jars and promoting the carbon intensive melting them down after a single use. The ETS free allocations for Urea is acting as a disincentive for farmers to seek out low emissions methods of fertility maintenance of the land, such as growing of nitrogen fixing plants like beans.
- 5. The whole threshold thing is crazy. You need an infinitely variable assistance based on a certain amount of assistance per a certain tonnage of CO2e/\$1m revenue.
- 6. The emissions intensity for an industry using electricity should be based on the actual electricity they use: eg the Tiwai smelter never uses fossil electrons they never get down that far South: they shouldn't be burdened with an emissions intensity due to Upper North Island fossil stations whose power they never use. Likewise an industry who sets up their own wind farm shouldn't be assumed to have an emissions intensity of the rest of the North island, let alone an emissions intensity of the Australian grid.
- 7. Strategic Prioritisation of emissions intensive industries should be the basis on whether to support an industry or not. For instance it could be argued that it strategically sensible to support the steel industry so we aren't beholden to overseas supply of this essential commodity. But the same cannot be said for out os season cucumbers, capsicums and tomatoes, hothouse grown roses. I suggest there should only be a dozen industries that are of such strategic importance that they shod be supported for the next 10 years (on a sinking amount policy clearly signalled)

8. We should not allow new industries into the ETS free allocation system unless there is a good strategic reason for them to set up here or their emissions result in a nett reduction in emissions like your example of a biofuels refinery..

Thank you for the opportunity to submit.

Peter Olorenshaw Architect Registration #2575

From:	Prue Stringer
Sent:	Thursday, 16 September 2021 9:28 pm
To:	etsconsultations
Subject:	ETS industry allocations

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Prue Stringer

From:	John Howell
Sent:	Thursday, 16 September 2021 9:09 pm
To:	etsconsultations
Subject:	Free carbon credits to industry must be phased out by 2030 at the latest

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MFE

Submission

Please phase out all ETS industry allocations by 2030, or sooner.

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters.

It is not something we should subsidise as it cannot be a part of our future.

We must encourage industry to transition to carbon neutrality.

Kind regards

John Howell

John Howell



From:	Duncan Babbage
Sent:	Friday, 17 September 2021 9:40 am
To:	etsconsultations
Subject:	ETS Industry Allocations: We need to decarbonise by 2030

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021. The ETS Industry Allocations system badly needs revision, so I am glad the review is happening. I strongly encourage proactive action as New Zealand is not doing enough to adapt to climate change and such adaptation is essential to ensure future generations are not living in a literal apocalyptic wasteland.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting
 industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a
 part of our future.
- Our system should not reward sluggish performance on decarbonisation. Every carbon emitter should be expected to be reducing emissions, every year, and this process should be expected to be happening rapidly—within this decade. A plan that gives people till 2050 to change will not encourage any action until 2045.
- •
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Warm regards, Duncan

--

Duncan Babbage, PhD | <u>about.me/babbage</u> Innovative solutions to people's complex problems.

From:	Colin Looser
Sent:	Friday, 17 September 2021 10:13 am
To:	etsconsultations
Subject:	Re: Reforming industrial allocation in the NZ ETS

Follow Up Flag: Flag Status: Follow up Flagged

MFE CYBER SECURITY WARNING

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Kia ora koutou,

New Zealand needs to immediately phase out, and find ways to decarbonise, all of our emitting industry. Instead of giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030.

The carbon emissions loopholes and handouts reported here are appalling <u>https://www.stuff.co.nz/environment/climate-news/126300406/how-big-polluters-profit-off-the-governments-outdated-maths</u>

If we are going to have an ETS, then it needs to be an ETS I can trust will rapidly reduce emissions.

New Zealand's response to the climate crisis is HIGHLY INSUFFICIENT

Overall rating HIGHLY INSUFFICIENT

We are at risk of having a carbon border adjustment applied to us!

I believe you'll be receiving more thorough advice and submissions from Coal Action Network Aotearoa and 350 Aotearoa, and I support what those groups have to say.

Honestly, this feels like tinkering, when we need to be brutally reassessing what industry is actually essential in this country.



Extinction Rebellion ② @ExtinctionR · Sep 14 Ask the people of South Madagascar if there's any carbon budget left.

Sincerely, Colin Looser.

From:	Elaine
Sent:	Friday, 17 September 2021 10:29 am
To:	etsconsultations
Subject:	Stop industry ETS allocations by 2030

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

• New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

• By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

• Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

• With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Regards

Elaine Dyett

From:	Rob_Bishop
Sent:	Friday, 17 September 2021 10:58 am
To:	etsconsultations
Cc:	Shelley Hood
Subject:	ETS Industry allocations review submission

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

I am writing to submit on the ETS Industry Allocations Review 2021.

New Zealand must phase out free allocations of emissions credits, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future. There are cost-effective, technical solutions to emissions reduction, which are mostly not taken up, as there are free credits available, which allows continuation of "Business as Usual".

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans, and training programmes.

I am the owner and director of Energy Solutions Ltd., and energy efficiency consulting firm active in New Zealand since 1992. We have worked with many large emitters, and helped them reduce the energy costs and emissions, costeffectively. We provide training in how to do this via Carbon and Energy Professionals NZ. Even with all of our successes, and the current surge of interest, there has been chronic under-investment in this industry and a serious capacity shortage. This is why training is such a focus.

Sincerely yours,

Rob Bishop Technical Director <u>Energy Solu</u>tions Ltd.

From:	Bill Allan
Sent:	Friday, 17 September 2021 10:59 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to
 verifiable, ambitious industry decarbonisation plans.

Best regards

Bill Allan

From:	Hannah Huggan
Sent:	Friday, 17 September 2021 11:30 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS in industry allocations
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Teenaa koutou katoa, ko Hannah Huggan tooku ingoa. I am a student at the University of Waikato and I am sending this email to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

I am calling for an end to all industrial allocations. We are in an emergency and we can no longer afford to ignore what needs to be done.

From:	caril.cowan
Sent:	Friday, 17 September 2021 11:44 am
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations immediately
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

I with many others want the climate crisis to be addressed by following the science, as we have done with the Covid - 19 crisis. The science is clear. We have a very small window of opportunity to avoid the worst of the crisis. We are already set to have a post industrial planetary temperature rise of over the 2 degrees set by the Paris Agreement. We need internatinoal urgent action now.

Therefore I urge the following:

New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

As you know many people are deeply concerned. There is increasing disruptive actions such as blocking coal trains, shutting down high emitting businesses (E.g. BP HQ), shutting down coal mines and disrupting conferences such as the extractive industry conferences.

You have an opportunity to address the climate crisis by recommending to Government the immediate stopping of all ETS industry allocations, making industry accountable for the climate damage they are inflicting on us all.

In good faith

Caril Cowan

Sent with <u>ProtonMail</u> Secure Email.

From:	Francesca Zhang
Sent:	Friday, 17 September 2021 11:48 am
To:	etsconsultations
Subject:	Re: ETS Industry Allocations Review 2021 Submission

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021. I am a young person living in Ōtautahi. Like many other young people, I am very concerned about New Zealand's transition to a zero carbon economy. I feel that the current pace of transition favours industry over the interests of the general public – that is, our need to have a liveable planet for our kids and grandkids. I do not believe that giving high-emitting industry members a license to keep emitting up until 2050 is in line with New Zealand's climate change targets. The government must take a stand and force companies to face the true costs of their emissions, sooner rather than later. Therefore I call on the government to **phase out all ETS industry allocations by 2030.**

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

I sincerely hope you will take on my feedback. I know the hundreds of thousands of young people who came out to join the school strikes for climate will feel the same way.

Best regards, Francesca Zhang

From:	Sarah Mansell
Sent:	Thursday, 16 September 2021 10:43 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting
 industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a
 part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Ngā mihi nui

Sarah Mansell.

From:	Caz Sheldon
Sent:	Thursday, 16 September 2021 11:00 pm
То:	etsconsultations
Subject:	Submission on the ETS Industry Allocations Review 2021

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Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

I am deeply concerned by the Climate Emergency and the slow pace of action In New Zealand to reduce our emissions - which compares poorly to many other countries. This Review is a good place to get it right. The period to 2030 is especially critical in reducing emissions. We need to start now (as it's too late to start yesterday!)

In short:

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our carbon emitting
 industries, starting with the highest emitters. It is not something we should subsidise as it cannot be a
 part of a healthy future.
- Instead of giving out free emissions credits, we must incentivise industry to innovate to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support a just transition for workers to rewable fuel sources.
- Our government has the opportunity to set a precedent for how a healthy future will look and enable industry to support this. Don't fund high-emitting industries to keep on the path of ecological destruction - make them commit to decarbonisation. If necessary, help fund the transition by direct grants in response to implemented and verifiable large scale industry decarbonisation plans.

Best regards,

Caz Sheldon

From:	Tomer Simhony
Sent:	Thursday, 16 September 2021 11:32 pm
To:	etsconsultations
Subject:	ETS Consultation

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

Mea tuatahi, kia pai tō koutou wiki o te reo Māori.

I am writing to submit on the ETS Industry Allocations Review 2021.

I would like to itemise my opinions on the matter thusly:

1. With the NZU carbon price increasing and expected to continue to increase, the risk of emission leakage grows. The only way to curb emissions is including the externalities cost at the producer level. Giving away industrial allocation is literally the opposite method and I think that all IA must reduce strongly in the next five years. If a rich, relatively unpopulated country like NZ cannot meet our emission targets than who are we expecting to, around the world?

2. New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

3. By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.

4. Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.

5. With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Thanks you for your time!

Ngā mihi,



Facebook

<u>Website</u>

From:	Sam Vincent
Sent:	Friday, 17 September 2021 12:40 am
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Kia ora,

I am writing to submit on the ETS Industry Allocations Review 2021.

I am adding my voice to others who are making the same proposal that the government phase out all ETS industry allocations by 2030.

There is no more time to waste in getting the just transition underway. Climate change is an important issue of personal concern for at least four out of five New Zealanders, and we are rapidly becoming much more concerned about the dire state of our climate:

https://www.stuff.co.nz/environment/climate-news/125401069/were-getting-more-worried-about-climatechange--and-want-government-to-act

The government has a mandate to act on this now and it must do so.

I support the following points which will have been made by others:

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting
 industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a
 part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

I simply add that what we can and must get underway is a just transition away from fossil fuels. Supporting workers and businesses to make this transition - without economic pain - is absolutely achievable. New Zealand's response to COVID-19 shows the incredible things we are capable of achieving when the government is mobilised to deal with an emergency.

We will judge ourselves forever by how we deal now with the climate emergency.

Best regards,

Sam Vincent

From:	Annuskha Dunstan
Sent:	Friday, 17 September 2021 1:29 am
То:	etsconsultations
Subject:	Government need to phase out all ETS industry allocations by 2030 at the latest

MFE CYBER SECURITY WARNING This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Hello,

I am writing in regards to the government needing to phase out all ETS industry allocations by or before 2030.

I do believe this is something that's needs to happen sooner but know it is a process that takes some time and an adjustment period is needed for companies receiving it.

I however don't believe it is fair on the rest of us subsidizing something that is counterproductive and detrimental to our environment. We are seen as a clean green country and I would like that representation to be more accurate and honest.

We need to commit properly to combating climate change to the best of our ability and lead the world by example as we proudly do do with many other things.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Many thanks, Annuskha Dunstan



From:	David Zwartz
Sent:	Friday, 17 September 2021 4:31 am
To:	etsconsultations
Subject:	Phasing out ETS industry allocations

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Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to
 transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the
 future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make
 them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to
 verifiable, ambitious industry decarbonisation plans.

Ngā mihi

David Zwartz ONZM

From:	Pualele Westhead
Sent:	Friday, 17 September 2021 8:43 am
То:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

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Tēnā koutou katoa,

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards

Pualele Westhead



BALLANCE AGRI-NUTRIENTS LIMITED

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17 September 2021

Attn: IA Review Ministry for the Environment PO Box 10362 Wellington 6143

Sent by email: etsconsultation@mfe.govt.nz

SUBJECT: Submission on the "Reforming industrial allocation in the New Zealand Emissions Trading Scheme" Consultation Document

Ballance Agri-Nutrients Limited would like to thank the Environment Select Committee for the opportunity to make this submission on the "Reforming industrial allocation in the New Zealand Emissions Trading Scheme" Consultation Document.

Recognising the importance of the industrial allocation policy to our business, our stakeholders and New Zealand more generally, our detailed submission is attached.

We welcome any clarification questions the Ministry may have on this submission and would also welcome the opportunity to meet and discuss the complexity of the issues raised in this consultation process.

Mark Wynne Chief Executive

Cc Glenn Johnson – National Operations Manager

Submission to the Ministry for the Environment on the

Reforming industrial allocation in the New Zealand Emissions Trading Scheme Consultation Document

from

Ballance Agri-Nutrients Limited

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Commercial Sensitivity: Nothing in this submission is confidential.

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1 Introduction

- Ballance Agri-Nutrients Limited ("Ballance") would like to thank would like to thank the Ministry for the Environment for the opportunity to make this submission on the "Reforming industrial allocation in the New Zealand Emissions Trading Scheme" Consultation Document which was published 8 July 2021.
- 2. Ballance supports the framework introduced by the "Zero Carbon Bill"¹ through which Aotearoa New Zealand can develop and implement clear and stable climate change policies that contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels.
- Ballance also strongly supports continued emphasis on the New Zealand Emissions Trading Scheme (NZ ETS) as the primary policy tool to address domestic greenhouse gas emissions of which industrial allocation policy is an important component.

Our Vision

4. Our vision is to transition ammonia and urea production to low emission renewable energy sources. We have initiated this vision with our investment in green hydrogen in Taranaki. Our green hydrogen journey will initially leverage the use of natural gas, and existing infrastructure and capabilities. We believe this vision is consistent with the Climate Change Commission's principle that we should focus on decarbonising industries rather than reducing production in a way that would increase emissions offshore. The Ballance Kapuni plant is currently the only urea manufacturing facility in New Zealand.

2 Summary of Submission

Recognition of Hard to Abate Industries

5. Ballance agrees with the Climate Change Commission's recognition that urea manufacture is a "Hard to Abate Industry". We also support Government and business working together on developing appropriate policies and strategy to enable our and other hard to abate industries to realise their decarbonisation visions.

Predictability of Industrial Allocation Settings Supports Investment

6. Ballance stresses the importance of a stable and durable New Zealand Emissions Trading Scheme (NZ ETS). Our submission on the proposed reforms to industrial allocation focus on ensuring that policy to address emission leakage provides a durable and predictable foundation for business investment to contribute to reducing domestic and global emissions.

¹ The Climate Change Response (Zero Carbon) Amendment Act

Proposed Reforms Undermine Investment Confidence

- Although excluded from the consultation scope, final decisions on industrial allocation reform must take full account of policy decisions on the level of assistance, electricity allocation factor (EAF), auction price controls and the current and expected carbon price associated with the Government's emissions reduction plan.
- 8. Ballance supports a periodic reassessment of allocative baseline on the current policy basis using data from more recent years. However, reassessments of allocation baselines too frequently will undermine the investment returns for emissions reductions projects. For this reason we recommend reassessment should be no more frequent than every 10 years.
- We caution against a simplistic repeat of the eligibility test for activities that may be close to thresholds; criteria that focus on cost impacts or international precedents should be considered.

Alternative Policy Options

- 10. Should the Government proceed with carbon border adjustment mechanism (CBAM) or other parallel or replacement policies to industrial allocation, it must provide assurance that the same level of protection as that available under industrial allocation will be provided. Otherwise emission reduction investments will be stalled.
- 11. For large hard-to-abate industry options to provide investment certainty should be considered, including upfront lumpsum allocation or exemption of ETS costs, for the project investment return period.

Interrelationships of Industry, Energy Planning, Resource Management Act and the Wider Economy

- 12. Long-term investment in emissions abatement technology requires a secure and affordable energy supply. Ballance's green hydrogen journey will take time. Disruption of the natural gas market, and increased reliance on renewable electricity generation and distribution investment will have ramifications on the viability of our transition journey and future operation.
- 13. An increased carbon price on its own is not enough to deliver emissions reductions. For trade exposed industry increasing carbon price without policy predictability undermines investment. To meet the challenge of climate change in Aotearoa New Zealand we need clear policy signals that are bipartisan, including Resource Management Act (RMA) accelerated consenting and innovation support.

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3 Company Overview

- Ballance Agri-Nutrients (Ballance) is a farmer-owned co-operative with over 17,000 shareholders and approximately 800 staff throughout New Zealand. With turnover of nearly \$1 billion and total assets of \$760m, Ballance is a top 40 New Zealand owned company that distributes over \$60m per annum to its farmer shareholders.
- 15. Ballance owns and operates super-phosphate manufacturing plants located in Tauranga and Invercargill, and New Zealand's only ammonia-urea manufacturing plant located at Kapuni, South Taranaki. Ballance also owns and operates SuperAir, an agricultural aviation company with high precision technology SpreadSmart, and SealesWinslow, a high-performance compound feed manufacturer. Ballance has a network of fertiliser storage and dispatch facilities across the country.
- 16. Our Purpose is: Together, Creating The Best Soil and Food On Earth. To deliver on this, our Ballance With Nature program aims to support the farming sector to sustainably and profitably produce and supply food domestically and internationally, so the NZ farmer can leave our natural environment in better condition for generations to come. This Purpose is supported by seven principles: healthy soil; nutrient efficiency; cleaner air; healthy water; animal care; native biodiversity; and resource utilisation.
- 17. Ballance has a proud history of innovating to support these seven principles. We were the first in New Zealand to coat urea with our SustaiN product, reducing on-farm nitrogen losses by more than 10%. Our SurePhos product is a first in the world in single super phosphates (SSP), reducing phosphate losses by up to 75% compared to regular SSP. The Ballance joint venture project with Hiringa at Kapuni is a first in NZ that will produce green hydrogen directly from wind-generated electricity for delivery of green hydrogen and greener ammonia to the NZ economy.
- 18. We endeavour to create more innovation and our in-house industrial engineering and science expertise actively engages with others with global expertise in low emissions nutrient manufacturing to create opportunities for a co-development pathway on new technologies. The demand for low emissions nutrients solutions is growing significantly from our owners as well as from the NZ public.
- 19. Our approach to innovation is also well demonstrated by our Sustainable Food and Fibres Futures (SFFF) Program, which is focused on improving water quality, reducing GHG emissions and decreasing agricultural chemical use. Our SFFF Program has 12 discrete projects to deliver on these important objectives. We estimate that annual benefits in excess \$1 billion could be achieved by Year 10 of the SFFF for the sheep and beef, dairy, forestry, horticulture, and arable sectors.

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- 20. Complementing this, Ballance is a proud sponsor of the Ballance Farm Environment Awards (BFEA). These awards have been running for over 25 years and have created an alumnus of farmers who are leaders in their fields and who are regularly requested to meet with Government to discuss the future of farming in NZ. In addition, positive stories of our world leading farmers are spreading far and wide across rural and urban audiences.
- 21. The learnings from the BFEA Awards and decades of scientific research are passed on to over 20,000 farmers and growers via our Science Extension Team. This team offers significant expertise and advice to farmers and helps them deliver on their productivity goals while achieving a lighter environmental footprint.
- 22. We also have a dedicated Farm Sustainability Services Team that helps farmers develop tailored sustainable nutrient management plans, ensuring efficient performance from the land, whilst leaving it in good condition for future generations. This team also help farmers meet their compliance requirements and respond to rapidly changing regulations. As well as supporting New Zealand farmers, Ballance also supplies products to a range of domestic applications:
 - Urea, is used in the production of formaldehyde based resins, a key ingredient in the wood processing sector for the manufacture of particleboard and MDF.
 - An extremely high purity urea solution is used to produce GoClear at the Kapuni plant. GoClear is an exhaust system additive and scrubbing agent that reduces harmful nitrogen oxide (NOx) emissions from diesel engines, breaking the NOx down into harmless water vapour and nitrogen gas. GoClear has been supplied to the largest vehicle fleets in New Zealand for many years.
 - Other products important to non-farming industries including: ammonia; sulphuric acid used in the dairy, pulp and paper, and power generation industries; and liquid alum and hydrofluorosilicic acid, both used in drinking water treatment processes.
- 23. Ballance places a strong emphasis on delivering value to its farmer shareholders and on the use of the best science to inform and deliver sustainable nutrient management, including supporting improvements in on-farm environmental performance.

3.1 Ballance's Engagement in Climate Change Policy Development

- 24. Ballance has taken an active role in the development of domestic climate change policy, dating from the original industry voluntary agreements of the late 1990's through to the current New Zealand Emissions Trading Scheme (NZ ETS).
- 25. We have contributed to the "Zero Carbon debate" through submissions to the Productivity Commission on its *Low-emissions economy* study and to the Ministry for the Environment and subsequently to the Environment Committee on the Zero Carbon Bill.



- 26. Earlier this year we submitted to the Climate Change Commission on their draft advice to the Government on action required to reach net-zero long-lived greenhouse gas emissions by 2050 while achieving a just and equitable transition.
- 27. Our most recent submission to the climate change mitigation team at the Ministry for the Environment was on the "Phasing out fossil fuels in process heat" consultation document, dated 20 May 2021.

3.2 Ballance's Exposure to Greenhouse Gas Reduction Policy

- 28. Urea manufacture currently requires natural gas for high temperature process heat and feedstock for hydrogen production through steam methane reforming, an intermediate step to producing ammonia and subsequently urea.
- 29. Ballance supports the intent to reduce greenhouse gas emissions in Aotearoa New Zealand while our operations are directly impacted by the New Zealand Emissions Trading Scheme (NZ ETS) and emissions reductions policy:
 - The Kapuni urea manufacturing facility is an Emissions Intense Trade Exposed (EITE) industry competing against urea imports. The main import volumes are from Malaysia and Saudi Arabia, neither of which place a price on carbon. Attachment 3 shows global urea capacity;
 - As a manufacturer and importer of urea, Ballance is a mandatory NZ ETS participant (within the Agriculture Sector), for synthetic fertiliser containing nitrogen.
 - All Ballance operations are exposed to NZ ETS costs passed through by energy suppliers and second round impacts including freight costs and inflationary pressure.

3.3 Kapuni Green Hydrogen

- 30. On 20 June 2019, Ballance Agri-Nutrients and Hiringa Energy confirmed a Joint Development Agreement for a major clean-tech project in Taranaki to produce 'green' hydrogen using renewable energy. The project cost is \$60 million.
- 31. Under the Joint Development Agreement, the two companies are planning the construction of four large wind turbines (with a total capacity of 24 MW) to supply 100% renewable electricity directly to the Kapuni site, and also power electrolysers (electrolysis plant) to produce high-purity hydrogen for feedstock into the ammonia-urea plant or for supply as 'zero-emission' transport fuel.
- 32. This current trial will reduce emissions by 20,000t CO₂ annually from both electricity generation and process gas emissions. The project will determine the viability for subsequent



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increases in green ammonia and urea manufacture, while reducing the requirement for natural gas or substituting imported urea (reducing global emissions).

- 33. The Ballance Hiringa JV project highlights the "absorptive capacity" foundation of existing assets and skills that can be leveraged to transform the economy to a low emissions future. Attachment 1 provides more information on this project.
- 34. Further investment will be needed to continue our journey towards fully decarbonising our manufacturing process and our planned progressive transition would be over a series of investment projects as technology develops and its price falls. The capital cost estimate to fully decarbonise hydrogen production and integrate this with the downstream ammonia and urea steps is \$500 million, a very significant long-term investment (greater than 15 years).
- 35. The viability of this project, together with the ongoing viability of the operation will rely on clear, consistent policy signals and a stable gas market to meet the fuel and feedstock requirements in the interim.
- 36. While we recognise the need to reduce New Zealand's reliance on fossil fuels, any transition needs to be appropriately timed to facilitate achievable milestones. A requirement to reduce fossil fuel inputs should not undermine an operation's viability while it is on the road to transition or prevent a transition from occurring.



4 Submission Points

4.1 Submission Context

- 37. EITE businesses need policy predictability when we are formulating long term capital investment plans. For Ballance our immediate focus is on our Green Hydrogen project, but other significant capital investment projects are always being evaluated.
- 38. Reducing unpredictability will help support longer-term business decisions which will ultimately help strengthen New Zealand's economic resilience when tackling the challenges of adapting to address climate change.
- 39. A critical policy measure for emissions intensive trade exposed (EITE) activities is industrial allocation, to mitigate against emissions leakage. The Cabinet Environment Energy and Climate Change Committee Paper "New Zealand Emissions Trading Scheme tranche two: a phase-down of industrial allocation" provides a very useful description of industrial allocation:²

About industrial allocation

- 11. Industrial allocation is the provision of free New Zealand Units (NZUs) to entities that carry out 'eligible activities' whose competitiveness is considered at risk due to costs placed on the activity by the NZ ETS. These costs create a risk of emission leakage if these entities were exposed to the full cost of NZ ETS surrender obligations. The purpose of industrial allocation is to mitigate this risk.
- 12. Emission leakage would occur if New Zealand companies lost market share or shifted production overseas to avoid a domestic price on emissions. This is a significant concern due to the potential economic and employment impacts, particularly for regions where a single emissionintensive facility may be an important part of the local economy.
- 13. Emission leakage is also an issue of environmental integrity. If leakage occurred, this would mean that New Zealand's climate policy is driving the export of emissions rather than reducing them. As a result, New Zealand's policies could potentially increase global emissions.

Ballance's views on industrial allocation are entirely consistent with this description.



² https://www.mfe.govt.nz/more/briefings-cabinet-papers-and-related-material-search/nz-ets-tranche-two-phase-down-of

- 40. Ballance requires a high level of predictability of industrial allocation settings in order to make the significant capital investments (estimated at \$500 million) required to reduce emissions, with asset lives typically being 15-years or longer and project evaluations being over commensurate time periods.
- 41. Ballance recognises that New Zealand and the world are embarking on a transition to a lower emissions economy. However, this does not mean that it is logical to lose economic activity in New Zealand and displace emissions offshore (emissions leakage):
 - a. In the case of urea manufactured at Ballance's Kapuni plant, the domestic demand for the output of that activity will remain for many decades to come.
 - b. Until such time as a (more) level playing field is achieved through other nations placing a price on carbon, industrial allocation remains the most appropriate policy measure to avoid emissions leakage and negate premature closure of domestic manufacturing.
 - c. Simplistically, allocation is calculated using the following formula:

Allocation = Production (tonnes Urea) * Allocative Baseline (AB) * Level of Assistance (LA)

- d. Ballance supports the current industrial allocation methodology where the Level of Assistance is the primary tool to phase-down allocation as emissions leakage risk diminishes.
- 42. The Climate Change Response (Emissions Trading Reform) Amendment Bill (2019) provisions for industrial allocation clearly evolved from a comprehensive and lengthy policy development and consultation process that originated in 2015, throughout which Ballance contributed through formal submissions. Ballance has consistently submitted:
 - a. that it accepts that allocation is a temporary measure, and that phase-out overtime is appropriate as global action increases and emissions leakage risks diminish.
 - b. the appropriate variable to adjust is the Level of Assistance (LA).

The Bill's focus on adjustments to the Level of Assistance (LA) was therefore welcomed.

Industrial Allocation Policy Under Wider Review

- 43. The Bill, subject to amendments, was therefore a positive step forward in delivering the high level of predictability of industrial allocation settings required to enable the significant long-term capital investments needed to reduce emissions.
- 44. In late December 2019, midway through the window to prepare submissions on the Bill for the Environment Committee, Ballance learnt that a wider review of industrial allocation policy had been agreed to by the Cabinet and is now the subject of this consultation.



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- 45. For Ballance and other stakeholders the scope of this 2021 review, as set out in the consultation document, is unprecedented since the original policy design work in the period 2007-10:
 - a. The complexity of the issues raised, especially regarding eligibility, warrants detailed engagement with industry, policy specialists and officials.
 - b. The resulting high level of uncertainty risks undermining the very investments required to reduce emissions and transition to a low carbon economy.
- 46. This consultation step should therefore be treated as just the first engagement of a comprehensive consultation process. It is vital to get any policy changes right to avoid further ad-hoc interventions, and to ensure alignment across a number of related policy changes that will impact EITE industry.
- 47. Our detailed submission points below follow the structured questions in the consultation document.

4.2 **Response to Submission Questions**

Criteria

Q1. Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

- 48. Ballance supports the five criteria identified and notes that they highlight the competing pressures on industrial allocation policy design.
- 49. Of the five criteria, "4. Regulatory certainty and predictability" is critical with asset lives typically being 15-years or longer and project evaluations for significant emissions reduction investments being over commensurate time periods.
- 50. We suggest caution is required on the determination of what "unacceptable levels of overallocation" in the 2nd criterion means:
 - a. The definition of overallocation introduced in the consultation document; *"greater than intended under the Act to reduce the risk of leakage*" risks becoming a circular argument when the consultation is around changes to the Act³;

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³ The consultation document highlights that changes to the Climate Change Response Act 2002 will be required.
b. The more commonly understood definition of overallocation is the receipt of more allocated emission units than the direct and indirect emissions from the activity. This is a more robust definition when evaluating policy options.

Allocation Calculations

Q2. Should allocative baselines be updated using new base years? Why, or why not?

- 51. Ballance supports the updating of allocative baselines using new base years.
 - a. We recognise that the Government has collated data from a selective number of activities which have identified sectoral or other changes that have led to overallocation.
 - b. Ballance supports the statement on p22 of the consultation document, that:

"Updating the baselines with data from new base years would realign allocations to reflect the current emissions intensities of industrial activities. This would reduce over-allocation, and future allocation would reflect the current risk of leakage" ⁴

c. Resetting allocative baselines will help rebuild confidence in the industrial allocation policy.

Q3. Should the reassessment be a one-off update, or a periodic update? Why, or why not?

- 52. Ballance supports a periodic update. A one-off update creates ongoing future uncertainty and a risk of a-hoc intervention on allocative baselines, as is the case currently. A legislated periodic update is therefore recommended.
- Q4. If periodic reassessment is legislated, what would be an appropriate period every year, 5 years, 10 years, or something else? Why?
- 53. The appropriate period is 10 years or longer as more frequent updating undermines the financial incentive to invest in emissions abatement.
- 54. We recommend more policy development work to:
 - a. ensure that firms investing close to a reassessment date receive a deferment of the allocative baseline update to avoid the perverse incentive to defer investment;



⁴ Consultation Document p22

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- ensure that firms who have reduced their emissions do not see returns eroded through changes to Level of Assistance resulting from Climate Change Commission assessment recommendations ahead of the next allocative baseline reassessment;⁵ and
- c. create a framework that would provide sufficient policy predictability to support large investment projects for decarbonisation in hard-to-abate industry where capital investment paybacks are greater than 10-years (refer also to our response to Q24).
- Q5. Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not? and
- Q6. Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?
- 55. Consideration should be given to using calendar years as this would align with NZ ETS compliance and allocation periods.
- 56. Ballance recommends the inclusion of the most recent years. As an essential industry, urea manufacture continued through Covid-19 Level 4 restrictions so data from 2020 and 2021 remains representative.

Eligibility

Q7. Should eligibility be reassessed using new base years?

- 57. Reassessment of eligibility introduces substantive uncertainty for EITE firms, especially if repeated at short intervals. As is the case with allocative baseline reassessment, this would undermine the financial incentive to invest in emissions abatement.
- 58. A one-off re-assessment would however give firms future certainty on eligibility status and levels of allocation.
- 59. Should the current test and threshold be re-applied using new base years, urea manufacture would still be classified as highly emissions intensive, however it would not reflect the significant increase in trade exposure that has occurred since 2010.
- 60. Ballance understands the original assessment criteria of emissions per million \$ revenue, with a highly emissions intensive threshold of 1600 tCO₂e / NZ\$ million, was:



⁵ CCRA s5ZOB includes over allocation as one of many parameters that the Commission should assess in recommending accelerated phase-down rates.

- a. adapted from the Australian Carbon Pollution Reduction Scheme and based on a one-off assessment of cost impacts at A\$20; and
- b. the use of this test was driven by the then need for trans-Tasman alignment.
- 61. For Ballance and all other EITE firms, the true driver of leakage risk over time are the emissions costs that need to be absorbed, not emissions per \$ revenue:
 - a. The current test does not recognise the increased leakage exposure due to the rise in carbon price and the move to a full surrender obligation.
 - b. Since 2010, the carbon price has risen from the maximum of \$25 under the Fixed Price Option to the current price of over \$60, more than doubling the cost exposure based on carbon price alone.
 - c. An eligibility assessment made now must take account of the expected carbon price range for the future eligibility assessment period in question. With increased auction price controls recently announced following the recommendations of the Climate Change Commission, further significant price rises are expected and required to transition the economy. A further doubling of the carbon price by 2030 is signalled.⁶
- 62. Should the Government wish to proceed with eligibility reassessment, Ballance recommends that the existing test should only be used as the 1st step in a more structured high-level screening tool. Activities which do not pass that test at the current high emissions intensity threshold should be assessed against further criteria. Options to be considered should include:
 - a. alternative financial ratios e.g. carbon cost impacts on profitability assessments or energy costs (with carbon cost) as a proportion of operating costs;⁷ and
 - b. international precedents.

Q8. Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not?

63. If reassessment is to be done, new emissions intensity thresholds are required to account for the increase in cost exposure from the rise in carbon price (current and across the future eligible assessment range).



⁶ Refer Climate Change Commission Final Advice Box 7.1

⁷ Variations of these were applied under New Zealand Negotiated Greenhouse Agreement (NGA) Policy.

- 64. If a New Zealand EAF is adopted (refer Q11) the thresholds should also be adjusted to reflect this change as it will otherwise adversely and unfairly impact electricity intense EITE activities.
- 65. For firms/activities which do not meet the existing criteria when reassessed, more detailed assessments such as those as identified in response to Question 7 should be applied.
- Q9. Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate? and
- Q10. Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?
- 66. Under the current or revised eligibility tests, any activity assessed to drop below an intensity threshold should have the step change impact moderated through the introduction of more threshold levels and / or a sliding scale.
- 67. Where reassessment signals a drop in eligibility due to emissions reductions from a capital investment, no change in eligibility should be imposed. This is to avoid disincentivising emission reduction projects. Overallocation is best addressed through the periodic allocative baseline adjustments (refer Q4).
- Q11. Should the New Zealand EAF be used when determining eligibility? Why, or why not? and
- Q12. Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?
- 68. The current eligibility criteria were set based on an EAF of 1.0. If a New Zealand based EAF is to be used, the eligibility thresholds should be updated as well, also incorporating the true cost exposure.
- 69. The question of what value of New Zealand EAF is appropriate in determining the revised thresholds is a further complication as the EAF methodology is currently under review.
- 70. Periodic changes of EAF should not trigger further recalculations of eligibility:
 - a. If an ex-post approach to determining the EAF is adopted (as proposed by the Government) there will be variance from year to year (potentially dampened through a rolling average).
 - Recalculation of eligibility based on annual updates to the EAF would introduce substantive uncertainty between wet and dry years for activities close to eligibility thresholds.



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Q13. Should the trade exposure test be changed? Why, or why not?

- 71. For large scale manufactured commodity goods such as urea, the current trade exposure test is appropriate.
- 72. A review of international precedents in other trading schemes could also be used to reaffirm trade exposure (please refer to our response to Q7).
- Q14. What would be a more appropriate method to determine trade exposure?
- 73. More detailed assessment could be considered for those activities where there are no international eligibility precedents and import or export volumes are low.

Summarising Ballance's Position on Allocative Baselines and Eligibility:

- Overallocation is best addressed through the allocative baseline adjustment which Ballance supports with periodic reassessment at 10+ yearly intervals.
- 2) Reassessment of eligibility introduces substantive uncertainty for EITE firms.
- 3) The current eligibility test is underplays leakage risk as it does not account for the increased carbon price impacts.
- 4) If a New Zealand eligibility test is to be applied, it should be developed with clear consideration of the rise in the forward carbon price, and:
 - a) Threshold effects should be minimised.
 - b) Eligibility changes due to EAF volatility should be avoided.
- More policy development and flexibility is required to mitigate allocative baseline and eligibility reassessment undermining investment returns on significant emission reduction projects.

Other reforms to industrial allocation

- Q15. Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?
- 74. Ballance supports this proposal, however it should be clearly restricted to changes to emission factors, EAF or other listed technical parameters.
- 75. Wider changes to allocative baseline methodologies should continue to go through a full review process.
- Q16. Are there other changes to sections 161A-E of the Act that could better streamline IA processes?



- 76. Ballance requests the inclusion of "direct use of carbon dioxide not produced as part of the activity" as an eligible emission source in s161E(2)(a) of the Act with, effect from 2016:
 - a. The purpose of this inclusion is to address the change in operation since 2016, where carbon dioxide is directly imported from the Kapuni Gas Treatment Plant (KGTP), and to future proof the legislation for the situation where a deficit of carbon dioxide is created by the displacement of hydrogen produced from steam methane reforming with that produced by electrolysis.
 - b. Carbon dioxide is the source of carbon in the urea molecule (refer Attachment 2 for reaction and process details). The primary source of carbon dioxide is from natural gas feedstock to the steam methane reforming process, with the carbon dioxide balance across the process being originally controlled by blending high carbon dioxide natural gas from the KGTP Low Temperature Separator (LTS gas) and normal natural gas. In this configuration the full source of carbon dioxide is an eligible emission source.
 - c. Since 2016, to maintain closer control of the process and increase its efficiency, LTS gas has been replaced with direct carbon dioxide import. In future, as electrolytic hydrogen is adopted, an even greater external supply of direct carbon dioxide will be required.
 - d. Ballance requests that the eligibility of the carbon dioxide should be treated the same regardless of whether it was sourced directly or indirectly from natural gas via the steam methane reformer process. We also request that any reassessment of allocative baseline or eligibility for the period 2016 onwards should incorporate direct use of carbon dioxide.
 - e. Ballance requests the opportunity to discuss this technical matter with officials.
- 77. Ballance proposes that a full review of the sections 161A-E of the Act should be made once high-level decisions on the review have been reached.
- Q17. Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not? and
- Q18. Should new activities be able to seek eligibility? Why, or why not? and
- Q19. Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?
- 78. Ballance supports the proposal to clarify the eligibility process for new activities. As New Zealand's industry transitions it is likely that new products or variations on existing activity definitions will be commercialised.



- 79. These new activities should be able to seek eligibility as in some cases they may be competing with existing EITE firms and / or for international capital.
- 80. An assessment to ensure global greenhouse gas emission benefit is appropriate.
- Q20. Question 20: Should firms that receive IA be required to report their emissions, revenue and production data annually? Why, or why not? and
- Q21. Question 21: Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?
- 81. Ballance supports the proposal for industrial allocation recipients to report production and emissions data. There must however be clear guidelines and opportunity for firms to provide associated commentary with any public dissemination of the information:
 - a. Production data is already submitted to the EPA in allocation returns and the resulting allocation is published by applicant name.
 - b. Emissions data may already be partially or fully submitted to the EPA should the firm be the point of obligation. However, in our case (and for many other activities) our emissions are not currently reported due to an upstream point of obligation on gas and the use of grid electricity. We do however provide gas data to MBIE.
 - c. If the purpose is to compare allocation against emissions the appropriate emissions factor for electricity is the Electricity Allocation Factor (EAF) as this represents the priced emissions pass through for which allocation is provided.
 - d. Our request for the opportunity to provide commentary is to enable an explanation of changes in emissions and/or allocation and to highlight variance from other corporate greenhouse gas reporting which may use different inventory boundaries and emission factors.
- 82. For revenue data, Ballance supports voluntary disclosure as:
 - a. For many activities this information will be commercially sensitive, revealing product price when matched against production/allocation data.
 - b. For some activities revenue is already reported or product pricing is closely linked to a published index.

Q22. Should the five-year transition period for changes in eligibility status remain, or be changed? Why, or why not?

83. Should the Government proceed with eligibility reassessment (refer Question 7), the fiveyear transition period for changes in eligibility status should remain.



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84. Where the eligibility status change has resulted from a firm's investment in emissions reduction no change in eligibility should be made as this would materially disincentivise decarbonisation investment (refer also Q4 and Q10).

Future of industrial allocation

Q23. Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

and

- Q24. What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?
- 85. Ballance stresses that the primary focus of the industrial allocation review should be on providing regulatory certainty and predictability for EITE firms on a medium to long-term basis (15+ years). Certainty is critical to a successful NZ ETS as it provides EITE firms with the confidence to invest in their NZ manufacturing assets and invest in low emissions options.

CBAM:

- 86. Ballance is aware of the EU's proposed Carbon Border Adjustment Mechanism (CBAM).
 - a. While the current proposals are not yet legislated, should CBAM be adopted in the EU, the plan is to phase in liabilities on imports from 2026 in parallel with a phase out of industrial allocation over a 10-year period.
 - b. This clearly signals that emissions leakage risk will be fully covered during the policy transition to CBAM, with EU manufacturers no worse off than if they were to continue with industrial allocation alone.
- 87. Should the Government choose to further investigate a CBAM policy, Ballance recommends that:
 - a. This should be clearly signalled with the criteria for progression published;
 - b. Details of how exports of domestic manufactured goods will be treated as well as imports should be provided. The rigorous determination of the carbon content of imports is vitally important for the policy to be credible and equitable; and
 - c. Clear and binding assurance should be provided to EITE firms that the level of emissions leakage protection will be no worse than that under industrial allocation settings.
- 88. In the absence of this guidance and assurance, the lack of regulatory certainty and predictability will stall investment.



Direct Payments to EITE firms:

- 89. For hard-to-abate industry, such as urea production, the magnitude of the investment cost combined with regulatory uncertainty and unpredictable industrial allocation settings may block decarbonisation.
- 90. Ballance therefore strongly recommends the consideration of upfront lump sum allocation or an exemption mechanism (on direct and indirect emissions costs) for a fixed period taking into account specific project investment criteria.
- Q25. Should IA policy or any alternative explicitly encourage firms to reduce emissions? Why, or why not? And
- Q26. Question 26: What method could be used to encourage emissions reductions?
- 91. Ballance supports the current output-based allocation method as being the most appropriate for the NZ ETS. It provides a clear incentive to reduce emissions intensity.
- 92. This would be undermined through frequent allocative baseline updates and eligibility reassessment using emissions-based criteria.
- Q27. Should IA decisions or any alternative include wider considerations such as economic, social, cultural and environmental factors – when determining support for industry? Why, or why not? and
- Q28. How would these new considerations interact with the goal of reducing emissions leakage?
- 93. Ballance strongly recommends that wider considerations should be evaluated when assessing industrial allocation reforms.
- 94. A singular focus on emissions leakage is out of step with international policy thinking and does not recognise the challenges of decarbonising hard to abate industries as identified by the Climate Change Commission.
- 95. Climate change leadership requires industry and governments to work together to support and accelerate global emissions reduction. It would be irresponsible to export our domestic emissions, and highly productive specialised employment opportunities for New Zealanders to countries with low environmental and emissions goals.
- 96. New Zealand needs a policy framework that attracts investment and talent to transition to a low carbon economy. This is critical in a just economy which reduces inequality and poverty in Aotearoa New Zealand. The NZ ETS and Industrial Allocation policy settings should support these goals, not undermine them through a narrow focus on ETS design parameters.



¹⁷ September 2021

Other comments

Q29. Do you have any other comments, ideas or critical feedback that could help support the Government form final policy decisions?

- 97. The consultation document indicates that any changes "are likely to be progressed through an amendment to the Climate Change Response Act introduced in 2022 and later through changes to the industrial allocation regulations. Any actual changes to allocations or eligibility are unlikely to take effect until 2024".
- 98. Ballance strongly believes that reform of industrial allocation should encompass all parameters simultaneously and not lead to piecemeal legislative amendments in isolation.
- 99. In this context, the current requirements for the consideration of CCRA s84B Regulations setting increased phase-out rates for the budget period commencing 1 January 2026, introduces further policy uncertainty just 2 years after the industrial allocation review changes are scheduled to be implemented.
- 100. Consequently, Ballance proposes that the CCRA amendments arising from the review should include:
 - a. the deferment of any increased phase out rates to the budget period commencing 1 January 2031; and
 - b. a prioritisation of considerations under CCRA s84C Procedure for regulations setting phase-out rates to focus on those addressing emissions leakage.
- 101. For further insight and details please refer to the extract from Ballance's submission to the Environment Committee on the Climate Change Response (Emissions Trading Reform) Amendment Bill in Attachment 4.⁸

ENDS



⁸ Full submission can be found at: <u>https://www.parliament.nz/en/pb/sc/submissions-and-advice/document/52SCEN_EVI_92847_EN20059/ballance-agri-nutrients</u>

Attachment 1 – Kapuni "green" hydrogen project seen as catalyst for NZ market (media release)

20 June 2019

Ballance Agri-Nutrients and Hiringa Energy today confirmed a Joint Development Agreement for a major clean-tech project in Taranaki to produce 'green' hydrogen using renewable energy.

The \$50 million showcase project of Taranaki's new energy future will be based at Ballance's Kapuni ammonia-urea plant, and is seen as a catalyst for the development of a sustainable green hydrogen market in New Zealand to fuel heavy transport – as fleet operators push to reduce carbon emissions (C0₂-e) in response to Zero Carbon legislative change.

INDUSTRIAL-SCALE HYDROGEN PRODUCTION

The renewable hydrogen hub will be a perfect marriage of industrial scale renewable energy and hydrogen production, providing a model for other industrial operations and future decarbonisation of New Zealand's agricultural inputs by substituting green hydrogen to replace the current natural gas (CH₄) feedstock.

Ballance Agri-Nutrients CEO, Mark Wynne, says "this flagship green hydrogen project is a collaboration of national significance" – bringing together world-leading hydrogen technology and the specialist technical capabilities in the region, to leverage existing infrastructure for the benefit of New Zealand.

"Working with Hiringa we have a truly unique opportunity to create a hydrogen ecosystem at Kapuni – powered by renewable energy – that we can grow and develop as a template for New Zealand's leadership in what is an exciting space globally."

Andrew Clennett, CEO of Hiringa Energy, described the project as "an innovative concept developed locally, which takes advantage of our 'built' and natural resources".

"This will create a foundation for a hydrogen market in New Zealand so that we can start more aggressively taking carbon and other pollutants out of heavy transport, and develop other high-value uses for green hydrogen in our economy as part of our low-emissions future. We are delighted to be working in true partnership with Ballance Agri-Nutrients on such an enabling project"

POTENTIAL FOR ZERO-CARBON TRANSPORT

The Kapuni Green Hydrogen production alone is expected to generate sufficient 'green' hydrogen to supply up to 6,000 cars, or 300 buses and trucks per year.

Mr Clennett says the project has national significance and is linked with Hiringa's development of a hydrogen supply and refuelling network in New Zealand to enable use of hydrogen fuel cell



technology for zero-emission heavy transport – displacing imported fossil fuels with home-grown clean energy.

This is a key regional project outlined in the H2 Taranaki Roadmap launched by the Prime Minister, Jacinda Ardern, and Minister of Energy & Resources, Dr Megan Woods, in March this year.

This comprehensive report into the opportunities presented by hydrogen for Taranaki and New Zealand's energy future is one of the first under *Tapuae Roa: Make Way for Taranaki – Taranaki's Regional Development Strategy*, and was developed in partnership between Hiringa Energy, New Plymouth District Council and Venture Taranaki, with support from the Provincial Growth Fund. It also supports the Draft Taranaki 2050 Roadmap that is building upon the Tapuae Roa Strategy.

HARNESSING THE POWER OF WIND

Under the Joint Development Agreement the two companies are planning the construction of up to four large wind turbines (with a total capacity of 16MW) to supply 100% renewable electricity directly to the Kapuni site, and also power electrolysers (electrolysis plant) to produce high-purity hydrogen – for feedstock into the ammonia-urea plant or for supply as 'zero-emission' transport fuel.

Mr Wynne says this enables Ballance Kapuni to use almost entirely renewable electricity for its electricity needs, and hydrogen can be produced with wind-power that exceeds the manufacturing plant's baseload electricity requirements.

The project is a key step for the energy sector transition in Taranaki, with the region already having two large-scale hydrogen users – Methanex and Ballance Kapuni that can potentially provide baseload demand for green hydrogen. The existing core competency in hydrogen production and use at Ballance's Kapuni site is an excellent platform, Mr Wynne says.

GREEN JOBS AND GREEN NUTRIENTS

Ballance's Kapuni plant is one of the largest employers in South Taranaki, contributing hundreds of millions of dollars to the regional economy in wages and contracts work.

The plant relies on natural gas for its feedstock so this project represents a way to not only future-proof a large employer but also provide additional employment opportunities, during construction and as the hydrogen market develops.

While the hydrogen fuel-cell market develops, the supply can be fully utilised in the Kapuni Ammonia-Urea plant to manufacture 'green' nitrogen fertilisers that will have an extremely low emissions profile. Mr Wynne says, "We'll be able to offer a new choice of nitrogen fertiliser for New Zealand farmers who have sustainability front-of-mind".

The manufacture of green ammonia-urea will offset up to 12,000 tonnes of carbon emissions and avoid the import of 7,000 tonnes of urea from the Middle East and Asia. Production of green urea would eliminate the equivalent amount of CO_2 as taking 2,600 cars off the road.



"We're thrilled to be able to bring this opportunity forward for our farmer-shareholders, for Taranaki, and for New Zealand – to create a renewable hydrogen energy hub that could enable deep cuts in emissions from our heavy transport fleets and also produce an alternative green nutrient source to help keep New Zealand growing," Mr Wynne says.

Ballance and Hiringa are looking forward to sharing the plans with Government stakeholders, lwi and other local community and commercial stakeholders – along with discussions with potential hydrogen customers, to help realise this "tangible example of 'Just Transition' for the Taranaki region into a new energy future".

QUICK FACTS – GREEN HYDROGEN

- Green hydrogen is produced from renewable electricity and water, through the process of electrolysis (producing hydrogen and water).
- Hydrogen has the highest energy content of any common fuel (by weight). A hydrogen fuel cell car can refuel in 3-5 minutes and travel up to a range of 600-800km.
- When used in a fuel cell hydrogen can enable zero-emission transportation (and recombines hydrogen and oxygen to make water).
- For commercial and heavy transport hydrogen is a zero-emission solution that enables high availability, payloads and range.
- Green hydrogen is complementary to the electrification of transport in New Zealand, with the potential to reduce emissions from heavy transport, industrial processes and chemical production.

For further information:

BALLANCE AGRI-NUTRIENTS

HIRINGA ENERGY

CEO – Andrew Clennett



Attachment 2 – Kapuni Ammonia–Urea Plant Details

Ballance owns and operates New Zealand's only ammonia-urea plant located on a 32.4 hectare site at Kapuni in South Taranaki.

Using some 7 petajoules (PJ) of natural gas, the plant produces 150,000 tonnes of ammonia per year, over 99% of which is converted to 265,000 tonnes a year of premium grade granular urea. The high quality granular urea product is used as a nitrogen-rich fertiliser in the agricultural, horticultural and forestry sectors, and as a component in the manufacture of other products (primarily resins).

The Kapuni plant production meets approximately one third of New Zealand's demand for urea. Remaining demand is met through imports sourced primarily from the Middle East, Far East and China. Ballance is therefore in direct competition against countries with less stringent international climate change obligations.

The company makes a significant economic contribution to the local economy and employs 130 permanent staff and 17 full time contractors.

The Kapuni Ammonia-Urea Plant

- <caption>
- 1) The location and scale of Kapuni site is show below (Figure 1).

- 2) The plant, which commenced operation in 1983, was built to make use of the Government's "take or pay" gas contract arrangements at the nearby gas fields.
- 3) The plant was designed from the outset as a single site integrated ammonia-urea plant, ammonia being an intermediate product in the conversion of natural gas to urea.



- 4) The plant was one of a series of "Think Big" projects instigated by the Muldoon led National Government.⁹ It was envisaged that the plant would help New Zealand's balance of payments by exporting urea, however New Zealand's current demand of 850,000 tonnes now exceeds plant production resulting in all sales being domestic.
- 5) The plant was revamped in 1996 to increase production and reduce energy use through closer heat integration of the ammonia and urea sections of the plant.
- 6) The process is described in detail in Attachment 1 and is summarised in Figures 2-3 below, which show the primary chemical reactions and the location in the plant of the activities.



There is no intermediate storage of carbon dioxide.



⁹ Other Think Big projects included the Methanol plant at Waitara, the Synthetic-petrol plant at Motunui, Expansion of the Marsden Point Oil Refinery, Expansion of the New Zealand Steel plant at Glenbrook, Electrification of the Main Trunk Railway between Te Rapa and Palmerston North, A third reduction line at the Tiwai Point aluminium smelter, The Clyde Dam on the Clutha River.



- As an integrated ammonia-urea plant, there is common infrastructure which yield energy efficiency gains and cost savings:
 - Cogen (Electricity and Steam)
 - Steam mains + heat integration
 - Demineralised water for boilers
 - Clarified water + cooling water system
 - Control Room & Services
 - Effluent Treatment
 - Utility air supply





Attachment 3: Global Urea Capacity

Global Urea Capacity: Top 15 Ranking



Source: International Fertilizer Association World Urea Capacities 2021 Summary Report



Attachment 4 – Extract from Ballance's Submission to the Environment Committee on the Climate Change Response (Emissions Trading Reform) Amendment Bill

[Paragraph numbering is from original submission dated 17 January 2020]

s84B Regulations increasing phase-out rate for specific activities

- 49. Ballance supports the inclusion of provisions to increase phase-out rate for specific activities and sees the following scenarios as valid reasons to implement them:
 - Reduced risk of emissions leakage for that activity resulting from a significant proportion of the activity's trade competitor jurisdictions imposing similar or more stringent policy measures considering:
 - i. The level of carbon-pricing, through trading or a carbon tax
 - ii. The level of allocation/subsidy
 - iii. Other support mechanisms including non-tariff barriers
 - b. "Legacy over-allocation", where the level of allocation exceeds the cost of meeting the emissions trading scheme obligation (direct and indirect costs noting the upstream point of obligation in the energy sector) which resulted from the sectoral average emissions intensity used for the calculation of Allocative Baseline (2006-2009 data) having included less efficient operations that have subsequently closed.
- 50. The Bill (intentionally or otherwise) sets out parameters to be considered which could lead to increased phase-out in scenarios which are in Ballance's view invalid and which risk undermining future emissions reduction investments.
 - a. The potential for allocation to be "squeezed" to address emissions targets or budgets being under pressure through under delivery in non-EITE sectors e.g. slow electric vehicle uptake (section 84C(3)(a)).
 - b. The focus being on the cost to the taxpayer of providing allocations for the activity, with no reference to the benefits e.g. financial, employment, strategic importance, security of supply, absorptive capacity foundation for a just transition, etc. (section 84C(3)(i).
 - c. Inappropriate assessment of over allocation that results from a firm having invested in emission abatement (section 84C(3)(d)):
 - Currently EITE firms are incentivised to reduce their emissions through the price of carbon, regardless of whether they receive a free allocation or not.

17 September 2021



- ii. This incentive is undermined if having made an investment to reduce emissions which is reliant on (partial or full) abated emissions costs, the savings are then withdrawn through a determination that as emissions have now reduced, allocation phase-out should be increased.
- d. Other parameters that are outside the influence of the EITE activity and/or which are not readily tracked or predictable (section 84C(3)(b),(e),(g),(h),(j),(k)), further undermining the predictability of future allocation and the business case for investment.
- 51. The negative impact on investment predictability of the increasing phase-out rates amendments is amplified by short notice timing and uncapped phase-out rates:
 - a. The earliest implementation is from the commencement of the next emissions budget period – specifically from 1 January 2026. This results in potentially less than 1-year's notice (Section 84B(1)). Note that reduced phase out rates only commence from 2031 (Section 84A(2)).
 - b. There is no maximum phase-out rate in the Bill, thus negating any of the predictability inferred by the default phase-out rates.
- 52. Ballance recommends that the Bill be amended to:
 - a. Prioritise the parameters to focus on the core consideration for industrial allocation the risk of emissions leakage (Section 84C(3)(c)).
 - b. Amend the "over allocation" provisions in Section 84C(3)(d) so that investment in emissions abatement is not subsequently undermined.
 - c. Introduce a minimum 5-year notice period (next budget + 1 year) for introduction of increased phase-out rates. Precedent for a 5-year notice period currently exists under section 161B of the Act.
 - d. Introduce a cap on the maximum phase-out rate of 0.03 p.a. which can only be overruled under specific circumstances e.g. an international sectoral agreement is reached for that activity.
- 53. Ballance also recommends that the Bill introduce a requirement for the Climate Change Commission to consult with EITE participants on the development of assessment rules and methodologies for the introduction of increased phase-out rates:
 - a. A similar approach was taken regarding EITE eligibility assessments in the early days of the NZ ETS.
 - b. If addressed as a priority, this will help reduce unpredictability and avoid stalled investment decisions.

We note that this may be complicated by the introduction of the wider industrial allocation review in which case the Bill's requirement to consult should also encompass that work.



Submission from the Reconstituted Wood Panels Sector regarding Reforming Industrial allocations in the NZ ETS

This submission is written on behalf of the Reconstituted Wood Panels Sector including:

Nelson Pine Industries Ltd,

Daiken New Zealand Limited,

Daiken Southland Limited, __and

Juken New Zealand Ltd

These companies produce Medium Density Fibreboard and Triboard. This is sold both on the export and local market with most of it being exported.

The Reconstituted Wood Panels activity currently qualifies for medium allocation.

Answers to the Submission questions are provided in blue below.

Consultation questions

Criteria

Question 1: Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

Our response to each of the criteria is provided below

1. Supports the purpose of the ETS – Yes

As long as this means to encourage the reduction or sequestration of greenhouse gas emissions without substitution for higher emissions elsewhere

2. Address unacceptable levels of over-allocation -we disagree

Unacceptable over allocation depends on the definition of this term.

In an activity where there are multiple participants it is inevitable emissions intensity will vary among participants. The allocation amount per unit of production will be the weighted average of all of the participants. By definition some will have over allocation relative to their actual emissions intensity and others lower. It would be patently perverse to not give an allocation to those who are less emissions intensive within the same activity.

If over allocation occurs because of early adoption of emissions reduction measures this should not be penalised compared with those who make no reductions. This should be addressed more evenly by gradual reduction of allocation for all qualifying activities, as already proposed at the start of the IA scheme.

If you only look at the Tonnes of CO_2 per million revenue this fails to take into account the price of carbon. The original setting of the allocation thresholds were on the basis

of a certain price for carbon and the impact on competitiveness against other producers not facing this cost. If the price of units has trebled since the thresholds were set then the threshold should be reduced to 1/3 the amount of CO₂ per Million revenue.

- 3. Addresses risk of emissions leakage agree.
- 4. Regulatory certainty agree
- 5. Minimises administrative burden –agree

As long as this also minimises administrative burden for industry as well.

We are concerned about the very narrow framing of the criteria. There also needs to be some consideration of the potential counterproductive outcomes that can occur. For example favouring high emitting products like steel and concrete in the construction sector compared with carbon storing products like wood and wood composites like LVL that do not get any allocation.

Counterproductive outcomes occurred in the initial implementation of the ETS with significant deforestation and conversion of plantation forestland to dairy. Less carbon storage, more methane and NOx emission, the opposite of what the ETS was supposed to achieve. This has generated a wood supply hole we are starting to run into now.

The current settings do not take into account the impact on the price of raw materials for the wood processing industry as a consequence of the ETS. This is occurring both from the reduction in supply from delayed logging due to carbon credits and increased competition for wood chips for fuel to replace fossil fuels.

Allocation calculations

Question 2: Should allocative baselines be updated using new base years? Why, or why not?

- Updating current allocative baselines removes the incentive to reduce emission intensity and penalises industries who have made big improvements.
- An organisation that has proactively reduced carbon emissions will be penalised under these proposals, whereas those who have not improved potentially will not.

Question 3: Should the reassessment be a one-off update, or a periodic update? Why, or why not?

The reconstituted wood Panels sector is currently close to the moderate allocation threshold and has made reductions in emissions intensity. A reassessment is likely to result in complete loss of allocation unless consideration is given to the allocation threshold setting mechanism.

The reality is that cost of raw materials, wages, electricity and freight have all grown faster than returns in export markets we sell to. This means profitability is even more marginal. The sector is more at risk of leakage than previously, not less at risk because we have crossed an arbitrary threshold. The value of emission units has more than trebled since the last allocation baseline was set and this has flowed through into the cost of power. Reductions in energy intensity have not kept pace with increases in carbon price flow through. This has a negative impact on viability.

Question 4: If periodic reassessment is legislated, what would be an appropriate period – every year, 5 years, 10 years, or something else? Why?

• 15 years to provide a level of certainty to businesses on future allocations.

Question 5: Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not?

In terms of emission intensity, these years are probably more representative of business as usual.

Question 6: Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?

In terms of EAF these years represent a significant increase in use of coal for Electricity generation and NZEU price having a significant impact on competitiveness against other countries producers. This should be considered and factored in to allocations

Eligibility

Question 7: Should eligibility be reassessed using new base years?

No,

• Industries that have done well to reduce emissions could end up becoming ineligible where others where little improvement has been seen could still benefit from the scheme.

Question 8: Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not?

Yes

Other options for reassessing eligibility

- Our view is that the true driver of leakage risk over time are the emission <u>costs</u> that need to be absorbed, not emissions <u>tonnes</u> per Million \$ revenue.
- The current test does not recognise the increased leakage exposure due to the rise in carbon price and the move to a full surrender obligation.
- Since 2010, the carbon price has risen from the maximum of \$25 under the Fixed Price Option to the current price of over \$60, more than doubling the cost exposure based on carbon price alone.
- An eligibility assessment made now must take account of the expected carbon price range for the future eligibility assessment period in question. With increased auction price controls recently announced following the recommendations of the Climate Change Commission, further significant price rises are expected and required to transition the economy. The doubling in price by 2030 is signalled.

The eligibility threshold in tonnes of CO₂ should be reduced by the difference in expected unit price for the next period before review. For example, the medium 59% allocation threshold was 800 tonnes per Million of revenue and the maximum Carbon price expected at that time was \$25.

If in the next period the maximum expected carbon price is \$100 the threshold should be reduced to 200 to keep the price point for allocation the same.

Question 9: Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate?

Yes,

- If industries are close to the eligibility threshold, proposed more regular review of entitlement eligibility and allocation could act as a disincentive to reduce emissions in order to remain eligible.
- The drop off from being on the edge of the middle threshold is too significant. Industries on either side who have very similar emissions could results in zero assistance for one and 59% for the other.

Question 10: Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?

Yes

A sliding scale would reduce distortions and disincentive to reductions in emissions intensity when an activity is close to a threshold.

Question 11: Should the New Zealand EAF be used when determining eligibility? Why, or why not?

NO

The current eligibility criteria were set based on an EAF of 1.0. If a New Zealand EAF is to be used, the eligibility criteria should be updated as well, considering the true cost exposure.

Question 12: Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?

No

The question of what value of New Zealand EAF is appropriate is a further complication:

- The EAF methodology is currently under review
- If an ex-post approach to determining the EAF is adopted (as proposed by the Government) there will be variance from year to year (potentially dampened through a rolling average). Recalculation of eligibility based on annual updates to the EAF could introduce substantive uncertainty for activities close to eligibility thresholds.

Question 13: Should the trade exposure test be changed? Why, or why not?

No

Question 14: What would be a more appropriate method to determine trade exposure?

Other reforms to industrial allocation

Question 15: Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

Question 16: Are there other changes to sections 161A-E of the Act that could better streamline IA processes?

Question 17: Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not?

Question 18: Should new activities be able to seek eligibility? Why, or why not?

Question 19: Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?

We support the proposal to clarify the eligibility process for new activities.

New activities should be able to seek eligibility as in some cases they may be competing with existing EITE firms and/or for international capital.

An assessment of global greenhouse gas emission benefit is appropriate.

Question 20: Should firms that receive IA be required to report their emissions, revenue and production data annually? Why, or why not?

Question 21: Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?

Question 22: Should the five-year transition period for changes in eligibility status remain, or be changed? Why, or why not?

Should the Government proceed with eligibility reassessment, the five-year transition period for changes in eligibility status should remain. Any investments in reducing emissions should not be undermined due to changes in eligibility assessment.

Future of industrial allocation

Question 23: Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

The primary focus of this industrial allocation review should be on providing protection, regulatory certainty, and predictability for EITE firms on a medium to long-term basis (10-15 years).

For longer term mechanisms, we would support work on alternative measures to support at risk industry, particularly desirable sectors like the wood-based bioeconomy.

Question 24: What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?

The primary focus of the industrial allocation review should be on providing regulatory certainty and predictability for EITE firms on a medium to long-term basis (10-15 years).

We are aware of the EU's proposed Carbon Border Adjustment Mechanism (CBAM):

While the current proposals are not yet legislated, should CBAM be adopted in the EU, the plan is to phase in liabilities on imports in parallel with a phase out of industrial allocation over a 10-year period.

This clearly signals that emissions leakage risk will be fully covered during the policy transition to CBAM, with EU manufacturers no worse off than if they were to continue with industrial allocation alone.

Should the Government choose to further investigate a CBAM policy,

- This should be clearly communicated with the criteria for progression published; and
- Clear and binding assurance should be provided to EITE firms that the level of emissions leakage protection will be no worse than that under industrial allocation settings.

In the absence of this regulatory certainty and predictability, investment will not be forthcoming, resulting in stalling of planned projects.

Question 25: Should IA policy or any alternative explicitly encourage firms to reduce emissions? Why, or why not?

The ETS already has an explicit incentive for firms to reduce emissions. Industrial allocation is a mechanism to reduce carbon leakage and ensure international competitiveness, and therefore industrial allocation policy should not have any additional requirements to explicitly encourage firms to reduce emissions.

Question 26: What method could be used to encourage emissions reductions?

ECCA has played a useful role in assisting uptake and information on energy efficiency technology. Provision of support funding for new technologies have expedited their uptake by industry. They have also fostered communication between firms in this field. Their new graduate program also provided a structure and support for development of young professionals in the disciplines of energy efficiency. Government support for ECCA should continue.

The existing combination of the ETS and EITE regimes has proven to be mostly effective in preventing emissions leakage and ensuring NZ firms can remain competitive while providing investment incentives for abatement.

Our view is that the current output-based allocation methodology provides a clear incentive to reduce emissions intensity. This would be undermined through frequent allocative baseline updates and eligibility reassessment using emissions-based criteria.

Question 27: Should IA decisions or any alternative include wider considerations – such as economic, social, cultural and environmental factors – when determining support for industry? Why, or why not?

In relation to Wood processing industries, consideration should be given to the ramifications of the ETS on wood costs and availability to use in applications where longer term storage of carbon is achieved. This should come into the calculation of allocated units

Question 28: How would these new considerations interact with the goal of reducing emissions leakage?

We are already exporting too many logs without adding value to them in New Zealand. When these whole logs go so do the residual bark and wood chip that can be used for added value products like reconstituted Wood panels or fuel. In effect, the opportunity has already leaked with the logs to other places like China where emissions will be much higher for the same panel product.

The IA process completely ignores the solid wood sector including Laminated Veneer Lumber and Cross laminated timber. These are now in short supply for even the New Zealand house construction market.

Without solid wood processing, other added value processes will languish through lack of raw materials which should be the basis of a renewable carbon storing Bioeconomy.

New Zealand hasn't built a new MDF plant or other significant wood processing plants in over 20 years.

Along with this leakage goes opportunity for regional employment and development of local expertise in wood processing. All while we plan to plant more trees but we don't plan to process them.

Other comments

Question 29: Do you have any other comments, ideas or critical feedback that could help support the Government form final policy decisions?

From:	Melanie Vautier
Sent:	Friday, 17 September 2021 12:40 pm
To:	etsconsultations
Subject:	ETS Industry Allocations Review

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Kia ora

I am writing to submit on the ETS Industry Allocations Review 2021.

An immediate concern is in the front summary from the Minister, in which he says "The scheme has worked successfully for the past 10 years" -this is clearly not the case, the ETS has not worked, emissions have continued to rise, and Aotearoa has been called out internationally for inadequate climate action. It is not currently a functional scheme, and there should be honesty on that.

The amount of companies getting free credits is far too much. This creates economic incentives to pollute- the opposite of how incentives should be structured. Credits should be given to those who have a robust plan to decarbonisation, who can prove credits being used to assist (e.g. to help toward regenerative farming methods), or toward building renewable infrastructure (eg steel could receive credits for e.g. building wind turbines, but not for building materials that could use an alternative with less emobided carbon).

A further thought on the ETS which may not fit here but is nonetheless an important consideration is in terms of the process of registering an offsetting project. I was recently looking for offsetting opportunities on behalf of a large company who wished to offset in Aotearoa, and it was not possible- according to Toitū, 3/4 of offsetting funding has to go overseas because NZ doesn't have the supply. This is quite ludicrous considering the work that needs to be done, and needs funding to do so, here. There is a very confusing, narrow and long-winded process to register a forest regeneration project. This funding would be hugely beneficial in reforesting our country with native bush, if it was possible to do so. The registering process needs to be clearer, accelerated, and weighted toward native forest to avoid the strong economic incentive to plant exotic pine. Ekos will have great ideas on this.

This is a lengthy and complex consulation document, and most of us who are deeply concerned about climate change and our woeful action thus far will not have the time and resources available to comment thoroughly; whereas business interests may have dedicated time to do so. This should be considered when weighing up received submissions.

I also wish to voice support for the more lenghty submission of Parents for Climate Aotearoa.

The bottom line is that we must reduce emissions drastically and use all tools at our disposal to do so.

Ngā mihi nui,

Melanie Vautier

From:	Jeff Santa Barbara
Sent:	Friday, 17 September 2021 1:06 pm
To:	etsconsultations
Subject:	Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out emissions, and find ways to decarbonise all of our emitting industries. This process will yield the best results if we start with the highest emitters. Emitting is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels. Ie. it is in NZ's economic interest to rapidly decarbonise.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan must not exacerbate existing social inequalities.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Sincerely, Jeff Santa Barbara

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Sincerely, Jeff Santa Barbara

From:	Coal Action Network
Sent:	Friday, 17 September 2021 12:50 pm
To:	David Zwartz
Cc:	etsconsultations
Subject:	Re: Phasing out ETS industry allocations

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Thanks, David!

Tim

On Fri, Sep 17, 2021 at 4:31 AM David Zwartz <<u>zwartz@actrix.co.nz</u>> wrote:

Calling on the government to phase out all ETS industry allocations by 2030

Tēnā koutou katoa

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Ngā mihi

David Zwartz ONZM

Coal Action Network Aotearoa (CAN Aotearoa) is a group of climate justice campaigners committed to fighting the continuation of coal mining in Aotearoa New Zealand.

CAN Aotearoa's objectives are to:

- 1. Phase out coal mining and coal usage by 2027, initially by opposing new and expanded coal mines.
- 2. Promote a cultural change so that mining and using coal are unacceptable.
- 3. Work towards a society where people and the environment are not exploited for profit.
- 4. Work towards a socially just transition to a coal-free Aotearoa New Zealand.

Find out more at: http://coalactionnetworkaotearoa.wordpress.com/

Or join the CAN Aotearoa supporters list by emailing: coalactionnetwork@gmail.com

Winstone Pulp International Corporate Office Level 2 507 Lake Road, Takapuna Auckland 0622 PO Box 33-085, Takapuna Auckland 0740 Telephone +64 9 302 1187



17th September 2021

ETS Policy Team Ministry for the Environment To be emailed to: <u>etsconsultation@mfe.govt.nz</u>

REFORMING INDUSTRIAL ALLOCATIONS - CONSULTATION WINSTONE PULP INTERNATIONAL LIMITED'S SUBMISSION

This is Winstone Pulp International Limited's (WPI) submission on the Ministry for the Environment's consultation document: Reforming Industrial Allocations (IA) in the New Zealand Emissions Trading Scheme, published in July 2021.

We are very supportive of the Government's goal to put Aotearoa on a pathway towards net zero emissions, and the complementary policy mechanism that is in place to protect Emissions Intensive Trade Exposed (EITE) businesses, including WPI. However, a well-managed transition process and protections, including Industrial Allocations (IA) under the ETS will be essential to our business, for remaining internationally competitive and hence for continuing our wood processing operations in Aotearoa.

As a company, we are fully committed to achieving a net carbon zero operation, as demonstrated by our very significant progress to date in reducing our greenhouse gas emissions and our on-going efforts. However, even after we achieve a net carbon zero position, the cost impact of the ETS on us will remain large, due to the impact of the ETS on the cost of our electricity, biomass feedstock and other goods and service inputs.

In our assessment, we are not receiving an overallocation under the current IA scheme. In fact, as noted later in our submission, an increased allocation is warranted to account for the ETS cost impact on our raw wood supplies, that are currently out of scope.

It is clear to us that this is very complex policy area. Most of the proposed changes and options presented in your consultation document are interrelated and need to be considered as an integrated package. Considering them in isolation introduces a significant risk that the Governments' policy objectives may not be achieved, and of serious unintended consequences. We urge MfE to undertake further evaluation of the issues we have raised, and work closely with wood processors, including WPI, to understand the underlying impacts on our business and develop a balanced approach that will minimise these risks.

1. Nature of our business and programme to reduce emissions

We operate a pulpmill at Karioi, near Ohakune, that produces over 220,000 tonnes per annum (pa) high grade mechanical pulp for export, and an adjacent sawmill producing over 120,000 m³ pa sawn timber for export and the domestic market. We process and add value to over 660,000 tonnes of logs and fibre each year.

Our pulpmill is a highly intensive EITE activity, producing high freeness thermomechanical pulp (Product C, market pulp). Thermo-mechanical pulp (TMP), produced by WPI and Pan Pac, achieves a higher yield (tonnes of pulp per tonne of wood feedstock) than other pulping processes, but is more energy intensive because the pulping process relies on electrical driven machines to break down the fibre. TMP is used for manufacturing packaging products and international demand for this type of pulp is growing.

Our Pulpmill was established in 1978 to utilise the chip by-product from sawmilling and lower grade logs from local forest as the feed stock for a mechanical pulp export business. It was strategically located close to this source of fibre and low-cost hydropower supply, with direct rail connections to ports for export. The production capacity of the pulpmill has more than tripled since then, and this has enabled WPI to expand our markets to the Pacific and Asia including such countries as China, Vietnam, Korea, Taiwan, Indonesia, Japan and Australia.

Our business generates over NZD200million/year of revenue with export revenues of over US\$125million/year. Napier Port is used for exports and a dedicated train moves export product from the mills to the Port. This equates to approximately 20,000 TEU¹/year in export container volume. Excluding USD freight costs, WPI injects NZ\$12million - NZ\$14million a month into the NZ economy with a significant proportion in the provinces including 281 (all well paid and mostly highly skilled) direct employees, multiple contractors and associated services. A diverse range of local service providers support our site operation, which underpins their own businesses and strengthens their ability to maintain their skilled workforce. In particular, this helps to maintain local and national engineering and manufacturing capacity, which is of strategic importance for New Zealand's economic resilience and self-reliance.

We have a close relationship with local iwi, work with them on environmental and social issues, and local Māori make up a significant part of our long-term employees.

¹ Twenty-foot equivalent units

To stay internationally competitive, we must aggressively manage our operating costs. Energy is a major component of our input costs and we have focused on managing this cost through a long-term in-house efficiency programme.

Electricity is one of our largest input costs, and we currently use around 240,000 MWh/year², with an averaging demand of around 29MW. Over the last 10 years, our investment under this programme has achieved over a 30% reduction in electricity use per tonne of pulp, equal to an electricity efficiency saving of over 80,000MWh pa.

We have also invested to utilise the biomass residues from our sites as fuel, utilising 17MW of biomass boilers to generate process heat for our mills. This has allowed us to significantly reduce the use of fossil fuels, achieving further emission reductions of around 25,000 t CO_2e pa.

We transport our production to port by rail and, compared to road transport, this is estimated to reduce transport emissions by approximately 6,000 t CO₂e pa, avoid 16,000 truck movements and 2.2 million litres of fuel use pa.

We remain reliant on LPG fuel for our high temperature process heat and currently use approximately 4.8 million litres LPG/year, equivalent to 128,000 GJ/year. We have an on-going programme of incremental improvement and research and development to reduce and eventually eliminate this LPG usage. Over the last three years we have achieved a 20% reduction, achieving further emission reductions of around 2,000 t CO_2e pa. Further material savings will require a major investment.

Given our progress to date, the marginal abatement cost for further reductions in our process emissions will be much higher, and material gains will only be possible with significant and complex process plant upgrades.

These are long term investments requiring payback periods of around 20 years, and our investments to date were only possible with the stable policy environment that provided us with the certainty we needed to invest and stay competitive in our export market. The combined effects of the Emissions Trading Scheme (ETS) and the Energy Intensive Trade Exposed (EITE) regime have helped to make our investments to date commercially feasible while at the same time protecting us from unfair competition based in jurisdictions where there is little or no emission costs. They recognise the fact that we are a price taker in the international pulp market and we cannot pass on ETS costs.

2. Proposed Industrial Allocation reforms.

It is essential for the viability of our business that the Government's zero carbon policy regime coordinates regulatory measures with tangible action to appropriately protect EITE businesses through the economic transition period, and that these measures are very carefully considered to avoid unintended consequences.

² Equivalent to the demand from around 30,000 households

The current policy settings to phase out EITE support will gradually erode our competitive situation internationally. Additional potential reductions in IA through these current proposals, may further weaken our situation at a time when we most need this protection, and result in our processing capacity being transferred offshore. Waiting to see if our concerns play out will be extremely damaging to the primary processing sector.

Our internal analysis indicates that if the baselines years (only) are updated as proposed in the consultation document, we should remain eligible for IA as a highly intensive EITE activity (as a standalone producer or when aggregated with other market pulp producers). However, we would be closer to the threshold largely because of our own energy efficiency investments made over recent years.

If the EAF factor were to be reset as proposed, without a commensurate change in the eligibility thresholds (which we discuss below) our eligibility would drop to a lower threshold or we may no longer be classified as EITE.

When considering what constitutes an appropriate level of protection for EITE activities we recommend that you carefully consider the following:

3. Revising the allocative baseline years

We accept the need to update the baseline years provided that there is a mechanism to protect our past investments in abatements and our future investments are similarly incentivised and can be made in a stable regulatory environment.

Our investments in abatement projects have a long-term payback, and we need the savings to get a return on our investment. This does not indicate "overallocation": it indicates a successful policy mix that has provided the right mix of incentives. To reset allocations without regard to this fact would be to negate the basis for our previous investment and lower our confidence that any further effort to decarbonise would be commercially worthwhile. In-fact perversely we could be incentivised to increase emissions to retain our IA eligibility, or delay investments until after the allocative baseline is reset.

4. Revising the eligibility thresholds

The consultation proposal appears to assume that the EAF could be reset without resetting the eligibility threshold values or alternatively by moving to a different threshold metric. In fact, these two settings are directly inter-related, and must be considered together to avoid a fundamental logic failure.

The current threshold for assessing eligibility (emissions per \$million revenue, based on an EAF = 1.0) is a rough proxy. It does not proportionately reflect the underlying costs faced by an EITE company due to the current ETS settings.

We understand that original assessment criteria of emissions per million \$ revenue was adapted from the Australian Carbon Pollution Reduction Scheme and based on a one-off assessment of cost impacts at A\$20. The 2009/10 eligibility assessment was

then "fit for purpose" as a one-off screening exercise driven by the then need for trans-Tasman alignment. However, embedded in this criterion are a number of interrelated assumptions, not least the assumed threshold for avoiding leakage, the EAF of 1.0 and the A\$20 per unit cost of emissions.

The consultation document does not evaluate the underlying principles as to what ETS cost impacts on EITE businesses can be reasonably accommodated while staying internationally competitive, and how these principles can be translated into the policy settings covering the eligibility metric to be adopted, and the process scope envelope. If significant changes to the settings that move away from the original Australian scheme principles are to be considered, MfE will need to fully evaluate the interrelated issues. To assist with this, we recommend that MfE re-establish a Technical Advisory Committee of independent experts, and engage with EITE companies to understand the likely outcomes.

5. Need to account for the ETS costs associated with biomass input costs

The wood processing sector is facing an additional and serious impact of the ETS, which is outside the current IA impact assessment and has the potential to put all of New Zealand's pulp (and paper) producers out of business. This is the impact of the ETS on the cost of our raw wood feedstock.

Therefore, the assessment of emissions intensity for an EITE wood processing activity needs to include the ETS impacts on biomass costs: both for the raw wood chips that are the feedstock for making pulp (approximately 30% of WPI's pulp making input costs) and for the biomass fuel used to generate process heat.

The use of fossil fuels for generating process heat is now being actively discouraged by Government policy and the associated rising ETS charges. This has already increased the cost of wood chip and forest residue and we expect this to reach parity with the equivalent ETS inclusive fossil fuel cost. Fonterra have started to convert dairy factory coal boilers to biomass fuels and have stated that it is now economic to used whole logs as biomass fuel. We anticipate that this developing problem will accelerate after the recent rise in NZU prices.

As this problem is a direct result of the ETS policy settings, it needs to be addressed through the IA regime. This problem needs urgent Government attention to avoid the risk that it could precipitate the commercial collapse of New Zealand's pulp and paper sector, and the associated value add that domestic wood processing provides to the New Zealand economy.

6. Wider impacts of ETS on EITE businesses needed to be accounted for

In considering the settings for Industrial Allocations and the wider impacts of the ETS on EITE activities, Government should also take account of the following:

 Not all of our emissions are within the baseline scope. We note that the activity scope for IA only includes our core pulp making activity and it excludes other so called "competitive" parts of our supply chain such as logging, transport,
chipping, produce delivery, bio-fuel production and other support services which are now all seeing significantly increased embedded ETS costs;

- (ii) The embedded ETS costs in our secondary inputs such as non-energy consumables and services are now more material because NZU costs have risen significantly since the original scheme design; and
- (iii) Currently policy settings are in place to phase out IA by 1% per annum, along with the regulatory power to increase this phase out rate based on Climate Change Commission recommendations. Reform of the IA scheme should consider this existing setting.

7. A broader economic and social impact lens is needed.

We recommend Government broaden its considerations beyond solely emissions leakage to also consider the wider economic impacts on the productive sectors of the economy: i.e., measures that are consistent with the Government's climate change objectives, while also protecting strategic domestic manufacturing capability, regional economies and value add exports.

We also note the Government's aspiration to increase local wood processing, because this will add value to our domestic economy, provide sustainable packaging products to replace petroleum-based alternatives, and provide feedstocks to satisfy increasing demand for affordable biomass fuels. We hope to see this aspiration translated into constructive measures to enable this growth.

8. Responses to MfE questions

Appendix A provides our responses to specific questions raised in the consultation document

9. WPI summary recommendation

Based on the above, we recommend that Government:

- update the base line years used for the allocative base lines, where there is evidence of material over allocation.
- For the eligibility assessment, do not change the EAF or the thresholds. We do not support eligibility reassessment, but should the Government decides to change the EAF (for the threshold assessment), it must also reduce the eligibility thresholds by the same ratio to maintain relativity. The only benefit of doing this is the optics of using a NZ based EAF.
- introduce an additional Biomass Allocation Factor (BAF) for biomass that reflects the price impact of the ETS on fibre used as a pulpmill feedstock and bio-fuel. This should be incorporated into the eligibility calculation and allocative baseline assessment. Rising ETS costs are having a direct and significant impact on the cost of our pulp mill chip and on our biomass fuelled heating. This needs to be accounted for in the emissions intensity assessment calculation.

• Introduce a sliding scale threshold system between the existing 90% and 60% thresholds to avoid boundary inequities and to maintain the incentive for EITE near the boundary to invest in abatements.

If the Government wants to make more fundamental changes to the eligibility assessment methodology and/or change the eligibility metric, it must account for all of the ETS related input costs (based on the CCC's NZU forecast price path) and should draw on relevant international precedents³. To do otherwise would not be robust. An expedient half-way house approach to this reform process is likely to result in a flawed outcome and lead to serious economic harm to New Zealand pulp manufacturers.

Thank you for the opportunity to make this submission.

Yours sincerely

David Anderson Managing Director

³ Pre m nary research on nternat ona precedents s prov ded n Append x B.

Appendix A: Response to MfE Consultation Questions

MfE consultation questions	WPI response
Criteria	
1) Do you agree with the five criteria to	Subject to the following caveat, yes.
assess the proposals in this consultation document?	We are concerned that the definition of what constitutes an "unacceptable levels of overallocation" is circular because it refers to the intention of the Act, which is itself intended to be changed based on the outcome of this consultation process.
	Overallocation should be more clearly defined, and we suggest it should be where "the IA is greater than the direct and indirect emissions from the activity". Even then, emissions from other non- energy inputs and out of scope supply chain inputs will not be accounted for, so the cost impact on businesses will be underweighted compared to the true situation. As a minimum, the assessment of ETS impacts on our business should include consideration of the ETS impacts on our wood chip feedstock and biomass boiler fuel costs.
	Regulatory certainty and predictability are very important for our business planning and investment approvals. Pay back periods may be up to 15 years so regulatory certainty for +10 years is needed when considering abatement investments.
	Policy development also needs to consider how changes to the automatic phase out of IA, as may be recommended by the Climate Change Commission, could interfere with the balance achieved through this reform.
Allocation calculations	
2) Should allocative baselines be updated using new base years?	Any baseline updates should include a phased transition so that our existing abatement investments made under the current regulatory settings are not adversely affected.
3) Should the reassessment be	
a. a one-off update, or a	Provided that the frequency of updating is +10 years and is a legislated requirement, we accept the need for periodic updating.
b. a periodic update?	We do not support a one-off update, because it would create ongoing uncertainty due to the risk of future ad-hoc intervention.
 4) If periodic reassessment is legislated, what would be an appropriate period – a. every year 	
b. 5 years	5 years is too short a period because it would result in regulatory uncertainty and would be a barrier to future investment in emissions abatements.
c. 10 years	A periodic update not more frequently than every 10 years would provide a reasonable level of financial incentive for investment.
	Policy development also needs to consider how to avoid perverse incentives for EITE companies to defer investments until after a baseline update.
d. Something else?	-

MfE consultation questions	WPI response
5) Do you agree the financial years 201 2017/18 and 2018/19 should be use new base years to update alloc baselines?	5/17, If allocative base lines are to be updated, we support using the most recent years from 2016/17 to 2020/2021. This should increase the credibility of the updated baselines.
 Should the financial years 2019/20 2020/21 be included but with a weig provision? 	and hting
Eligibility	
7) Should eligibility be reassessed using base years?	new The current eligibility thresholds (emissions per \$million revenue) were a proxy for what was deemed needed to protect EITE and prevent carbon leakage.
	Any change in thresholds, the EAF used for eligibility and/or the cost of emissions needs to be considered together. It is not rationale to consider changes to any one of these factors in isolation and it is no simple matter to establish new eligibility criteria from first principle.
	We understand that original assessment criteria of emissions per million \$ revenue was adapted from the Australian Carbon Pollution Reduction Scheme and based on a one-off assessment of cost impacts at A\$20. The 2009/10 eligibility assessment was then "fit for purpose" as a one-off screening exercise driven by the then need for trans-Tasman alignment.
	Market Pulp eligibility was assessed collectively across three product classes, with each class of pulp having an assigned allocative baseline. At the time, this approach was supported by all market pulp manufacturers.
	Initial assessment of emissions and revenue data for recent years on an aggregated basis across all pulp manufacturers indicates that the current threshold for being highly emissions intensive would still be met.
	We note that on an individual basis as a thermo-mechanical pulp producer, we would be well above the threshold but support common treatment of market pulp producers if this is not detrimental to our own eligibility.
	However, reliance on this test with existing thresholds in isolation would not be appropriate, should a New Zealand EAF be used instead of the existing value (as per Q#11.)
	For WPI, despite an apparent reduced tCO ₂ /\$million revenue intensity, due to emissions reduction efforts under our control, trade exposure has increased markedly because:
	 The true driver of leakage risk over time are the emission costs that need to be absorbed, not emissions per \$ revenue.
	 The current test does not recognise the increased leakage exposure due to the rise in carbon price and the move to a full surrender obligation.
	 Since 2010, the carbon price has risen from the maximum of \$25 under the Fixed Price Option to the current price of over \$60, more than doubling the cost exposure based on carbon price alone.
	 An eligibility assessment made now must take account of the expected carbon price range for the future eligibility assessment period in question. With increased auction price controls recently announced following the

MfE	consultation questions	WPI response
		 recommendations of the Climate Change Commission (CCC), further significant price rises are expected and required to transition the economy). The doubling in price by 2030 is signaled in CCC advice to Government Should the Government wish to proceed with retesting eligibility, we strongly recommend alternative approaches should also be considered. Options to be considered may include: International Precedents. A preliminary summary of comparable schemes is provided as Appendix B to this submission. This shows that international schemes are well documented, industry eligibility details are available, and that pulp and paper is included in the industry sectors that are deemed eligible for allocation at the highest level in the respective trading schemes. Alternative Financial Ratios e.g. carbon cost impacts on profitability assessments or Energy costs (with Carbon cost) as a proportion of operating costs.⁴ The international precedents would be the most straightforward approach from an administrative burden and international equity perspective. They will also give the Government assurance that eligibility is warranted as substantive analysis on leakage risk has been carried out in these larger jurisdictions. In WPI's situation, market pulp manufacture would we believe be classified as eligible for the highest level of industrial allocation support in the EU ETS and the South Korean ETS (KETS).
8)	Should new emissions intensity thresholds for New Zealand industry be developed?	
	 a. With no change in EAF for eligibility (retain Australian EAF) b. With change to NZ based EAF (refer Q10) 	If a New Zealand EAF is adopted (as per Q#11) the thresholds must also be adjusted to maintain the same as the baseline before any other changes in relativity are considered. Other changes in relativity that should be accounted for include relative changes in NZU costs and the need to account for the ETS cost adder for biomass Any new emissions intensity thresholds must consider the change in cost exposure from the rise in carbon price (current and across the future eligible assessment range). For firms/activities which do not meet the existing criteria when reassessed, more detailed assessments such as those as suggested in response to Question # 7 should be applied.
9)	Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate?	Under the current or revised eligibility tests, any activity assessed to drop below an intensity threshold should have the step change impact moderated through the introduction of more threshold levels and / or a sliding scale.
10)	Would a sliding scale threshold system better target eligibility and assistance?	Yes, a sliding scale or 10% step increments between the 90% and 60% thresholds is highly desirable to avoid boundary inequities and to maintain the incentives for EITE to continue to invest in abatements.

 $^{^{4}}$ Variations of these were applied under New Zealand Negotiated Greenhouse Agreement (NGA) Policy.

MfE	consultation questions	WPI response
11)	Should the New Zealand EAF be used when determining eligibility? Why, or why not?	
	a. With no change in eligibility thresholds	No – as previously noted this would be a fundamentally flawed approach
	 With changes to eligibility thresholds (refer Q7) 	The current eligibility criteria were set based on an EAF of 1.0. If a New Zealand EAF is to be used, the eligibility criteria must be updated as well, considering the true cost exposure.
12)	Should periodic updates of the EAF trigger a recalculation of eligibility?	
	a, If aligned with allocative baseline assessment (refer Q4)	 The question of what value of New Zealand EAF is appropriate is a further complication: The EAF methodology is currently under review If an ex-post approach to determining the EAF is adopted (as proposed by the Government) there will be variance from year to year (potentially dampened through a rolling average). Recalculation of eligibility based on annual updates to the EAF could introduce substantive uncertainty for activities close to eligibility thresholds.
	b. If more frequent than allocative baseline assessment	This would increase regulatory uncertainty
13)	Should the trade exposure test be changed?	WPI does not support changing the trade exposure test under the EITE regime.If there are no international eligibility precedents for activities, more detailed assessment could be considered.
14)	What would be a more appropriate method to determine trade exposure?	-
Oth	er reforms to industrial allocation	
15)	Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology?	WPI accept this approach, if it is clearly restricted to changes to emission factors, EAF or other listed technical parameters, and that it does not introduce uncertainty through unconstrained changes. Wider changes to allocative baselines should go through a full review process.
16)	Are there other changes to sections 161A- E of the Act that could better streamline IA processes?	WPI suggests that a full review of the sections 161A-E of the Act should be made once high-level decisions on the review have been reached. Increased demand for woodchip for biofuel replacing coal or gas in stationary combustion is driving log/woodchip prices up to the competing fossil fuel price including emissions costs. This trend will increase with ongoing decarbonisation of process heat. We therefore recommend that biofuels are included as eligible emissions source in any future assessments of eligibility and

MfE	consultation questions	WPI response	
17)	Do you agree with the Government's proposal to clarify the process for new activities to seek eligibility?	Yes	
18)	Should new activities be able to seek eligibility?	Yes	
19)	Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?	No, except that an assessment of global greenhouse gas emission benefit may be appropriate.	
20)	Should firms that receive IA be required to report their emissions, revenue and production data annually?	 We do not support this option because: Our production data is already submitted to the EPA in allocation returns and the resulting allocation is published by applicant name; For some activities, revenue is already reported, or generic pricing is indicated by published indices. Our revenue data is commercially sensitive, and would infer specific pricing information when matched against production/allocation data; and Emissions data is reported at the upstream point of obligation, and we are not the reporting party under the ETS. 	
21)	Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk?	 For the reasons above, we do not think this is necessary either, as the information that we would be prepared to voluntarily disclose is already in the public domain, and this would place an unnecessary additional administrative burden on our management. If this option is adopted there must be clear guidelines that acknowledge companies may: withhold information that they consider is commercially sensitive; and provide commentary to explain changes in emissions and/or allocation and highlight variance from other public reporting which may use different inventory boundaries and emission factors. 	
22)	Should the five-year transition period for changes in eligibility status remain, or be changed?	Yes, if the Government proceeds with an eligibility reassessment, the five-year transition period for changes in eligibility status should remain. If an eligibility status change can be attributed to an EITE company's investment in emission abatement, an extension until 15 years after the abatement project is commissioned should be allowed to ensure the payback time for the investment is not undermined.	
Futu	re of industrial allocation		
23)	Should we look at an alternative mechanism to address emissions leakage?	The primary focus of <u>this</u> industrial allocation review should be on providing protection, regulatory certainty, and predictability for EITE firms on a medium to long-term basis (10-15 years) by adjustments to the existing regime.	
		As a long-term option, we agree that the Government could consider alternative mechanisms that draw on the approaches being developed and tested in other comparable jurisdictions. A	

MfE	consultation questions	WPI response
		compatible jurisdiction would be one where the primary purpose is to protect export activities.
24)	What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?	Most other countries are protecting their EITE activities, and adopting a similar approach to a tested international regime is preferred.
25)	Should IA policy or any alternative explicitly encourage firms to emissions reductions?	
26)	What method could be used to encourage emissions reductions?	For EITE activities, we consider the existing combination of the ETS and EITE regimes has proven to effective in preventing emissions leakage and protecting New Zealand ETIE activities from unfair competition, while also proving investment incentives for abatement projects.
		The current output-based allocation methodology provides a clear incentive to reduce emissions intensity. This would be undermined through frequent allocative baseline updates and eligibility reassessment using emissions-based criteria.
27)	Should IA policy or any alternative include wider considerations – such as economic, social, cultural, and environmental factors – when determining support for industry?	 The IA policy should consider and give weight to the broader national interests including: Achieving least economic cost of climate change policies Protecting New Zealand's regional economies and employment Protecting New Zealand's technical service and manufacturing sector, which are strategically important for maintaining local New Zealand capacity and resilience
28)	How would these new considerations interact with the goal of reducing emissions leakage?	Through normal economic and social least cost benefit assessment.

Appendix B: International Eligibility Precedents

The assessment below provided by Frazer Lindstrom Limited⁵ is preliminary in nature and was targeted at identifying how pulp and paper manufacture is or would be treated in other jurisdictions.

From the analysis below it can be seen that international schemes are well documented, industry eligibility details are available, and that pulp and paper is included in the industry sectors that are deemed eligible for allocation at the highest level in the respective trading schemes.

EU ETS

The EU ETS is the longest operating and largest emissions trading scheme for greenhouse gases. For Phase IV of the EU ETS for the years 2021-2030, industry eligibility is published. This is commonly referred to as the Carbon Leakage List.⁶ An extract of the list is shown below:



⁵ Climate change and emissions trading advisors

⁶ <u>https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/1146-Carbon-Leakage-List-2021-2030 en</u> Annex C(2019)930

NACE Code 1711 Manufacturer of market pulp and paper and paperboard is on the list and with details on NACE Code 1711 and 1712 as shown below⁷:

		TNV Cet (NACE C	rtification Pvt. Ltd. ode Revision 02.xls)
C	C1711	Manufacture of pulp	Bleached paper pulp made by chemical dissolving mfr, Bleached paper pulp made by mechanical processes mfr, Bleached paper pulp made by non-dissolving processes mfr, Bleached paper pulp made by semi-chemical processes mfr, Chemical wood pulp mfr, Cotton-linter pulp mfr, Dissolving chemical wood pulp mfr, Mechanical wood pulp mfr, Pulping recycled paper mfr, Recycled fibre pulp mfr, Removal of ink and manufacture of pulp from waste paper , Semi-bleached paper pulp made by chemical dissolving mfr , Semi- bleached paper pulp made by mechanical processes mfr, Semi-bleached paper pulp made by non-dissolving processes mfr, Semi-bleached paper pulp made by semi-chemical wood pulp mfr, Sulphite wood pulp mfr , Synthetic fibre wood pulp mfr , Unbleached paper pulp made by chemical dissolving mfr , Unbleached paper pulp made by mechanical processes mfr , Chemical dissolving processes mfr , Sunbleached paper pulp made by semi-chemical processes mfr , Vegetable fibre pulp mfr , Wood pulp mfr , Sulphite and soda wood pulp mfr , Unbleached paper pulp made by non-dissolving pulp mfr , Pulp for paper mfr , Sulphate and soda wood pulp mfr ,
С	C1712	Manufacture of paper and paperboard	Abrasive base paper mfr , Bank note paper mfr , Base paper (for printing and writing) mfr , Bible paper mfr , Binuminised building board mfr , Blotting paper mfr , Boot and shoe board mfr , Building boards made of paper mfr , Carbon paper in large sheets mfr , Carbon paper in rolls mfr , Carbonising base paper mfr , Caribonard mfr , Case making materials mfr , Cellulose fire weebs mfr , Cellulose walding mfr , Creped paper mfr , Crinkled paper mfr , Flong paper for a first weebs mfr , Cellulose walding mfr , Creped paper mfr , Crinkled paper mfr , Flong paperboard mfr , Fluting paper mfr , Felt board (including felt paper) mfr , Filter paper stock mfr , Flong paperboard mfr , Fluting paper mfr , Glassine paper mfr , Greaseproof paper mfr , Grev board mfr , Industrial paper mfr , Kraft wrapping and packaging paper mfr , Multilayer paper obtained by compression mfr , Newsprint mfr , Packing cardboard mfr , Paper (not sensitised) mfr , Paper hoardparebroard coating covering and impregnation mfr , Paper and paperboard intended for further industrial processing mfr , Paper building board mfr , Parchment and imitation parchment paper mf r , Snetk raft paper mfr , Pressboard mfr , Presspahn mfr , Pauched card and punched paper tape stock mfr , Sack kraft paper mfr ,

This confirms that the manufacture of pulp [and paper] would have full industrial allocation eligibility in the EU ETS.

Republic of Korea ETS (K-ETS)

The Korea ETS (K-ETS) was launched on 1 January 2015, becoming East Asia's first nationwide mandatory ETS and, at the time, the second-largest carbon market after the EU ETS.

28 subsectors receive 100% free allocation as determined by a carbon leakage index.8

A Google translation of the Korean language Greenhouse gas emission trading system 3rd planning period (2021-2025) National Emission Permit Allocation Plan⁹ shows that KSIC Code 201 Basic Chemicals is included in the Classification of industries that are allotted free of charge during the 3rd plan period (refer extract below).

♦ C	lassification of industries that are allotted free of charge	ge during the 3rd plan period
۲		

Sector		KSIC	Trade Intensity (A, %)	Expense incidence B,%	АхВ	Whether all free
Industry	Pulp, Paper and	171	48.15	4.65	2.237	•

⁷ https://tnvgroup.org/admin/download_files/NACE-CODE%20REV%202.pdf

8

https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&sy stems%5B%5D=47

https://www.law.go.kr/%EB%B2%95%EB%A0%B9/%EC%98%A8%EC%8B%A4%EA%B0%80 %EC%8A%A4%EB%B0%B0%EC%B6%9C%EA%B6%8C%EC%9D%98%ED%95%A0%EB%8 B%B9%EB%B0%8F%EA%B1%B0%EB%9E%98%EC%97%90%EA%B4%80%ED%95%9C% EB%B2%95%EB%A5%A0%EC%8B%9C%ED%96%89%EB%A0%B9

Paperboard Manufacturing			

Where KSIC code 171 covers manufacture of pulp and manufacture of paper and paper board. $^{10}\,$

Korean Standard Statistical CI	assification		HOME SITEMAP KOREAN
Industrial Classifica	ion Classification of Occupations	Classificat	tion of Diseases
Industrial Classification	Search "Show the tree structure of Korean Standard Industrial Clas	sification."	dard Industrial Classification) Search
 Introduction 			
•Search >	Korean Standard Industrial Classification		·
	A. Agriculture, forestry and fishing		
	B. Mining and quarrying		
	C. Manufacturing		
	10. Manufacture of food products		
	■ 11. Manufacture of beverages		
	12. Manufacture of tobacco products		
	13. Manufacture of textiles, except apparel		
	14. Manufacture of wearing apparel, dothing accessories and fur articles		
	15. Manufacture of leather, luggage and footwear		
	16. Manufacture of wood and of products of wood and cork; except furn	iture	
	-17. Manufacture of pulp, paper and paper products		
	171. Manufacture of pulp, paper and paperboard		
	1711. Manufacture of pulp		
	1712. Manufacture of paper and paperboard		
	172. Manufacture of corrugated paper, paper boxes and paper contain	iers	
	179. Manufacture of other paper and paperboard products		

¹⁰ <u>http://kssc.kostat.go.kr/ksscNew_web/ekssc/main/main.do#</u>

California Cap-and-Trade Program

The California Cap-and-Trade Program (CA CAT) introduced compliance obligations from 2013. Pulp and paper manufacturers are covered (compliance) entities: ¹¹

§ 95811.	Covered Entities.			
This artic	e applies to all of the following entities with associated GHG emissions			
pursuant	to section 95812:			
(a) O	perators of Facilities. The operator of a facility within California that has			
or	ne or more of the following processes or operations:			
(1)	Cement production;			
(2)	Cogeneration;			
(3)	Glass production;			
(4)	Hydrogen production;			
(5)	Iron and steel production;			
(6)	Lime manufacturing;			
(7)	Nitric acid production;			
	A-47			
	October 2011			
(8)	Petroleum and natural gas systems, as specified in section 95852(h);			
(9)	Petroleum refining;			
(10)	Pulp and paper manufacturing;			
(11)	(11) Self-generation of electricity; or			
(12)	(12) Stationary combustion.			

[note list continues]

Allocation to industrial covered entities is provided at a uniform level for the purposes of industry assistance for industrial sectors listed in Table 8-1 of the legislation (see extract below).

¹¹ <u>https://ww2.arb.ca.gov/sites/default/files/classic/cc/capandtrade/finalregorder.pdf</u>

Leakage Risk	NAICS Sector Definition	NAICS	Activity(a)	Industry by	v Assistand (AF₅) v Budget Ye	e Factor
classification		Code		2013- 2014	2015- 2017	2018- 2020
	Crude Petroleum and Natural Gas Extraction	211111	Thermal EOR Crude Oil Extraction Non-Thermal Crude Oil	100%	100%	100%
	Natural Gas Liquid Extraction	211112	Extraction Natural Gas Liquid Processing	100% 100%	100% 100%	100%
	Potash, Soda, and Borate Mineral Mining	212391	Mining and Manufacturing of Soda Ash and Related Products	100%	100%	100%
	All Other Nonmetallic Mineral Mining	212399	Diatomaceous Earth Mining	100%	100%	100%
	Paper (except Newsprint) Mills	322121	Tissue Manufacturing	100%	100%	100%
High	Paperboard Mills	322130	Recycled Boxboard Manufacturing Recycled Linerboard	100%	100%	100%
			(Testliner) Manufacturing Recycled Medium (Fluting) Manufacturing	100%	100% 100%	100%
	All Other Petroleum and Coal Products Manufacturing	324199	Coke Calcining	100%	100%	100%
	Chemical Manufacturing	325188	Chemical Manufacturing	100%	100%	100%
	All Other Basic Organic Chemical Manufacturing	325199	All Other Basic Organic Chemical Manufacturing	100%	100%	100%
	Nitrogenous Fertilizer Manufacturing	325311	Nitric Acid Production Calcium Ammonium Nitrate	100% 100%	100% 100%	100% 100%

[it may be that all Californian pulp production is integrated with paper & paperboard. NAICS codes have a cross over with older standard industry codes which include pulp]

NAICS/SIC SEARCH RESULTS

322121				NAICS Search Q
Enter Keyv	vord(s)			SIC Search Q
NAICS	NAICS T	itle	SIC Cro	sswalk
322121	Paper (exc	ept Newsprint) Mills		Back
<u>sic</u>		SIC Description		
2611		Pulp Mills		
2621		Paper Mills		



Methanex New Zealand Ltd 409 Main North Road, SH3, Motunui Private Bag 2011, New Plymouth 4342 New Zealand

17 September 2021

Ministry for the Environment Manatu Mo Te Taiao New Zealand Government

Submitted via email to etsconsultation@mfe.govt.nz

Dear ETS Team

This submission covers both Consultation Documents: Section 1 – Designing a Governance Framework for the New Zealand Emissions Trading Scheme and Section 2 – Reforming Industrial Allocation in the New Zealand Emissions Trading Scheme.

Please accept this as the submission of Methanex New Zealand Ltd ("Methanex" or "we"), a business based in Taranaki. The representative contact is Ngaio Mārama, Manager, Stakeholder Relations and Procurement at the We thank the Ministry for the opportunity to comment.

Methanex Corporation is the world's largest producer and supplier of methanol. Methanex currently operates production sites in Canada, Chile, Egypt, New Zealand, Trinidad and Tobago and the United States. Our operations are supported by an extensive global supply chain of terminals, storage facilities and the world's largest dedicated fleet of methanol ocean going vessels, powered by low emissions methanol. New Zealand methanol production is sold to local businesses in New Zealand, as well as the Asia Pacific region where we have five office locations to respond to customer needs.

Section 1 - Designing a Governance Framework for the NZ ETS

Methanex supports the New Zealand Emissions Trading Scheme (NZ ETS) as a key tool for New Zealand to lower emissions in line with a global drive to a net zero carbon world. We believe in this tool to give market-based signals for allocating capital appropriately. We believe it is important that the ETS remains consistent, transparent, and integrated with global carbon markets, as constant change will provide disincentive to invest. The foundation of the ETS is solid and our comments herein relate to those areas where we believe it could be improved.

A. Governance of Advice

Given the material business impact of the NZ ETS on Methanex, we seek to fully understand all aspects of the scheme, from purpose of design through impact on Methanex. We have and will continue to seek specialist advice from outside parties, including "advisors", from time to time as needed. However, we take full responsibility for understanding the impact on Methanex and therefore do not have any specific responses to questions 1-10.

- B. Governance of Trading
 - 11. Given the significant financial and business implications of the NZ ETS, we support exchangebased trading to give transparency to all NZU trades. The information that should be transparent is NZU price and volume as well as the number of outstanding units. We believe this trading information can be supplied on an anonymous basis as disclosing the participant details could compromise competitive information. To be specific, we do not support participant-specific position reporting for this reason.

Each trade would occur at the prevailing market price on the exchange, therefore eliminating the issues identified in option C3 of Section 5. If transaction bundling occurs the various elements of the transaction would be separated based on the market price of NZUs. This unbundling is common practice in other areas, such as stock markets.

- 12. No comment.
- 13. We have not been impacted by credit and counter-party risk.
- 14 16. We do not support voluntary (as opposed to required) transaction reporting as the information reported will be incomplete. The incomplete information could cause users to make incorrect decisions based on partial information, which in our view is worse than having no information at all.

As noted earlier, we support full transparency (anonymous to participant name) of all NZU trades, including price, volume as well as the number of units outstanding. We believe this information is required to ensure a market where market-based price discovery can occur. Methanex takes a multi-year view of our exposure to emissions costs in line with the long-term nature of our capital commitments and believes transparent information is required.

- 17. Transparency of exchange-based trades and the outstanding position would create a level playing field for all and reduce the risks associated with trading NZUs, other than market-based commercial risks which should remain with participants, in our view.
- C. Governance of Market Conduct
 - 18. There are a wide range of participants in the NZ ETS with varying business requirements, strategic drivers, risk appetites and sizes, among other differences. We therefore do not support position or purchase limits as these cannot be predicted at the outset. As noted above, many users, including Methanex, take a multi-year view given the long-term nature of our business and therefore limits could impact business strategy and capital decisions. As answered in question 11, we support transparency of exchange-based trading which reduces the risks identified with market manipulation and money laundering. We would note that similar issues exist with stock exchanges and adopting similar principles could mitigate some of the perceived issues.
- 19-21 Our position on these matters is as discussed earlier.
- D. Appointing a Regulator
 - 22. As noted in our response to question 11, given the significant financial and business implications of the NZ ETS, which the Government is intending to grow over the coming years,

we believe the NZ ETS needs a market regulator. We note the various regulatory options described within the consultation document but do not have a specific view. We support a regulatory body that provides structure and oversight, while balancing the cost and regulatory burden on stakeholders. We consider that it may be possible to integrate this regulatory mechanism with an existing regulator.

- 23. No further comment from question 22.
- 24. We support the provided definition of material information as it relates to NZUs.
- 25. See response to question 11.
- 26. See response to question 22.
- E. Analysis of Options

27 – 30. We support the Government's approach to assessing risk coverage analysis.

F. Scenarios for ETS Market Governance

33 – 37. No further comment beyond answer to question 22.

Section 2 – Reforming Industrial Allocation in the NZ ETS

Introductory comments:

- We are a participant in the NZ ETS and currently our business is classified as a highly intensive activity.
- We export substantially all methanol produced at our New Zealand facilities to international markets, primarily China, Japan, and Korea.
- Methanol is a commodity product, and we have little control over the prevailing market price. As the global methanol leader as measured by the highest market share by a wide margin, our competitive strengths are a strong adherence to a safe operation, efficient operations and maintaining a low-cost structure.
- Our competition is global, with major methanol production occurring in China, Saudi Arabia, Iran, Trinidad and Tobago, the United States, and Qatar, among other locations. None of these countries listed applies a carbon cost to methanol production today; in fact, over 90% of methanol production globally does not attract an emissions cost and therefore the Industrial Allocation is essential for Methanex to continue operating in New Zealand.
- Over half of methanol production globally is produced from coal, which has an emissions profile of 5x that of natural gas-based methanol. Methanex New Zealand production, and in fact all Methanex's global production, is natural gas based. Due to the lack of New Zealand supply and the outlook because of the ban on new offshore permits, Methanex was forced to make a decision to shut down the Waitara Valley facility. This has increased global emissions as the

marginal industry supply is coal-based methanol production from China. This shutdown therefore runs directly counter to New Zealand's stated policy of reducing global emissions.

- The industrial allocation baseline is a function of Methanex plant efficiency and CO2 content of the New Zealand gas fields. Methanex invests in our plants to maintain and improve efficiency, although the efficiency is relatively fixed based on the installed equipment. However, since the baseline was set over 10 years ago, the CO2 content of the gas delivered has increased, and as a result our actual emissions are higher than the baseline. To be clear, Methanex New Zealand is not over-allocated NZUs and therefore is not receiving allocations greater than needed to protect actual emissions.
- 1. We do not agree that the primary purpose of the Industrial Allocation mechanism of the NZ ETS is to drive mitigation in line with emissions budgets. Rather, we believe the primary driver of the industrial allocation should be to lower global emissions. Striving to meet New Zealand emissions budgets could reduce New Zealand emissions while increasing global emissions if carbon leakage occurs as has been the case with the shutdown of the Waitara Valley plant in exchange for coal-based methanol production.

We support the use of the NZ ETS to provide an appropriate incentive for EITE firms to reduce emissions; however, New Zealand should be careful to understand the global landscape with regards to emissions technologies and ensure low emissions best-in-class New Zealand businesses do not become uncompetitive. If the NZ ETS, including the industrial allocation mechanism, increases costs for EITE firms beyond global competitors, business will close in New Zealand before technology is available to reduce emissions. We would like to point out the Methanex Corporation has made numerous investments in low and zero carbon technologies at various stages of development, and we believe New Zealand should look to leverage this global business to the most benefit.

2, 3 and 4 The purpose of the Industrial Allocation mechanism is to protect businesses from incurring costs on actual emissions that global competitors do not bear. We support mechanisms that seek to match as closely as possible the baseline to actual emissions, thereby ensuring no business is "winning" or "losing". As previously stated, due to a higher CO2 content in the gas delivered from our suppliers, Methanex has paid more for emissions than protected by the baseline set some 10+ years ago. Said clearly, Methanex is not being overallocated NZUs.

We therefore do support a periodic reassessment of allocative baselines to ensure they remain relevant and accurate. We support a frequent reassessment of every 5 years to balance the effort and investment timeline. Periods longer than this could result in over or underallocation, and as noted the intention of the Industrial Allocation is to protect against actual emissions that other countries do not impose.

5 and 6 Our industry, methanol, is volatile and revenue can fluctuate significantly from yearto-year. We would support the use of an average over multiple years to avoid the variability that can occur by using a specific year. We support using the 2016/17, 2017/18, and 2018/19 financial years. With regards to 2019/20 and 2020/21, we would note that there are many complicated factors with any business cycle and therefore do not propose to exclude these time periods as COVID may have impacted different businesses in different ways.

- 7. Similar to question 2, we support a periodic review and therefore support the reassessment of eligibility for highly emissions intensive activities using new base years, so long as the calculation is based on the average of multiple years due to the volatility mentioned.
- 8, 9 and 10 We support the status quo with regards to emissions intensity thresholds. We do not see a rationale for changing this criterion as New Zealand specific criteria are no more relevant than the analysis used and understood by industry for the past decade. We would note that the ongoing changes to the NZ ETZ create uncertainty and can destabilize investment. We recommend stability, transparency as the key tenants of this program.
- 11 and 12 As Methanex is not directly involved in this area, no comment.
- 13 and 14 As noted in the document, our product, methanol, is clearly trade-exposed. Therefore, we support the status quo and do not have a broader comment.
- 15 and 16 Given the significant impact of any change to the NZ ETS, we support the status quo to ensure that full data transparency is collected before any change is made. As noted, Option 2 creates uncertainty for an EITE industry like ours and we do not agree that consultation is a sufficient mitigation.
- 17, 18, 19 No comment.
- 20 and 21 As part of Methanex's global commitment to sustainability, we measure and manage all emissions and therefore would not have bear additional costs in this area if additional reporting was required. We do not support a voluntary reporting system as this would result in incomplete information and a lack of transparency across all sectors.
- 22. No comment. As over 90% of methanol produced globally is not subject to an emissions cost, if Methanex' eligibility as a highly emissions intensive industry was changed, our decisions as to future business would be based on the cost of doing business in New Zealand.
- 23 -28 As noted in this submission, the intention of the Industrial Allocation mechanism is to protect against actual emissions that global competitors are not subject to. We would like to clearly state that the Industrial Allocation is a critical tool for Methanex to continue business in New Zealand. As the Industrial Allocation decreases over time, Methanex will become increasingly uncompetitive and business decisions will be made. Other similar tools may be as effective as the Industrial Allocation but for Methanex we do not see them being more efficient.

Carbon border adjustment mechanisms may be effective as New Zealand looks to ensure that it does not cause the shutdown of New Zealand manufacturing, only to increase imported products that have a higher emissions intensity.

With regards to direct payments to EITE firms in lieu of the Industrial Allocation, we would note that today there is no available technology that would allow Methanex to convert its methanol facility to a zero emissions business. This would not be an effective mechanism to maintain business in New Zealand yet lower global emissions. Research and development is ongoing with regards to producing low or zero emission methanol, however this is not currently ready for commercial use.

Thank you for considering our feedback. We welcome the opportunity to have further discussion about these matters and contribute to the long-term vision for a low-emissions economy.

Yours sincerely

Dean Richardson Managing Director Methanex New Zealand Ltd.

MINISTRY FOR THE ENVIRONMENT CALL FOR SUBMISSIONS ON REFORMING INDUSTRIAL ALLOCATION IN THE NEW ZEALAND EMISSIONS TRADING SCHEME

SUBMISSION BY GOLDEN BAY CEMENT





PO Box 1359, Shortland Street, Auckland 1140. Contact phone: 0800 Cement (0800 236 368)

1.0 EXECUTIVE SUMMARY

• Golden Bay Cement (GBC), New Zealand's only integrated manufacturer of cement, has been committed to reducing carbon emissions and supporting New Zealand's transition to a low-emissions economy for the past two decades. Since 2002, GBC has invested over \$200 million in upgrades to its operations, including significant investments in new technology to reduce use of fossil fuels in the clinker manufacturing process – notably through use of biomass and waste tyre recycling. These investments have resulted in a 14% reduction in GBC's clinker carbon intensity over the period:



• As a result of this commitment to and investment in reduced carbon emissions, GBC's operation at Portland near Whangarei is now world leading in its clinker carbon intensity (source: GNR)



• The industrial allocation framework in the New Zealand Emissions Trading Scheme ('NZ ETS') in place since 2011 has served as an effective incentive for emissions-intensive and trade exposed industries ('EITE') to invest in carbon reduction initiatives. This long-term, consistent framework has been a key driver for the investments and carbon intensity reduction by GBC shown above. GBC is supportive of the 'reduction path' of 1% reductions in the industrial allocations that takes effect from 2021, which again provides a reasonable long-term framework to encourage investment in reduced carbon intensity. As shown below, this current baseline is in line with the world average for clinker intensity. However, a re-baselining of the industrial allocations as proposed would move the baseline to a level materially below GBC's current clinker intensity – which is already world leading. This re-baselining would introduce material uncertainty for GBC, discourage additional investments in carbon reduction, and encourage imports of more carbon-intensive clinker.



• Process emissions are a result of making clinker/cement manufacturing and by nature of the chemical reaction are very hard to abate (as proven by all major climate reduction studies). The existing reduction path envisioned is very stringent and technically challenging, requiring GBC to fully exploit all existing levers (process efficiency, coal substitution and fully renewable electricity) to be able to achieve the desired emissions reduction.

• Additionally, GBC also would expect that by the end of this decade, carbon capture and use technology will be available on an industrial scale. GBC is already exploring these options, which would then allow GBC to become an alternative significant carbon sink for Aotearoa (other than planting additional forests) considering the high usage of biogenic fuels in the process and the absorption of CO2 over the concrete lifetime.

• GBC strongly believes that a carbon tax at the border (such as a carbon border adjustment mechanism) is introduced to ensure that imported clinker and cement is subject to the same carbon intensity framework. Without this a re-baselining will simply impose a material penalty and disadvantage on local manufacturing, discourage GBC's ongoing investment in carbon reduction initiatives, and encourage a shift to use of imported clinker with a far higher carbon footprint. (NB: in addition to its lower clinker carbon intensity, GBC cement also has a carbon benefit relative to imported products due to the significantly higher freight component of those imports).

• It is also important to consider that cement is a critical component of the New Zealand construction industry and economy. GBC currently supplies around 60% of New Zealand's cement, which has highly specialised qualities due to New Zealand's unique and stringent building and seismic standards. The recent COVID-19 pandemic has shown the benefit of strong local manufacturing to ensure supply chain continuity for the New Zealand economy. A material re-baselining of the industrial allocations puts this at risk. It also endangers local employment – GBC employs 550 people and represents almost 10% of the GDP of the Whangarei region.

In summary: industrial allocations based on the established baseline and 'glide path' have been effective in encouraging significant emissions reductions, to the point where GBC is now world leading in its clinker carbon intensity. Maintaining the current approach will drive continued investment in emission reduction, rewarding companies that keep ahead of the targets, noting that these rewards only partially offset the necessary future investments required to meet the established baseline 'glide path'. A one-off update to the baseline would undermine GBC's proactive approach. GBC is therefore strongly opposed to the proposal to update the allocation baseline, as it introduces material uncertainty into an established and effective framework; discourages further investment in reducing carbon emissions; encourages imports of more carbon-intensive clinker or cement; and weakens a local asset that is critical for the New Zealand construction sector and economy. Should this revision proceed then GBC will be forced to review the ongoing viability of cement manufacturing in New Zealand.

2.0 ABOUT GOLDEN BAY CEMENT

Golden Bay Cement (GBC) is a fully owned trading entity of Fletcher Concrete and Infrastructure Ltd. GBC operates the Portland Cement Plant, which is New Zealand's only fully integrated cement manufacturing plant. The Portland Cement Plant is located south of Whangarei. It is strategically located near two quarries that supply the necessary raw materials for cement manufacturing, and the Whangarei harbour to allow for shipping of cement products.

This is a modern world-class cement plant that is able to make use of New Zealand's renewable energy sources of electricity to produce cement. This gives it an advantage over overseas plants that use electricity generated by combustion of fossil fuels or the use of nuclear energy. The Portland Plant supplies approximately 60% of the country's cement to New Zealand's unique and stringent building and seismic standards.

The Portland Plant produces cement for the domestic and Pacific Island markets. Over its more than 100-year history, the plant has developed a reputation for supplying high quality domestic, commercial and specialist structural products to the New Zealand building industry.

The Portland plant has adapted to meet and exceed stringent environmental, labour and health and safety requirements. Although costs have been incurred that are not incurred by overseas competitors the plant has managed to continue operating.

GBC, along with its quarry operations, contributes over 9% of the Whangarei District's GDP and employs approximately 550 full time equivalent workers. This is 1.8% of Whangarei regions workforce.

GBC produces high-quality cement that is used in, the products designed and produced to meet New Zealand's needs that arise because of its seismic environment.

GBC's research and development ensures that its high heat cement production processes and products use the latest proven technology. GBC is continually seeking opportunities to minimise the carbon footprint and environmental impact of its products and business.

3.0 INTRODUCTION

On 31 January 2021 the Climate Change Commission released its Draft Advice for Consultation and invited submissions. The Climate Change Commission specifically recognised the predicament of hard-to-abate high temperature industrial processes in Draft Advice. GBC supports the key direction of the Draft Advice, which is part of the Government climate change package.

The Ministry for the Environment's Consultation Document "Reforming industrial allocation in the New Zealand Emissions Trading Scheme" ('the Consultation Document') is broadly aligned with aspects of the Climate Change Commission Draft Advice but focusses on reviewing industrial allocation baselines to address concerns around over-allocation.

This document is GBC's written submission to the consultation document ('Reforming industrial allocation in the New Zealand Emissions Trading Scheme'). The GBC submission is provided in two sections:

- 1. Outline and background of cement industry emissions and GBC's considerable investment in reducing emissions
- 2. Responses to questions posed in the consultation

4.0 CEMENT INDUSTRY EMISSIONS

Cement manufacture is a two-stage process. The first stage is clinker manufacturing which is the process of converting raw materials into the compounds that give cement its strength. In the second stage, clinker is blended with gypsum and sometimes other cementitious materials and ground to form cement.

Clinker Production Emissions

CO2 emissions from traditional cement manufacture are derived from process emissions, high temperature process heat and generating electricity used.

Process emissions are released from the de-carbonation of calcium and magnesium carbonates, the essential first step in the formation of clinker.

High temperature process heat is required to heat raw materials to 1450°C - 1500°C which is the temperature necessary for clinker formation. Reaching this temperature has traditionally been achieved using fossil fuels such as coal, oil and natural gas.

Electrical energy is used to power, crushing, grinding, blending, conveying and gas handling equipment.

Reductions in fuel emissions have been achieved by partial substitution of fossil fuels with alternative fuels that have a biogenic component. 100% substitution with biofuels has not been achieved. This is due to the high temperature required. Reaching this temperature requires high calorific value fuels that are not available in biofuels.

Reducing electricity derived emissions has focussed on efficiency and increasing renewable electricity. Many plants are installing their own renewable energy sources which are predominantly waste heat recovery and solar farms.

Cement Production Emissions

Emissions from cement production are released in the generation of the electricity used to grind cement. The main type of grinding mill used in cement production is the ball mill. Grinding cement in this type of mill typically requires 42 kWh/t with carbon emissions of .04 t CO2e/t cement.

Golden Bay Cement Emissions

Golden Bay Cement has consistently invested in the latest technology for cement manufacture with over \$200m invested in the business since 2004 with emission reduction being one of the key objectives of these investments. The clinker manufacturing line is now best available technology (BAT).

- 2003 Alternative fuel system installed to substitute up to 35% wood waste for coal
- 2004 Closed circuit coal mill installed to improve thermal efficiency
- 2004 Pre-calciner installed improving thermal efficiency and increasing production
- 2004 Stage 4 cyclone replaced increasing electrical efficiency
- 2004 New clinker cooler installed improving thermal efficiency
- 2004 Raw mill classifier replacing improving electrical efficiency of raw material grinding
- 2005 Cement mill 6 converted to closed circuit mill increasing electrical efficiency of cement grinding
- 2005 Raw material stacker reclaimer installed increasing electrical efficiency of raw material handling
- 2006 Gas train upgrade completed improving electrical efficiency of gas handling equipment.
- 2009 New Auckland distribution depot completed improving transport efficiency
- 2016 New cement ship commissioned improving transport efficiency
- 2017 Additional cement silo completed and ship loading system upgraded increasing electrical efficiency of ship loading.
- 2021 Waste end of life tyre project completed increasing alternative fuel use and increasing biogenic fuel component

Clinker Emissions

GBC's capital investment programme has enabled clinker emissions to reduce since the baseline was established demonstrating the existing system is working. The industrial allocation is a key component of the business case that allowed this to happen.

In total the biogenic component of alternative fuels utilised by GBC has reduced fuel emissions by 28%. GBC currently diverts 80,000 tonnes of waste from landfill with potential to double this volume. GBC is considering further investment in alternative fuels and raw materials.

Cement Emissions

GBC's emissions from grinding electrical energy are low due to the high renewable component of electricity supply. This component of emissions is expected to drop to zero as New Zealand moves to 100% renewable electricity generation.

Emission Comparison

GBC's emissions from clinker production are well below average by international standards. This is the result of using the best available technology, the significant capital expenditure undertaken by GBC in the previous 15-years and the exceedingly high biogenic fuel component. GBC can be considered a world leader in the adoption of biofuel for clinker manufacture.

Impediments to Further Emission Reductions

Fuel emissions

GBC is close to the limit of biofuel substitution using available biofuels with the systems currently installed. Significant further gains require a fuel improvement process and significant capital investment. This will require further R&D expenditure and investment. Long term supply of feedstock at acceptable cost is also needed. GBC is continuing to investigate this possibility.

Process emissions

Process emissions are unavoidable in the clinker formation process. Carbon sequestration is the only option and there are limited technological and commercially viable options. This is acknowledged in the climate change commission report, Ināia tonu nei: a low emissions future for Aotearoa, Page 293 Section 15.3.2.

Development of abatement solutions for process emissions requires R&D work and capital expenditure that is beyond the capabilities of an independent cement producer. Work in this area is being undertaken by consortiums of global companies with government support. GBC continues to watch developments however commercially viable solutions are not likely to be available in the short term.

The climate change commission report, Ināia tonu nei: a low emissions future for Aotearoa, proposes native forests as a means of sequesting process emissions. (Page 66 Section 5.1.3, paragraph 31) As the cost of planting cannot be passed onto customers it is not commercially viable for GBC to undertake planting however when other community benefits such as erosion control, water quality improvement, biodiversity improvement, soil health, recreation, tourism etc. are included then government investment could be justified.

5.0 ADDITIONAL CONSIDERATIONS

Importance of local cement production for the New Zealand construction industry

As the only cement producer in New Zealand; GBC is the only company that can secure cement supply in New Zealand in the face of international supply chain disruptions, such as those caused by the COVID-19 pandemic. New Zealand's small demand on a global scale means that it would be vulnerable to supply failures if left to rely solely on its ability to compete for in-demand cement resources on the international market. Domestic production is essential to security of supply for the New Zealand construction industry.

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Cement is a low-value, bulky and costly commodity to transport. Its international transport emits substantial GHGs in its own right. For New Zealand to entirely rely on overseas suppliers for cement, particularly cement of the quality required to meet New Zealand market conditions including seismic standards for concrete, is leading to significant exposure to international availability and supply chain risk. As a fundamental building product, retaining cement production in New Zealand is critical for New Zealand's resilience.

Carbon Leakage

GBC's cement has the lowest Environmental Production Declaration (EPD) figure of the three New Zealand suppliers. GBC's EPD is 732kg/tonne of cement sold. This EPD includes the emissions footprint associated with importing coal of the required quality from Port Kembla in New South Wales. GBC's EPD is substantially lower than the EPD for the other New Zealand suppliers, which run at 897kg/tonne for standard cement.

Earlier this year GBC submitted to the Climate Change Commission that there should be a recommendation that government support industries currently based in New Zealand to reduce and offset GHG emissions. Offshoring emissions may contribute to achieving New Zealand emissions targets but, in all likelihood, global GHG emissions would be greater and certainly less able to be controlled and managed by New Zealand. Such a move would also have a significant negative impact on local manufacturing, employment, and downstream markets including urban development and building costs.

Developing Technology

Internationally there is work underway to develop carbon capture technology. This technology is expected to be available longer term. It presents the opportunity for cement manufacture utilising biofuel to become carbon negative providing a carbon sink. In addition, as highlighted in the latest IPPC report, scientific evidence is growing that the CO2 absorption (re-carbonisation) of concrete over its lifetime compensates a significant part of process emissions. Consequently a holistic view about carbon emissions of the life cycle and across the value chain will need to be considered in the future, especially when making decisions about material usage. Other materials already include such benefits (i.e. wood).

6.0 RESPONSE TO CONSULTATION QUESTIONS:

Criteria

Question 1: Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

- 1. GBC agrees with criteria 1. Particularly the concept that IA should ensure an appropriate incentive is maintained for EITE firms to reduce emissions, however for clarity this should be changed to emissions intensity. GBC does not support the concept that IA should provide incentive to reduce emissions by reducing output. This is a flawed concept as the IA system is intensity based. Production capacity, market and profitability drives output decisions. IA does not incentivise partial reductions in output. It can assist an activity to continue, or it can make it not financially viable to continue and the activity will stop in New Zealand. There is a very real risk that baseline and allocation settings will increase New Zealand production costs, above the costs of imports, which will shut down New Zealand operations in favour of imports increasing global emissions as a result. Baseline and allocation settings must not favour importers and a cautious approach should be taken.
- 2. Over-allocation definition is incorrect terminology. There are firms such as GBC that over a significant period of time have invested considerable amounts in emissions reductions to stay below the reduction path, and be industry leading which has resulted in a current surplus. This surplus is critical to make any investment in emission reductions and manufacturing in New Zealand viable.
- 3. GBC agrees with criteria 3. IA should continue to minimise the risk of emission leakage. Any carbon cost that is imposed on New Zealand EITE activities benefits importers that source product from countries that often do not have carbon charges or have lower charges. If the IA system is to be designed to ensure activities always have a cost, then this cost needs to apply to imports where the country of origin does not have equivalent costs.
- 4. GBC agrees with criteria 4. Investment costs in heavy industry such as cement manufacture are high and require long term commitment. Future certainty and predictability is essential to enable future investment. Without periodic major upgrade investment, the plant will become uneconomic.
- 5. Agree

Allocation calculations:

Question 2: Should allocative baselines be updated using new base years? Why, or why not?

GBC disagrees with the proposal to update baselines using new base years. The baselines have been set and allocation phase out policy is in place. The process is working as emissions intensity has reduced at a rate faster than the allocation phase out. Cement industry emission reduction will occur in steps rather than a gradual decline due to the long-term investment cycles in the industry. The opportunity to get ahead of the phase down with excess allocation increases incentive to reduce emissions however there will also be times when the activity is behind the phase down rate and purchasing NZU's will be required.

Long term investment decisions have been made based on the current allocation baselines. Changing now would affect the returns expected from those decisions. The recent waste end of life tyre project is an example of this with emission reduction benefits factored into the business case.

Updating baselines removes the benefits of emission reduction gains already achieved. The step down in allocation is more than sufficient to incentivise emission reductions. The uncertainty created by updating baselines would make it difficult to invest in emission reductions and investment in NZ local emissions intensive industry unpredictable, while increasing CO2 emissions.

If an activity has reduced emissions by 11% since the baseline was set it will currently be in a cost neutral position with the 89% allocation fairly rewarding for its efforts and investments. (Excluding costs it is incurring for emission reduction) If the base line is reset it will once again have 11% exposure and the additional cost putting at risk returns needed to invest in future reductions.

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Question 3 Should the reassessment be a one-off update, or a periodic update? Why, or why not?

Re-baselining goes against the principle of a reduction path therefore GBC disagrees with a reassessment of baselines as above. Any periodic updates further remove certainty and predictability and are an administrative burden. Phase down of the industrial allocation as already signalled incentivises improvements in a stable predictable format. Re-baselining is a disincentive to investing in emissions reduction.

Periodic updates to the baseline allocation would be a disincentive to reducing emissions. A key objective of IA is to encourage investment in reducing emissions. It provides a return on investment for emission reduction projects through reducing NZU submission requirements and potentially creating a surplus of units that can be sold or held to cover future submission requirements. Periodic updates take away most of the gain that has been made and business cases do not work.

With the phase down mechanism there is no need to re-baseline.

Question 4: If periodic reassessment is legislated, what would be an appropriate period – every year, 5 years, 10 years, or something else? Why?

It is GBC's strong preference that the allocative baselines are not amended for the reasons outlined previously and that it would be a disincentive to emission reductions. Uncertainty and continuous changes to the industrial allocation scheme impacts tradeexposed firms investment decisions which are made over a long-term horizon than 5 or 10-years. In GBC's case, given the significant cost of the investment in emission reductions is made with a 20+ year time horizon.

This level of uncertainty will ultimately lead to trade-exposed firms such as GBC considering their on-going operation in New Zealand and will lead to the NZ ETS driving emissions overseas. This has already occurred with the only other New Zealand producer of clinker and cement ceasing domestic manufacturing and moving to an import model.

Question 5 Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not?

Refer answer to Question 4

Question 6: Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?

Refer answer to Question 4

Eligibility:

Question 7: Should eligibility be reassessed using new base years?

It is GBC's strong preference that the allocative baselines, nor the financial years, are not amended for the reasons outlined previously and that it would be a disincentive to emission reductions.

Question 8 Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not

Carbon emissions from the cement industry derive from thermal heat by combustion of fuels (Thermal emissions) and from chemical reactions such as calcination and reduction reactions (process emissions). Emitters and their emissions should be classified as thermal or process emissions.

There are alternatives available for thermal heat. GBC has invested heavily in these and will continue to do so as these are our addressable emissions.

Process emissions are a by-product of making cement and by nature of the chemical reaction there is a limit of what can be eliminated. In most cases the alternatives for process emissions or technology for reducing them is unproven technology's that require R&D at levels beyond the budgets the scale of NZ operations allow. Solutions for these industries are likely to be through purchased technology rather than in house developments. These industries should be required to keep up with technology developments however early adoption will require incentivisation due to the scale of NZ operations.

The difficulty in abating process emissions is acknowledged in the climate change commission report, Ināia tonu nei: a low emissions future for Aotearoa, (Page 293 Section 15.3.2 paragraph 155)

The report proposes native forests as a means of sequesting process emissions. (Page 66 Section 5.1.3, paragraph 31). As the cost of planting cannot be passed onto customers it is not commercially viable for GBC to undertake planting without significantly increasing costs to customers and ultimately the cost of construction within New Zealand.

Any baseline reset should exclude process emissions as there are no financially viable options for abatement. i.e. the same reasoning that excludes agricultural emissions.

Question 9: Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate

Eligibility thresholds result in large step changes in costs for activities crossing the thresholds. GBC supports a sliding scale threshold as described in question 10.

Question 10: Would a sliding scale threshold system better target eligibility and assistance? Why, or why not

Yes. The threshold for a highly intensive activity is 1600 tCO2e / \$1m revenue. GBC is 5300 t CO2e / \$1m revenue. We still receive the same allocation as an activity at 1600 tCO2e / \$1m revenue.

At the current NZU trading price of \$60 the 11% exposure costs GBC \$34,980 per \$1m revenue vs a less intensive industry having a cost of \$10,560 per \$1m revenue. While this appears to be a relatively small cost as a proportion of revenue it is a cost that cannot be recovered and therefore has a large impact on EBIT and will ultimately drive decisions on the continued operation of cement manufacturing in New Zealand.

Carbon leakage is more likely for higher emissions intensive industries. The table below shows cost based on intensity with the current eligibility criteria. There is a large step change at 1600 and 800 which would encourage activities close to that level to make sure they stay above the threshold.

A sliding scale which calculates allocation based on intensity would even this out and reduce likelihood of emissions leakage from higher emissions intensive industries. It would also take away the disincentive to reduce emissions for activities close to the thresholds.

Current example below.

t CO2e / \$m	Allocation	Exposure	Cost / \$m revenue
799	0	100%	47940
800	59%	41%	19680
1000	59%	41%	24600
1200	59%	41%	29520

1400	59%	41%	34440
1600	59%	41%	39360
1800	89%	11%	11880
2000	89%	11%	13200
2200	89%	11%	14520
2400	89%	11%	15840
2600	89%	11%	17160
2800	89%	11%	18480
3000	89%	11%	19800
3200	89%	11%	21120
3400	89%	11%	22440
3600	89%	11%	23760
3800	89%	11%	25080
4000	89%	11%	26400
4200	89%	11%	27720
4400	89%	11%	29040
4600	89%	11%	30360
4800	89%	11%	31680
5000	89%	11%	33000
5200	89%	11%	34320
5400	89%	11%	35640
5600	89%	11%	36960
5800	89%	11%	38280
6000	89%	11%	39600

Question 11: Should the New Zealand EAF be used when determining eligibility? Why, or why not?

No. Using the Australian EAF provides protection to New Zealand electrical energy intensive industry from industry overseas using low-cost emissions intensive thermal power. Without this protection there is increased risk of carbon leakage.

Question: 12 Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?

No as previously outlined, uncertainty and continuous changes to the industrial allocation scheme impacts trade-exposed firms investment decisions which are made based on a long-term payback period.

Question 13: Should the trade exposure test be changed? Why, or why not?

No. GBC supports the current definition.

Question 14: What would be a more appropriate method to determine trade exposure

N/A

Other reforms to industrial allocation

Question 15: Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

No. As outline d above uncertainty and continuous changes to the industrial allocation scheme impacts trade-exposed firms investment decisions. This will ultimately lead to trade-exposed firms such as GBC considering their on-going operation in New Zealand and will lead to the NZ ETS driving emissions overseas. This has already occurred with the only other New Zealand producer of clinker and cement ceasing domestic manufacturing and moving to an import model.

Question 16: Are there other changes to sections 161A-E of the Act that could better streamline IA processes?

N/A

Question 17 Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not?

Yes – in line with the response below, new activities should be able to be eligible to support fairness of trade practises, and if so the eligibility process should be clarified

Question 18: Should new activities be able to seek eligibility? Why, or why not?

Yes, supports fairness of trade practices

Question: 19 Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities

No, there should be consistency in eligibility assessment across new and existing activities.

Question 20: Should firms that receive IA be required to report their emissions, revenue and production data annually? Why, or why not?

Emissions data is already provided via current surrender obligations. Any other information may be commercially sensitive information, that could be used by competitors, or contravene Commerce Commission regulations.

Question 21: Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?

No, it should be mandatory. Leading companies like GBC that have already committed to reduction targets are already reporting this publicly in line with science-based target initiative.

Question 22: Should the five-year transition period for changes in eligibility status remain, or be changed? Why, or why not?

Eligibility should not be reassessed.

Future of industrial allocation:

Question 23: Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

GBC as Aotearoa's only domestic manufacturer of clinker strongly supports the introduction of a Carbon border adjustment mechanism ('CBAM')(or equivalent). A CBAM will address the current emissions leakage and any potential emissions leakage generated by IA phase down. This will ensure that NZ does transition to a low-emissions economy rather than driving emissions overseas.

Based on the information provided in the consultation paper on direct payments to EITE firms, it is not possible for GBC to provide detailed feedback. GBC does have concerns about direct cash payments rather than receiving free and agree with comment in the consultation paper on the complexity & unpredictable impacts this may have on an orderly NZ ETS.

Given the size of the investment already made by GBC and the Government support for some these initiatives (such as waste end of life tyre project, GBC strongly supports any fund that EITE firms could access to support the transition to a low emission economy.

Question 24: What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets

CBAM is the most appropriate.

Question 25 Should IA policy or any alternative explicitly encourage firms to reduce emissions? Why, or why not?

Yes, but do not then penalise for improvements with regular re-basing.

Current industrial allocation with indicated phase down is a suitable model, however as the phase down accelerates, we need to remain in line with international best practice and avoid leakage through a CBAM (or equivalent) to ensure no emissions leakage, to encourage firms to reduce emissions and maintain local manufacturing

Question: 27 Should IA decisions or any alternative include wider considerations – such as economic, social, cultural and environmental factors – when determining support for industry? Why, or why not?

Yes, economic considerations as well as importance of domestic manufacturing for national interests particularly reliable supply of products like cement to construction need to be considered. Scheme needs to be aimed at reducing emissions without driving industry offshore and ultimately leading carbon leakage, reduction in employment and reliance on offshore manufacturers.

In order to ensure equity between different products, carbon reabsorption and durability over the product lifetime should be taken into account rather than just taking production emission view. Concrete is scientifically known to be a carbon sink.

Question: 28 How would these new considerations interact with the goal of reducing emissions leakage

There is a significant increased risk that carbon leakage will drive manufacturing offshore. Whilst reducing emissions in New Zealand, there would be no global reduction (possibly leading to increased global emissions) and increase reputational risk for New Zealand.

Question 29: Do you have any other comments, ideas or feedback that could help support the Government form final policy decisions?

GBC does not agree with the views expressed on page 48 of the document with regards to 'Regional economies'. As the only domestic manufacturer of clinker based, GBC is focussed on delivering a world-class product, domestically manufactured at an affordable price to assist both residential and infrastructure construction in New Zealand. At a time where EITE firms face increasing costs such as high electricity and fuel prices, amendments to the IA scheme resulting in higher carbon costs will (in the aggregate) impact the financial viability of these operations in New Zealand.

If imported product hasn't incurred these costs or hasn't had an equivalent charge applied, then a border charge (CBAM) is required.





Submission from Straterra To the Ministry for the Environment Reforming Industrial Allocation September 2021

Introduction

- 1. Straterra is the industry association representing the New Zealand minerals and mining sector (including coal). Our membership is comprised of mining companies, explorers, researchers, service providers, and support companies.
- 2. The sector is proud to be part of the solution to climate change. The products of mining will play an important role in reducing global emissions.
- 3. We welcome the opportunity to submit on the document <u>*Reforming Industrial Allocation in the*</u> <u>New Zealand Emissions Trading Scheme</u>.
- 4. Straterra supports the international imperative to reduce carbon dioxide emissions and New Zealand's obligations under the 2015 Paris Agreement. Our key concern is that, in reducing our emissions, it is a loss for New Zealand, and for global emissions, if our policies simply result in those emissions shifting overseas (carbon leakage). Integral to this issue, we seek to maintain the international competitiveness of affected sectors of our economy. In this regard we note the large disparity between the New Zealand and global carbon prices.

Key Submission Point

• In reforming the NZETS, the international carbon price should be a key consideration. It is counterproductive to consider New Zealand's emissions reduction strategies in isolation of the strategies of other nations, particularly our trading partners.

Submission points in relation to the proposed reforms

- If the baselines are to be updated, every ten years is better than every year.
- In terms of eligibility to the scheme, we do not support tightening the emissions intensity thresholds nor narrowing the definition of trade exposed.
- Neither should the scheme be closed to new activities or industries.
- We agree there is a need for better data to improve the government's ability to monitor Industrial Allocation (IA) policy.
- We are opposed to carbon price border mechanisms in New Zealand as well as offshore.
- We do not support direct payments to industry.

SUBMISSION



General Comments

- 5. Reducing the risk of the NZETS driving emissions overseas was the rationale for introducing the IA scheme, a goal we fully support. However, in our view, the fact that the ETS doesn't incorporate international trading or take account of the international carbon price is a major reason for this leakage. Rather than using IA to address flaws of the ETS, we propose a first-principles approach and a reform of the ETS itself.
- 6. Having said that, as it is the IA scheme that is the subject of this review and not the ETS, we argue that eligibility to IA and volumes allocated should be reformed to take account of the high carbon price New Zealand businesses face relative to our trade partners.
- 7. We are pleased the document acknowledges that there is still a risk of carbon leakage and that remedial measures are justified and that "many of our trading partners and competitors do not have emissions pricing comparable to the ETS".
- 8. The risk of carbon leakage is increasing as the gap between New Zealand's rising carbon price and prices faced by our trade competitors remains high. If New Zealand's carbon price continues to rise faster than our trade competitors', many emitting businesses will shift their operations overseas or alternatively reduce activity allowing overseas competitors to step in. Either way, local job losses will result, the carbon emitting activity will shift offshore and, typically, global emissions will increase.
- 9. Unless other jurisdictions keep up, which they are not as a general rule, the rationale for Industrial Allocation in New Zealand becomes stronger not weaker.
- 10. NZU prices have increased greatly since the commencement of the scheme, and they have more than doubled in the last two years. The recent lifting of the floor and ceiling (to \$30 and \$70 respectively) and restrictions on volumes under successive emissions budgets mean this price increase is likely to continue.
- 11. Meanwhile prices faced by our trade partners, while increasing in many cases, are much lower overall.
- 12. The World Bank's <u>State and trends of carbon pricing</u>, May 2021, implies that less than 22% of global emissions face any carbon pricing, and of this group, the average is USD\$6 per tonne of CO2 equivalent.
- 13. There is an underlying theme in the consultation document that the scheme is too generous to New Zealand emitters, but the carbon price discrepancy argues strongly that this is not the case.

Specific Comments on the Proposals

Section 3 – Options to Reform Allocation Calculations

Updating Allocative Baselines

14. We understand the desire to update the allocative baselines given they are now out of date to the extent that some businesses are making a profit from sales of surplus NZUs. However, if the baselines are higher than current emissions intensities, it is because businesses themselves have improved their emissions intensity over time, which supports the government's climate change mitigation objectives. The IA scheme has been a contributor to this improvement given the incentive it gives businesses to become less emissions intensive than the benchmark (by being able to sell surplus units above the intended level).

SUBMISSION



- 15. If the baselines are to be updated, it is important not to lose this incentive which would occur if the baseline were regularly decreased. If the baselines are to be updated, it should be at the slower end of the proposed scale i.e. every ten years as opposed to every year.
- 16. As well as the efficiency incentive, this longer time frame would provide business with more certainty around their future allocation.

Section 4 - Options to Reform Eligibility for Industrial Allocation

17. Notwithstanding our general comments earlier, we support the focus of the IA scheme on emissions-intensive, trade exposed industries. We disagree with the premise of this section that eligibility for the scheme is too open. If anything, the opposite is true.

Intensity Thresholds

18. We totally oppose raising the intensity thresholds as a tool to limit eligibility and reduce overallocation or allocation generally. Making it harder for companies to achieve these thresholds is a blunt approach and would undermine the purpose of the IA scheme which is to stop leakage of emissions-intensive, trade-exposed activities. It is far removed from the principles espoused in this submission about international competitiveness being an important consideration. If anything, the thresholds should be lowered.

The Trade Exposure Test

- 19. Consistent with our argument of the importance of international competitiveness, we support the focus of the IA scheme on trade-exposed industries and we do not support narrowing the definition of trade exposed along the lines proposed.
- 20. The definition of trade exposed under the Climate Change Response Act 2002, is consistent with economic definitions of the tradable goods and services sector, and while broad, it is appropriate for the purposes of Industrial Allocation.
- 21. Activities can be considered trade exposed if import substitution or exports are economically viable. The definition shouldn't be limited to what is actually being exported or imported. Importantly goods and services that face competition from imports e.g. domestically produced steel, are trade exposed as much as exported goods that face competition in overseas markets.

Section 5 – Other Options to Reform Industrial Allocation

Setting limits on new activities seeking eligibility for industrial allocation

- 22. The IA scheme should not be closed to new activities or industries that arrive on the scene. The carbon leakage principle that if they don't operate here they will simply establish themselves somewhere else in the world supports this. New Zealand-based activities that emit are often less emissions intensive than overseas counterparts due to our low emissions electricity and relatively high efficiency.
- 23. The rising carbon price from the New Zealand ETS is already acting as a barrier to new emissions intensive activities, so it is likely that new activities will be few and far between, but it would be foolish in terms of New Zealand's economic management to close down opportunities for new economic activity.
- 24. We support the idea of providing access to the IA scheme for those businesses that can prove environmental benefit where it broadens access.




Reporting emissions, production and revenue data

- 25. On the question of voluntary or mandatory reporting of activity data by firms receiving allocations, we accept there is a need for better data to improve the government's ability to monitor IA policy in future.
- 26. Such reporting would need to encompass all companies or none so in general we don't support moving to voluntary reporting. However, if mandatory reporting is introduced there could be a threshold for very small businesses due to the compliance costs mandatory reporting would impose on very small businesses.

Section 6 – Alternative Policies

Carbon Price border mechanisms

- 27. We are opposed to carbon price border mechanisms in New Zealand as well as offshore.
- 28. Such mechanisms might offer local producers some protection from import competition but they would not have any positive impact on exports from New Zealand of emissions intensive goods. In fact, these exports would be disadvantaged greatly if the practice of carbon border adjustment mechanisms was adopted by our trade partners. As an export-dependent country, we must keep away from these instruments and argue vociferously against them in overseas forums.
- 29. We acknowledge other jurisdictions, such as the EU, are considering some form of carbon border charge to be applied to imported products. New Zealand's a relatively strong climate change regime would make us less vulnerable than many others, but New Zealand would not benefit from retaliation and is in no position to do so.
- 30. New Zealand introducing such measures would be a departure from our international trade policy which promotes liberalisation. It is difficult to imagine that the government would seriously entertain adopting a border carbon charge.

Direct payments to industry

- 31. This option proposes decoupling the level of assistance from NZUs and be based on an estimate of the payment needed to keep the industry in New Zealand.
- 32. We are opposed to this option. It would become too easy to politicise and beneficiaries would lose their social licence.
- 33. Even if such payments were legal under the WTO, they would contradict New Zealand spirit of free trade and undermine our position in criticising other countries that subsidise industries with which we compete for example, European agriculture and food production and exports.

Using industrial allocation to support emissions reduction

- 34. This section of the document asks whether explicitly promoting reductions in emissions should be part of IA policy. It overlooks the existing incentive of the scheme that does just this, see paras 14-16 above, whereby businesses are rewarded for emission reductions made from a baseline with income that can be used to invest in further emissions efficiencies keeping firms on a path to continual investment into lower emission ways of operating.
- 35. Attempt to get the IA to do more to reduce emissions would undermine its role in preventing carbon leakage.





Bringing international carbon prices into the mix

- 36. As discussed in the general comments and elsewhere in the document, we think it is a major oversight that the discussion on future industrial allocation policy does not traverse the issue of international competitiveness and we think it needs consideration.
- 37. This isn't one of the options put up for discussion in the document, and we think it should be.

CLIMATE ACTI N

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17 September 2021

Ministry for the Environment Wellington

By email: etsconsulting@mfe.govt.nz

Submission on 'Reforming industrial allocation in the New Zealand Emissions Trading Scheme'

Introduction

- Lawyers for Climate Action NZ Inc. (LCANZI) is a society comprising over 250 lawyers and an additional number of non-lawyer associate members. Our goals are to:
 - (a) raise public awareness and understanding of the threat of climate change;
 - (b) advocate for legislation and policies to ensure New Zealand meets or exceeds its commitment under the Paris Agreement and achieves net zero carbon emissions as soon as possible; and
 - (c) facilitate free or reduced cost legal assistance to community groups working to fight climate change.
- 2 LCANZI welcomes the opportunity to provide comments on: *Reforming industrial allocation in the New Zealand Emissions Trading Scheme*.

Context

- 3 The impacts of climate change pose an incredible threat to humanity, our economy and our natural environment. The recently released August 2021 IPCC report sets out the most up to date scientific evidence on climate change and shows that these impacts are accelerating rapidly.
- 4 There are now only years, not decades, left to take the action required to protect future generations. Many of the changes we have already seen will take hundreds if not thousands of years to reverse. It is unequivocal that immediate, rapid and large-scale reductions in global emissions are required to limit global warming to 1.5°C or even 2°C.
- 5 New Zealand needs to take decisive action now to rapidly reduce emissions.
- 6 It is in this context that LCANZI considers that the policy of free allocation is inconsistent with the overriding purpose of the ETS reducing emissions and responding to the threat of climate change.

Summary of position

7 The risk of emissions leakage should not be at the expense of New Zealand's climate change commitments because we cannot afford further delay; we have not yet taken meaningful action on reducing emissions and it is 13 years since the ETS came into force. LCANZI urges the Technical Advisory Group (**TAG**) to focus (above all else) on ensuring that the ETS is an effective tool to respond to climate change.

- 8 LCANZI supports the broad direction of the proposals in addressing the calculation and eligibility settings prescribed in the Climate Change Response Act 2002.
- 9 However, we consider that the policy of free allocation is a blunt instrument that results in more harm than good.
 - (a) Free allocation compensates firms in emissions-intensive and trade-exposed
 (EITE) industries, so they can compete with cheaper offshore producers who are subject to weaker emissions pricing. This results in lower prices for emissions-intensive goods, which can disadvantage the purchase of lower-emissions products. This diminishes the incentive to invest in low emissions technology / alternatives that are needed for New Zealand's transition to a net-zero economy. This is contrary to the overriding purpose of the ETS.
 - (b) Due to the very limited number of emissions that are impacted by the price of carbon in New Zealand,¹ the ETS currently falls short of its overriding purpose.²
 Free allocation of units is a significant contributing factor to this major flaw in the ETS. In addition, the ETS' lack of coverage places a disproportionate burden on the businesses whose emissions are impacted by the price of carbon. This gives rise to fairness and efficiency issues.³
 - (c) On the other side of the equation, our view is that the risk of leakage is overstated and there is a lack of positive evidence of potential and/or actual leakage in New Zealand. It seems likely that the free allocation is enriching shareholders and slowing action on climate change rather than protecting jobs. Furthermore, given the extreme shortage of skilled workers in NZ, protecting emissions intensive jobs is a very questionable policy goal.
- 10 LCANZI's position is that free allocation should be phased out rapidly, say over the next five years.⁴ New Zealand should instead:
 - (a) accept and manage emissions leakage; and/or
 - (b) follow global trends to introduce a carbon border adjustment mechanism.

The objectives of free allocation

- 11 Industrial allocation (also known as '**free allocation**') is the provision of free emissions units (New Zealand Units or **NZUs**) to EITE industries.
- 12 The stated purpose of the free allocation is to 'reduce the risk of the emissions price driving EITE firms, production and the associated emissions overseas, which could increase global emissions. This risk is known as emissions leakage.'⁵
- 13 The Climate Change Response Act 2002 defines trade exposure broadly. An activity is considered trade-exposed, unless there is no international trade of the activity output

¹ 30.2%.

² LCANZI's position is that, even with the proposed changes, the ETS will continue to suffer from major flaws and will not achieve the emissions reductions that are needed to meet New Zealand's commitment under the Paris Agreement. This was addressed in detail in LCANZI's submission on *Reforming the New Zealand Emissions Trading Scheme: Proposed Settings* dated 28 February 2021 (**LCANZI's February Submission**).

³ Refer to paragraph 19 of LCANZI's February Submission.

⁴ In stark contrast to the phase down of free allocation brought in by the Climate Change Response (Emissions Trading Reform) Amendment Act.

⁵ *Reforming industrial allocation in the New Zealand Emissions Trading Scheme: Consultation* document (Consultation Document), page 7.

across oceans, or it is not economically viable to import or export it. Eligible businesses with moderate emissions are supposed to receive 60 per cent of carbon costs at no charge, and high emitters are intended to receive 90 per cent.

14 The allocation of free units is calculated using a baseline formula. The Climate Change Response (Emissions Trading Reform) Amendment Act 2020 (the ETR Act) introduced a phase-out of the level of assistance. However, as the TAG has acknowledged, highly intensive activities could still be eligible for a 30 per cent level of assistance in 2050. LCANZI considers that this is inconsistent with the purpose of the ETS and with our target of being net zero by 2050 or earlier.

ETS failing its overriding purpose - free allocation is a contributing factor

- 15 LCANZI's position in relation to free allocation needs to be seen in the context of the wider design flaws and limitations that the ETS suffers from. These issues were addressed in further detail in LCANZI's submission on *Reforming the New Zealand Emissions Trading Scheme: Proposed Settings* dated 28 February 2021.
- 16 LCANZI considers that carbon pricing can and should play a fundamental role in reducing greenhouse gas emissions and responding to the threat of climate change. To effectively contribute to meeting our emissions targets, our ETS must:
 - (a) create a cap on the level of national emissions so that we can ensure emissions are reduced, at a minimum, to the level set out in our emission budgets;
 - (b) induce economically efficient reductions in emissions by setting a single price for all ETS Participants; and
 - (c) provide enough clarity and stability price and policy to incentivise investment in low-emissions technologies.
- 17 The ETS is currently failing to achieve its overriding purpose as a tool to reduce New Zealand's greenhouse gas emissions.
 - (a) In its current form the ETS is majorly flawed and will not achieve the emissions reductions that are needed to meet New Zealand's commitment under the Paris Agreement.
 - (b) Most fundamentally, the ETS scheme only impacts on 151 Mt CO²-e of the provisional budget for 2021-25 (42.7%). Furthermore, this actually overstates its potential impact since the free allocation of 44 Mt CO²-e means that, in simple terms, a further 12.4% of emissions are indifferent to the price of NZUs. In other words, the price of NZUs over the five-year period only has the potential to impact 107 Mt CO²-e (30.2%) of the budget emissions. The reality is that the ETS as currently envisaged has no ability to significantly influence our total emissions over the next five years, let alone cap them.
 - (c) The large stockpile of NZUs and international units means that even where emissions are covered by the ETS, there is no mechanism to limit the quantity of those emissions. The Government has recently implemented price controls, but modelling by the Productivity Commission suggests that the price parameters set by government are significantly lower than what would be required to drive necessary abatement levels. In essence, the Government has taken the important step of setting emissions budgets, but has no means of giving effect to those budgets.

- (d) Either further substantial changes to the ETS are required or else our focus should be on other policy measures, such as a carbon tax or individual tradeable emission quotas. The Government's current proposals will not be enough.
- 18 It is in this context that the policy of free allocation should be considered.
 - (a) The free allocation of NZUs contributes to the disproportionate burden on those businesses whose activities are captured by the ETS. To meet progressively smaller budgets, bigger reductions are needed from other sources of emissions under the scheme, if allocations remain at current levels or increase.
 - (b) Efficiency issues also arise. Some of the lowest-cost abatement opportunities for New Zealand are unlikely to be realized in EITE industries, while a significant price movement is likely required to induce that degree of abatement in already burdened businesses.
 - (c) While the closure of high-emission business gives rise to transition issues that must be addressed, this is a necessary part of decarbonizing the economy

Emissions leaking / protecting economic competitiveness

- 19 The TAG's current position is that '[t]*here is still a risk of leakage, which justifies protective measures*'.⁶ Although the Consultation Document acknowledges that the risk of leakage is expected to change over time, it concludes that the risk will persist for some time.
- 20 LCANZI believes that the risk of leakage is overstated and that New Zealand should not be in the business of providing subsidies to emissions-intensive industries for the following reasons.
 - (a) As our experience with the current regime illustrates, it is notoriously difficult to work out the level of subsidy required. Information asymmetry between the Government and businesses makes it very difficult to reliably ascertain how badly affected a company would be if exposed to emissions pricing. It is also very difficult to define subsidies without unintended side effects. This is due to the number of factors that contribute to production decisions.
 - (b) Given the complexity of production decision making, there are significant limitations in *ex ante* analysis, of the kind that the TAG relies upon in the Consultation Document.⁷ For example, Sense Partners (2018) assessed the impacts of emission prices on the profits of trade exposed producers in New Zealand and found that while average firms could absorb relatively high emission prices with reduced profitability, others (particularly primary metals) would be highly sensitive to price increases. Other variable factors that determine commercial viability, which are arguably more significant than emissions pricing, include exchange rates, international commodity prices, input costs, and market competition.⁸ However the study did not consider businesses' debt obligations,⁹ demonstrating the difficulty in such analysis. These studies are ultimately

⁸ Ibid.

⁶ Consultation Document, page 11.

⁷ The report relied upon by the TAG: Tim Denne, *Potential for emissions leakage from selected industries in the ETS,* January 2021 is an *ex ante* estimation relying on compiled data.

⁹ Benjamin Rontard and Catherine Leining, *Future Options for Industrial Free Allocation in the NZ ETS*, Motu Working Paper 21-13, September 2021, at page 33.

attempting to predict firm-level decision making over what will likely be highly volatile decades.

- (c) Empirical *ex post* studies on the topic, undertaken in jurisdictions that are better resourced to assess emissions leakage, have concluded that there is no evidence to date of significant carbon leakage.¹⁰ There are also potential limitations in these studies, which only further demonstrates the complexity and difficulty of this issue.¹¹ What can be said definitely, is that there is a lack of positive evidence of potential and actual leakage, both in comparable markets and in New Zealand.
- (d) Our major trading partners all have moved or are moving to net-zero policies including pricing of emissions. Accordingly, the idea of competing against jurisdictions that do not properly price emissions is becoming increasingly fanciful. In addition, the better way to deal with this is not by free allocations in New Zealand, but by accepting and managing emissions leakage and/or introducing a carbon border adjustment mechanism (see below).

Accepting and managing emissions leakage

- 21 Free allocation compensates EITE firms so they can compete with cheaper offshore production, subject to weaker emissions pricing. This results in lower prices for emissionsintensive goods, which can disadvantage the purchase of lower-emissions products. This is contrary to one of the aims of the ETS, to incentivise long-term investment in lowemissions technologies.
- 22 It is important the consumers face price signals away from EITE industries and towards substitute products. The free allocation prevents these price signals from operating, whereas they are maintained by a carbon border adjustment as discussed below.
- 23 If subsidies are propping up EITEs, we should really ask whether those are industries we want located in New Zealand and how they fit with our net zero pathway. Rather than providing millions of dollars worth of free allocations, this money might be better spent in helping regions transition away from emissions-intensive industries to zero-emissions industries.
- As Benjamin Rontard and Catherine Leining put it in their paper, *Future Options for Industrial Free Allocation in the NZ ETS*:

Instead of having taxpayers fund free allocation to prevent emissions leakage, the government could opt to accept emissions leakage and manage the impacts. Domestically, the government could do this by supporting local workers and communities with transitioning to alternative employment. Internationally, the government could do so by increasing New Zealand's contribution to global mitigation by taking on a more ambitious international target or otherwise supporting additional mitigation in other countries.

It is important to evaluate whether the public and private welfare benefits of ensuring zero emissions leakage are worth the public cost. The closure of some industrial production in New Zealand and the redeployment of its labour and capital may be a necessary and ultimately beneficial part of the country's low-emission transition. The risk of leakage can be expected to decrease with the implementation of the Paris Agreement and increasing pressure for producers and investors to disclose

¹⁰ Ibid, at page 5; Arlinghaus, J. (2015) Impacts of carbon prices on indicators of competitiveness: A Review of Empirical Findings", OECD Environment Working Papers, 87, OECD Publishing, Paris, in New Zealand Productivity Commission (2018) Low-emissions economy: Final Report, available from www.productivity.govt.nz/low-emissions at 117.

¹¹ Verde, S.F. (2020), *The impact of the EU Emissions Trading System on competitiveness and carbon leakage: the econometric evidence,* Journal of Economic Surveys, 34(2), 320-343, in Verde et al (2020), *Achieving Zero Emissions Under a Cap-and -Trade System*, Robert Schuman Centre for Advanced Studies, 26, 3.

and manage climate-related risk. It is possible that emissions leakage from New Zealand could have a minimal or even positive impact on global emissions if the recipient jurisdictions compensate for any emission increases under binding targets or are relatively more efficient producers.

Carbon border adjustment mechanism (CBAM)

- 25 LCANZI consider that, in the medium term, New Zealand should develop a CBAM, whereby an emission price would be added at the point of import into New Zealand for goods from jurisdictions without comparably stringent climate change policies, and New Zealand producers would get a rebate for the emission price paid on the goods manufactured domestically for export.¹²
- As the TAG has acknowledged, a CBAM could help ensure that equitable emissions pricing is applied to emissions-intensive imports and exports. By levelling domestic and international commodity prices, a CBAM would ensure the NZ ETS price signal is better reflected in the domestic economy. In contrast, 'that signal is blunted by output based free allocation and – in the case of some imports – the absence of any emissions pricing'.¹³
- 27 In contrast, free allocation compensates EITE firms so they can compete with cheaper offshore production, subject to weaker emissions pricing. This results in lower prices for emissions-intensive goods, which can disadvantage the purchase of lower-emissions products such as timber. A CBAM would also generate revenue for the Crown that could fund projects for mitigating or adapting to climate change.

Improvements to free allocation

- 28 To the extent that free allocation remains in place, LCANZI consider that the calculation and eligibility settings prescribed in the Climate Change Response Act 2002 should be adjusted in favour of eliminating overallocation.
 - (a) The TAG has acknowledged that there is currently an overallocation of free units and that this is inconsistent with the policy intent of free allocation. The allocative baselines are out of date and contribute to overallocation. This mutes the incentive to reduce emissions and leads to windfall gains for EITE firms.
 - (b) Yet the TAG's preference that the baselines be updated every 10 years risks the same overallocation before the next baseline update. That approach does not strike the correct balance between the harms of overallocation and the asserted risk of undermining business certainty. The only way of significantly mitigating overallocation is to update baseline allocation every year and this is LCANZI's preference (in the event that free allocation continues as a policy, which we contend would be a mistake).
 - (c) Eligibility for free allocation should, at the very least, be reassessed using new base years. This does not, however, go far enough. New Zealand-specific thresholds must be developed¹⁴ and a much more rigorous test be introduced that requires businesses to demonstrate the degree of trade exposure.
- 29 Although the above adjustments to the baseline calculations and eligibility would be an improvement on the status quo, we re-emphasize that is it preferable to simply phase out free allocation over the next five years, to be replaced by the alternatives discussed above.

¹² Ibid, at page 44.

¹³ Ibid, at page 45.

¹⁴ The rationale for using the Australian government's methodology for emission intensity assessment is now outdated, along with the data.

Yours faithfully

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James Every-Palmer QC / Jeremy Bell-Connell / Emma Geard / Ollie Belton Lawyers for Climate Action NZ Inc.

Ameera Clayton

From:	Christian Williams
Sent:	Friday, 17 September 2021 3:44 pm
To:	etsconsultations
Subject:	End Industry Allocations under the ETS

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou,

I would like to submit in support of CANA regarding the ETS (see points below). If the ETS (or any market based mechanism) is to work well to reduce emissions, it has to be a fair market. It won't provide the right incentives if industry expects to continue to receive free allocations and goes against mainstream economic theory of efficient markets. A clear timeline now for their phase-out will help industry to decarbonise.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting
 with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a
 carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition
 off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

There needs to be a clear floor price where allocations are reduced if the carbon price falls below it (at least \$50/tonne and progressively rising). If ceiling prices are used, it should be significantly above expected market prices otherwise we will simply exceed our carbon budgets set out by the Climate Change

Commission/government. The ETS has not had any real effect so far so for it to work properly in the future it has to be designed properly to be outside political tampering and maintain a minimum carbon price.

Best regards Christian Williams

SUBMISSION ON

Reforming industrial allocation in the New Zealand Emissions Trading Scheme

17 September 2021

To: Ministry for the Environment Name of Submitter: Horticulture New Zealand, Tomatoes New Zealand and Vegetables New Zealand Supported by: New Zealand Plant Producers Incorporated, United Fresh New Zealand Incorporated

Contact for Service:

Michelle Sands Manager - Environment Horticulture New Zealand PO Box 10232 WELLINGTON Ph: 04 470 5664 Email:



OVERVIEW

Submission structure

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Part 1: Overview of HortNZ

Part 2: Introduction and context

- Industry context
- Impacts of rising ETS costs for the greenhouse growing sector
- Role greenhouse growing systems have to play in a low emissions future
- Transition to a low emissions economy

Part 3: Industrial allocation in the ETS

- Current state industrial allocation for horticultural EITE activities
- Emission and energy intensity improvements in the sector
- Current design of industrial allocation is not well suited to the greenhouse horticulture sector
- 4

Part 4: Consultation questions

Our submission

Horticulture New Zealand (HortNZ) thanks the Ministry for the Environment for the opportunity to submit on the proposal to reform industrial allocation in the New Zealand Emissions Trading Scheme (ETS).

We welcome any opportunity to work more closely with the Ministry for the Environment and to discuss our submission.

The details of HortNZ's submission and the outcomes we are seeking are set out later sections of our submission.

Executive Summary

Greenhouse growing is a resilient growing system important for domestic food supply. A rapidly increasing ETS price is beginning to hinder the transition to low carbon fuels by reducing both the availability of cash and confidence to reinvest, and the sector is at imminent risk. The review of industrial allocation, and changes to eligibility, has the potential to significantly impact greenhouse growers who are exposed to the ETS price through heating their greenhouses to achieve optimal production conditions.

Growers have become more efficient with their energy use since the ETS was introduced and have been actively investigating and investing in emissions reduction and improving energy intensity. However barriers remain to transition to low carbon fuels. Long term thinking, and support, is needed to develop suitable low carbon energy systems for covered crop growers.

Review of the approach to industrial allocation

We welcome the opportunity to reconsider the future of industrial allocation. HortNZ, TomatoesNZ and Vegetables NZ are strongly of the view that industrial allocation (or an alternative) needs to include consideration of New Zealand's ability to continue supplying its own fresh healthy food for New Zealanders, using a method (greenhouses) that is more resilient to the challenges of climate change, and uses less land, water, and nutrients than traditional growing systems.

We support changes to industrial allocation where they make the system more effective at providing the support necessary for businesses to remain competitive until a transition is made to lower emissions fuels for heating.

However, primarily we consider there is a need to review the approach to industrial allocation to include wider considerations that:

- support New Zealand's progress towards meeting climate targets, while also safeguarding food security.
- aligns with supporting the sector to transition to a lower-emissions fuels.

Industrial allocation provides free units to growers based on their production volume, rather than on how much carbon they emit, which is designed to incentivise low emissions production. However, it does not consider that vegetables are highly perishable products that do not store and travel well, or that there are benefits to communities of sustaining local vegetable production in places where alternative fuels are not yet feasible.

Alternative approaches are warranted and should be considered

Continually rising ETS prices are not sustainable for the greenhouse sector.

We consider that an alternative approach is warranted for greenhouse horticulture in the NZ ETS, for the following reasons:

- Greenhouse growers are producing healthy, fresh (perishable) fruit and vegetables for New Zealanders, enabling year-round food supply and security for New Zealanders.
- Some crops are trade-exposed, however even those crops that are less so, still have constraints in passing on ETS prices.
- Greenhouse growing is an efficient growing system, provides resilience in domestic food supply and is resilient in a changing and more volatile climate.
- The sector is undertaking work with EECA on a decarbonisation plan to support and enable transition, however this takes time.

The Paris Agreement speaks to a 'fundamental priority of safeguarding food security' and action in a manner that does not threaten food production. It is important that New Zealand retains the ability to provide for our own fruit and vegetables - in terms of availability, but also affordability.

- Growers have been experiencing substantial cost increases, due to rapidly rising ETS costs for example the NZU price has doubled, reaching \$65 (on the secondary market) in the last year.
- Rising produce costs contribute to food insecurity in New Zealand.
- There is a high risk that this (compounded by other energy supply/security challenges) will result in growers exiting the market, which will mean New Zealand will need to meet demand by importing (e.g from Australia), resulting in carbon leakage.

We strongly support MfE considering alternative mechanisms, to not only address the risk of climate leakage, but also alternative mechanisms of assisting New Zealand to meet it's climate targets for the greenhouse industry.

We are open to discussing this further and being part of the solution.

HortNZ considers that the review of industrial allocation needs to be considered in the context of supporting the greenhouse sector to transition to low carbon fuel, to enable these growers to continue to grow healthy produce for New Zealanders.

We consider the following options should be evaluated:

- Allocation for greenhouse growing which aligns to the 95% allocation provided for the rest of the agriculture sector under He Waka Eke Noa
- Upfront investment in supporting the sector to transition to low carbon fuels (including through supporting supply) to negate the need for industrial allocation for our sector
- A threshold and/or exemption approach for greenhouse growing.

Ultimately there is a need for a system-wide approach that enables the sector time to transition and certainty as to the options for transition, otherwise emissions reductions (that will result due to the exit of growers) will result in less vegetable consumption and carbon leakage.

HortNZ's Role

Background to HortNZ

HortNZ represents the interests of 6000 commercial fruit and vegetable growers in New Zealand, who grow around 100 different crop types and employ over 60,000 workers.

There is approximately 120,000 hectares of horticultural land in New Zealand - approximately 80,000 ha of this is fruit and vegetables. The remaining 40,000 ha is primarily made up of wine grapes and hops, which HortNZ does not represent.

It is not just the economic benefits associated with horticultural production that are important. The rural economy supports rural communities and rural production defines much of the rural landscape. Food production values provide a platform for long term sustainability of communities, through the provision of food security.

HortNZ's purpose is to create an enduring environment where growers prosper. This is done through enabling, promoting and advocating for growers in New Zealand.



Industry value \$6.39bn Total exports \$4.23bn Total domestic \$2.16bn

This is a joint submission with TomatoesNZ and Vegetables NZ.

- Vegetables New Zealand Incorporated represents the interests of capsicum, chilli, cucumber, eggplant, lettuce, sprouted beans, witloof, and courgette growers.
- Tomatoes NZ represent fresh tomato growers.

Introduction and context

The review of industrial allocation (and changes to eligibility) has the potential to significantly impact producers of tomatoes, cucumbers and capsicums (who are currently eligible for industrial allocation). It also has implications for the wider industry – who are currently not eligible for industrial allocation but may be in the future.

We welcome the opportunity to reconsider the future of industrial allocation and see an opportunity for alternatives which better support transition to a low emissions economy (and social, economic and environmental outcomes).

HortNZ's submissions on climate change policy (with specific regard to process heat) have sought that the Government provides support to enable transition away from fossil fuels, rather than solely relying on private sector, R&D investment or regulatory instruments - we consider that the review of the approach to industrial allocation (IA) has a role in supporting this for greenhouse growing sector.

1. Industry context

1.1. Overview of the covered crop sector

Greenhouse growing uses techniques not used in other cropping systems such as CO2 enrichment, soilless cultivation and heating. Greenhouse vegetables are grown year-round in a relatively stable, controlled environment with optimal growing conditions that offer the ability to produce a lot of vegetables in a sustainable way to feed our growing population.

A number of vegetable crops are grown indoors, in greenhouse structures - for example, capsicum, chilli, courgette, cucumber, eggplant, lettuce, sprouted beans, tomato, and witloof. The majority of these crops are heated.

There are also some crops that are grown under cover (but not heated) in either semi or fully enclosed structures for example, several berry varieties.

This submission hereafter refers to 'greenhouse growing' and/or 'greenhouse crops' in reference to crops which are grown in fully enclosed controlled environments, within a greenhouse structure.

1.1.1. EXTENT OF THE GREENHOUSE GROWING SECTOR

There are approximately 256 hectares of greenhouse crops in New Zealand (based on 2017 Agricultural Production Statistics data). Greenhouse growing is dispersed throughout New Zealand. In the North Island, growers are predominately located in the Auckland and Waikato regions, and in the South Island, predominately in Tasman, Marlborough and Canterbury.

In New Zealand, there are approximately 125 fresh tomato growers (almost all of whom grow in greenhouses) and approximately 120 greenhouse growers of crops, including capsicums, eggplants, cucumbers, lettuces, chillies and herbs.

1.1.2. ECONOMIC CONTRIBUTION OF GREENHOUSE GROWING

A 2018 report by NZIER evaluating the contribution of the covered (greenhouse) vegetable crop industries to New Zealand found:

- Gross output (or turnover) of \$295 million
- Contribution to GDP of \$120 million
- 2,400 jobs
- Exports of \$35-\$40 million per year
- Spending of \$34.3 million on heating (including electricity, coal, gas)
- This is an important industry for New Zealand, attracting stable jobs and skills in a growing market for covered crop products. It makes important contributions to GDP and general wellbeing through the employment it provides, exports it makes, and an increased use of technology
- It is a stable and growing industry which provides a significant contribution towards diversifying the New Zealand economy
- Helps to diversify the revenue sources for companies involved in agriculture and horticultural industries

1.1.3. USE OF HEAT IN GREENHOUSE GROWING SYSTEMS

In New Zealand, commercial tomatoes, capsicum and cucumbers can only be grown outdoors for a short summer window in regions where there is enough heat ripen. Therefore, almost all of the fresh tomatoes, capsicums and cucumbers eaten by New Zealand consumers are grown in greenhouses.

A 2020 industry survey of greenhouse vegetable growers conducted by Tomatoes New Zealand and Vegetables NZ indicates that, of the respondents, 72% of the greenhouses (representing 95% of the greenhouse area accounted for in the survey) were heated, indicating that almost all larger operations are heated.

The same survey also indicated that the most common form of greenhouse heating is natural gas (62% of the heated area of survey respondents), followed by coal (15%). There were regional differences in fuel source, for example natural gas was limited to the mid and upper North Island (there is no reticulated gas network in the South Island).

EECA's energy end use data base indicates that amongst low and intermediate temp heat users (using boiler systems for heat/cooling) for 2019, indoor cropping accounted for 9.7% of coal use and 4.3% of natural gas use.¹

Unheated greenhouses make up less than 4% of the production area and do not produce through the coldest winter months.²

¹ Energy end use database, accessed from EECA's website.

² Lumen (2020). Tomatoes New Zealand Grower Survey November 2020

Importance of heat for greenhouse growing systems

Heating is important for the viability of greenhouse vegetable production - by enabling year-round production and to grow a quality product.

Heating has multiple functions. As well as determining the rate of photosynthesis, fruit set and fruit ripening, temperature regulates plant growth rate by driving transpiration rates and photosynthesis rates. Heating also allows the grower to manage relative humidity in the greenhouse, reducing the onset and spread of diseases, reducing the use of agrichemicals and increasing the fruit/plant quality.

Without heating, a controlled environment is not achieved, fruit/plant quality is poorer, losses are greater, and product cannot be grown in winter.

Due to the fresh, highly perishable nature of greenhouse-grown vegetables, capturing the winter value of produce is essential to the greenhouse production model. Winter returns (due to reduced supply) are at a level that sustains growers through the summer months when fruit prices frequently do not cover costs. This is important for realising the benefits of the capital infrastructure of a greenhouse (with a new operation building cost starting at \$2M per hectare).

Year-round production is crucial because a high seasonality level results in lost market share at the end of every peak season as volumes drop and prices increase. That market share, which has been lost during the low-season to alternative products or imports, has to be regained the following peak season, which often does not happen fast enough, resulting in prices that do not cover grower's costs. Year-round production helps to even out the prices throughout the year, enabling continuity of supply and skilled workforce retainment which benefits both growers and consumers.

Due to resource efficiency, greenhouse production can also offset shortages caused by weather events that affect outdoor grown crops, for example flooding or drought.

It is the 'when' that crops are grown for that matters for covered crop operation as most are responsible for supplying fresh New Zealand grown produce in the offseason or when weather events affect outdoor crops.

Carbon dioxide enrichment

An additional benefit of the use of (some) fossil fuels for heating, is the supply of carbon dioxide which is captured and distributed to the crop to enhance crop growth, by increasing photosynthesis rates.

Growers using natural gas as their fuel source run boilers at day time to distribute the CO2 from the gas heating process into the greenhouse. The heat from this is stored using insulated buffer tank (that is then used for heating overnight).

Too little CO2 results in slowed plant growth and reduced yields. CO2 enrichment is used as a supplement on bright days as in the enclosed environment the plants consume the CO2 rapidly, CO2 drops causing photosynthesis rates to drop. Some growers buy in tanks of supplementary CO2, especially those using non-gas heating sources.

1.1.4. CONTRIBUTION TO DOMESTIC FOOD SUPPLY

Greenhouse growing is an integral part of New Zealand's food system, enabling New Zealanders to access freshly grown vegetables from a local supplier throughout the year; provides resilience within the domestic food system.

Most vegetables grown in greenhouses in New Zealand are for domestic consumption; the main greenhouse-grown export crop is capsicums.

These vegetables are stable foods for New Zealanders. Fresh tomato retail sales (excluding those used by food service restaurants/cafes and processed tomato products), for the year ended June 2019 was \$109m - more than any other fresh vegetable or fruit except for Bananas at \$145m. (Statistics NZ Household Economic survey). Potatoes at \$100.6m had the next highest spend after tomatoes. Cucumber spend was \$34.8m, and fresh capsicum and chillies \$47m.

Some of these crops also have an export component. This helps to support the viability of these businesses over the year when excess seasonal summer supply exceeds local demand at times when wholesale prices fall below the costs of goods sold.

Tomatoes

For the year ending 31 March 2020, 3,701T of fresh tomatoes (with an FOB value of \$12.2 million) were exported, representing 9% of the industry farm gate value. During the same period, 175T of fresh tomatoes were imported from Australia.³

<u>Cucumber</u>

The 'Potential for emissions leakage from selected industries in the ETS' report prepared for MfE states that cucumbers are largely produced for a domestic market - imports (in 2017 to 2019 FY's) were equivalent to approximately 1% of production and highly seasonal (at times when NZ retail prices are high); there is some export of New Zealand grown cucumbers (with export volumes trending downwards).⁴

Capsicum

In 2020, the domestic sales value (fob) was \$35 million for capsicums, compared to \$24.7 million from exports.⁵ The main export markets for capsicums are Japan (81% by quantity in 2020), Australia (15%) and the Pacific Islands⁶ (4%).⁷ Export volumes are highest in the summer months (Nov – Feb) and lowest over winter (June – August).

Other crops

The other indoor crops (e.g lettuce, eggplant) are typically grown for the domestic market and currently fall outside of the industrial allocation scheme.

³ Pers Comms, Tomatoes NZ (2021)

⁴ Potential for emissions leakage from selected industries in the ETS (January 2021). Resource Economics Limited.

⁵ Freshfacts 2020.

⁶ Sum of exports to Cook Islands, Fiji, French Polynesia, Kiribati, Marshall Islands, New Caledonia, Niue, Palau, Samoa, American Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, Wallis and Futuna.

⁷ Statistics New Zealand data on exports of 'Vegetables; fruits of the genus capsicum or of the genus pimenta, fresh or chilled' for 2020, accessed from Infoshare.

Eggplant was highlighted in a recent Landcare policy brief as being at risk for food security (with approximately 1kt produced and ~0.8 kt imported), recommending promotion of greater domestic production.⁸

1.2. Coverage of the NZ ETS

1.2.1. GREENHOUSE GROWING

Greenhouse crops (grown using heating) are exposed to the ETS price through costs that are passed through from their use of fuel or electricity.

Currently, three horticultural crops (fresh tomatoes, fresh cucumbers, and fresh capsicums) are eligible to receive industrial allocation, as moderately emissions intensive trade exposed (EITE).

There are a number of other crops (which are exposed to ETS costs via their fuel costs for heating that are not eligible for industrial allocation – for example, lettuce, herbs, leafy greens, chillies, eggplants – these crops pay the full ETS price, where they are heated. Based on the area distribution between crops (again using APS 2017 data), 65% of indoor vegetable growing area (i.e tomatoes, cucumbers, capsicums) was eligible for industrial allocation.

1.2.2. REST OF THE HORTICULTURE INDUSTRY

Outside of ETS cost via fuels for heating - ETS costs are also present for transport, refrigeration more broadly throughout the sector.

Currently agricultural emissions do not face any ETS costs – this is being addressed through He Waka Eke Noa, or alternatively will become part of the ETS after 2025, at which time they will have 95% free allocation. We acknowledge that this is outside the scope of this consultation.

2. Impacts of rising ETS costs for the greenhouse growing sector

Energy is the second highest single input cost for heated greenhouses (~30%), following closely behind wages.

Production of vegetables and other crops in greenhouses use energy for the control of temperature and humidity (heating), as well as for CO2 enrichment and (rarely in New Zealand) supplementary crop lighting. The energy use depends on the location, climate, greenhouse specifics, crop, temperature settings, and other variables.

A high-level qualitative assessment undertaken by NZIER in 2020 estimated that for the covered crop industry, at an ETS price of \$50/t carbon (with current technologies), growers will not be able to provide the volume or range that they produce and the industry will be significantly downsized. It notes that the ETS is already having 'a dramatic effect' on the covered crops industry noting that 'many

⁸ https://www.landcareresearch.co.nz/uploads/public/Publications/Policy-Briefing-Guidance-Papers/Policybrief-27_Rethinking-NZs-food-security.pdf

growers believe that they are caught in a bind between rising energy costs and an inability to raise prices in a competitive market'.

Growers have been experiencing substantial cost increases, for example at an NZU price of \$25, we calculate that the average net cost of the ETS (after allocation) on heating costs for a South Island tomato grower was \$26,693 per hectare. Whereas, at an NZU price of \$50, this net cost has increased to \$53,386 per hectare. This highlights the scale of increases some growers are experiencing.

Policy direction, in addition to steadily rising ETS costs that are being experienced, strongly signals that the ETS price will continue to rise. For example, changes to the ETS last year that introduced price controls; the Climate Change Commission's Advice to Government stating that it needs to rise in order to align with emissions budgets; and recently announced changes to increase the cost containment reserve to \$70).

"Last week, the carbon price hit \$65 per ton. This works out at \$3.50 per GJ of gas (18.5 GJ of gas per ton of CO2). That's roughly \$53,000 per ha per annum! give or take."

Experience of a greenhouse grower.

The price has also risen faster than has been expected - for example, in recent auctions the cost containment reserve was exceeded, this is contributing to the impacts on growers.

High ETS costs risk forcing some greenhouse growers out of business and limits the ability for capital investment, which in turn, limits potential to transition to lower emissions fuels because this requires significant investment.

Impacts are already being seen in the industry - for example;

- compared to last winter some tomato growers have reduced their planted area or exited the sector, and this reduced supply is being reflected in higher prices over winter this year (and these are staying higher for longer).
- many leafy green growers have seen a decrease in supply and increase in disease, because they have had to turn off boilers or reduce their use.

The high prices, and large fluctuations of price (as per Figure 1 below, summer 2020-21 also saw the lowest ever prices for tomatoes due to Covid disruptions), are not sustainable for a number of reasons; including:

- Consumers are turned off the product, and instead buy less healthy, often imported alternatives, not just in winter but all year round.
- High prices will encourage more imports from Australia in winter, which face no ETS or carbon tax and can sell for lower prices than NZ tomatoes.
- Summer prices become unsustainably low as growers move away from winter production and summer supply increases
- Stable and predictable prices are preferred by growers and retailers and consumers alike, as it results in predictability and consistency of purchasing, leading to the ability of growers to re-invest in their businesses, including in improving energy efficiency and fuel switching.



Figure 1: CPI Average retail tomato (loose round) prices (2016 - August 2021). Source: StatsNZ

There is a very real risk that more growers will exit in the within the next 12 months, and their production will not be replaced, because of very high energy prices, lack of viable, secure, alternative energy sources, along with other rising input cost. In the near future these vegetables will not be grown in New Zealand for substantial periods of the year and instead be imported, which we believe would have negative social and economic consequences. For example, people would no longer have access to locally grown produce, which is fresher and more readily available from a range of suppliers than imports; biosecurity risks will increase from the imported products; jobs and export income will be lost; and New Zealand's own food security (ability to provide its own fresh vegetables) reduced.

Additionally, those countries (notably Australia) that the produce is imported from are very unlikely to face the same carbon charges that our growers face; they may pay a different price; or they may produce with much higher emissions than NZ growers – i.e. the potential for Carbon Leakage.

Loss of South Island growers (who face higher costs) would result in increased reliance on other growing areas (which has resilience implications), reduced capability within New Zealand and increased transport related emissions.

2.1. Resilience and mental health

Rapidly increasing prices and uncertain energy supply markets are taking a toll on the mental health of growers. Regulation to focus on negative aspects – it is also important to recognise the positive contribution the sector makes in terms of producing of healthy food.

3. Role greenhouse growing systems have to play in a low emissions future

In our view, greenhouse growing is a growing system which we want to retain (and expand) in New Zealand - notwithstanding the need to move away from use of fossil fuels - this is because:

- Efficient growing system requires considerably less water per unit of output, and produces more consistent, high-quality products. For example, tomatoes grown in a new high-tech greenhouse can produce 100 kg per m² per year, equal to 1,000 tons per hectare per year. This is 10 to 20 times more than the production of any field-grown crop.⁹ In addition, the greenhouse crop will use at least four times less water than the outdoor crop.¹⁰ The closed systems also allow for controlled and recycled inputs such as water and nutrients, with minimal (and controlled) discharges.
- **Resilience in domestic food supply** Greenhouse growing provides resilience within the domestic food system and is important for risk management at a national level. The greenhouse industry plays an important role in evening out market supply issues in shoulder and off seasons. This is particularly important when there are adverse weather events that impact on the few areas in the country where there is winter production of certain vegetables.
- **Resilient system in a more volatile climate (climate adaptation)** Global trends suggest that covered cropping will have an increasingly important role to play in feeding people. An increase in covered cropping will be essential to adapt the food production system to the changing, more volatile world climate while still producing enough food in a way that also uses less water and nutrients and mitigates the risks associated with unpredictable climatic events. A 2019 Intergovernmental Panel on Climate Change report into land use stated "*The stability of food supply is projected to decrease as the magnitude and frequency of extreme weather events that disrupt food chains increases*".¹¹ Covered cropping can reliably deliver high yields of quality produce using less land and water.

Research has illustrated the connection between eating patterns, climate change and health outcomes finding that eating more plant-based foods and minimising food waste were one of the most important ways individuals could reduce their personal climate footprint, while also having health gains and health system savings¹². This research reported annual diet-related emissions reductions of between 4 percent (following New Zealand Dietary Guidelines) to 42 per cent (wastefree vegan diet), the latter being equivalent to one-fifth of the current



⁹ Elly Nederhoff, Crophouse Ltd. March 2021

¹⁰ The Futuristic Farms That Will Feed the World. August 2019

¹¹ IPCC, 2019: Summary for Policymakers. In: Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems

¹² Drew, J et al. (2020) 'Healthy and Climate-Friendly Eating Patterns in the New Zealand Context'. Environmental Health Perspectives https://ehp.niehs.nih.gov/doi/full/10.1289/EHP5996

emissions reduction needed to meet New Zealand's commitment under the Paris Climate Agreement.

In this context it would be counterproductive to restrict production of plant foods. This research echoes the findings of the Eat-Lancet Commission, that food is the single strongest lever to optimize human health and environmental sustainability and without action, the world risks failing to meet the United Nations Sustainable Development Goals and the Paris Agreement¹³.

A policy environment that enables the transition of the greenhouse sector to low emissions fuels, without businesses becoming uneconomic and closing is required.

4. Transition to a low emissions economy

HortNZ considers that the transition towards New Zealand's 2050 climate target needs to provide for a realistic and fair transition for food production, taking into consideration environmental, social and economic impacts, including global emissions and food security.

We are of the view that the covered crop industry does need to transition to renewable energy sources and that, over time, this will be possible. However, sufficient time for the technology and alternatives becoming available and economically viable to support this outcome will be required. There also needs to be consideration of the 'life' of current assets – there is a risk of stranded assets if the transition is to fast.

4.1. Challenges/barriers to transition

There are challenges for transition to low emission fuels for heating in the greenhouse sector. The key barriers to change include economic reasons (transition is very capital intensive, and operating costs are high) and energy security limitations (for biomass and electricity in particular).

"At one site we explored changing from waste oil to a renewable resource. Electricity was significantly higher capex and opex, so was not feasible. Biomass had very slightly lower opex compared to waste oil, but still required \$4.2m in capex to transition. Even with significant co-funding to change, this was still economically unfeasible to be competitive and change in today's tomato market."

Example of the experience of a greenhouse grower.

Tomatoes New Zealand and Vegetables New Zealand are in the early stages of a decarbonisation plan in partnership with EECA - this will provide better information on the pathway forward than what is known currently.

The horticulture sector needs investment in technology that will enable growers to transition the heating of these growing systems to economically viable, low emissions, alternative heating systems. Equitable support for indoor growers, both large and small, to access energy saving technology and assistance with capital for



¹³ Eat-Lancet. (2019). Food in the Anthropocene: the EAT-Lancet Commission on healthy diets from sustainable food systems. The Lancet.

energy conversions, energy saving measures and alternative fuel supply initiatives from Government is vital. Growers have been paying the carbon tax on fuels (some without industrial allocation), but have not had sufficient support/viable options to enable fuel switching.

Transition isn't easy and takes time, for example:

- The Netherlands, world leaders in this area, are seeking to achieve a climate-neutral greenhouse horticulture sector by 2040.¹⁴ This is supported by transition projects such as the capture of carbon dioxide and residual heat from other industrial sources for reuse as an input in greenhouse horticulture in spatial clusters; and a 'Greenhouse as a Source of Energy' programme.
- The Dutch greenhouse industry is ten years into energy transition and while geothermal, biofuels, solar, sustainable electricity and sustainable heat are energy sources that are used, however 90% remains natural gas.¹⁵

Some of the costs of reducing emissions that will be borne by the horticulture sector (via the ETS or otherwise) will either be passed on to consumers, or result in significantly reduced domestic supply. For example, most of the vegetables grown in New Zealand are for domestic consumption, and increasing costs of vegetable production may threaten the ability of growers to continue to provide fresh affordable vegetables for New Zealanders. In addition, New Zealand is too remote to import most fresh vegetables, except by air-freight, which can only provide for a fraction of demand and has a high carbon footprint.

4.2. Limitations of existing support structures

We acknowledge there is some support available for growers to invest in new technology - however this does not provide enough support across the industry, and in particular for small to medium growers.

The Government Investment in Decarbonising Industry (GIDI) fund, providing contestable co-investment to support industrial process heat decarbonisation is an example of this. This fund is limited to projects that have a total capital cost of greater than \$500k, with co-investment to a maximum of 50% (and not exceeding \$5 million). The funding rounds are considered too short for most growers to tap into and the majority of the industry are smaller growers that do not fit the GIDI fund requirements. As such, inequitable policy outcomes impact on market competitiveness.

¹⁴ National Climate Agreement 2019 - Accessed:

https://www.government.nl/documents/reports/2019/06/28/climate-agreement

¹⁵ Presentation by Elly Nederhoff, Crophouse Ltd. March 2021.

Industrial allocation in the ETS

5. Current state industrial allocation for horticultural EITE activities

As noted above - growers of fresh tomatoes, fresh cucumbers and fresh capsicums are eligible for industrial allocation (60%, and declining due to recent amendments introducing phase out) as moderately emissions intensive activities.

In 2019, industrial allocations were claimed by:

- 20 growers of fresh tomatoes, collectively 49,837 NZUs
- 9 growers of fresh cucumbers, collectively 27,940 NZUs
- 10 growers of fresh capsicums, collectively 29,466 NZUs

Collectively, this accounted for 1.3% of NZUs allocated (via industrial allocation) in 2019 (0.6%, 0.34% and 0.36% respectively).¹⁶

Figures 1 and 2 show the trends between 2010 and 2019 for these crops.



Figure 2: Industrial allocation data - NZUs allocated¹⁷

¹⁶ Based on data published by the EPA, at <u>https://www.epa.govt.nz/industry-areas/emissions-trading-scheme/industrial-allocations/decisions/</u>

¹⁷ Ibid.



Figure 3: Industrial allocation data Number of growers claiming NZUs¹⁸

As the number of NZUs allocated is based on production volume, the figures above suggest that production volumes of these crops have gone up, but the market has consolidated (there are fewer growers). This is consistent with industry data.

The data also indicates that growers can (and do) convert between crops i.e some are not claiming industrial allocation year-on-year for each respective crop.

Industrial allocation reduces the cost of the NZ ETS for these producers - to a greater or lesser degree depending on their fuel source, heating requirements (both of which are dependent on geographical location) and production levels.

Industrial Allocation currently paid under the scheme has reduced the impact of the ETS price for eligible growers, but it has not driven transition across the industry. Crops are grown in different parts of NZ to meet local market demand. Growers logically cannot shift to locations with lower emissions fuel sources e.g. from South Island coal to North Island gas or geothermal, as was suggested in the 'Potential for emissions leakage from selected industries in the ETS' report (i.e. that cucumber production might just shift within New Zealand, rather than to international producers), while still providing a local food supply. There is also significant investment tied up in existing infrastructure.

5.1. Recent data collection for cucumbers

We note the following about the structure of industrial allocation:

- Industrial allocation in the ETS was established to incentivize carbon efficient production (including for example, if a grower converted to biomass but the cost of that fuel is higher, it supports that conversion).
- The 60% allocation (for moderate EITE) is across the industry, not each individual grower. It was always set up to 'reward' some growers more than others due to the point above.

We have concerns about the data collection that occurred for cucumbers – in terms of the assumptions made (particularly relating to import risk/trade exposure) and the representativeness of the industry. The figures suggested do

¹⁸ Ibid.

not align with industry data on energy efficiency improvements (i.e circa. 40% between 2004 and 2007, as noted below).

We also note that the data collection questions/format did not align with how that data is typically collated/recorded by growers, requiring interpretation. This may have resulted in variable quality/accuracy of the data collected. The industry would like to assist with making this process more accessible to growers in the future.

6. Emission and energy intensity improvements in the sector

In 2017, a TomatoesNZ and Vegetable NZ survey of covered vegetable crop growers (including tomatoes, capsicums and cucumbers) of their energy use demonstrates that since the previous survey undertaken in 2004, indicated that:¹⁹

- Nationally, energy intensity had remained virtually unchanged with just a 5% increase since 2004, going from 1,360 MJ/m2 to 1,430 MJ/m²;
- During that same period, yields increased across standard tomatoes (large loose/truss) (28%), capsicums (8%) and cucumbers (41%);
- Energy use is influenced by management, regional location, the type of greenhouse, greenhouse age and the type of crop being grown. Average energy use in the North Island is 1,310 MJ/m² which is 26% less than in the South Island at 1,790 MJ/m².

Calculating the carbon footprint of tomatoes and capsicums from the 2017 survey and comparing it to the 2004 survey, we found that:

- The NZ weighted average standard tomatoes footprint decreased by 21% from 2,610 gCO2eq/kg marketed fruit to 2,050 gCO2eq/kg marketed fruit. This reflects the same energy intensity but 28% higher yields.
- Similarly, the carbon footprint of capsicums decreased by 7%, reflecting an 8% increase in yield, from 3,908 gCO2eq/kg marketed fruit to 3,640 gCO2eq/kg marketed fruit.

Growers have become more efficient with their energy use and investing in opportunities to reduce their emissions and make energy intensity improvements.

Two case study examples are explained in **Appendix A**:

- 1. South Island Grower thermal screens, consolidation & better use of boilers, transition to biomass
- 2. NZ Gourmet use of wind and solar at Waiuku glasshouses.

We urge decision makers to, in the review of industrial allocation, recognise the progress that the sector has made and consider that the review of allocation settings should not have the effect of penalising efficiency gains.

¹⁹ NZ Greenhouse Energy Use and Waste Survey 2017

These case studies emphasise that long term thinking is needed to develop suitable systems for covered crop growers.

7. Transition away from fossil fuels

For the most part, the ETS has not supported or driven transition to low carbon fuels to-date. One of the key reasons for this is the limited options for transition that exist - the industry is actively working in this space to better understand the opportunities/pathway.

A consider relevant to the ETS is cost - some growers are in the situation where due to high input costs, they do not have the money to invest in capital projects.

The New Zealand greenhouse sector has aging infrastructure, much of which is due for replacement in the next 10 years. Reinvestment is an opportunity to build more efficient structures, however if production costs are too high, it might not be viable to make this investment (and growers may choose to exit instead).

8. Current design of industrial allocation is not well suited to the greenhouse horticulture sector

Currently industrial allocation is set up to manage emissions leakage - recognising that NZ ETS costs might affect the international competitiveness of some businesses (i.e trade-exposed businesses are unable to pass on increased costs to consumers because they are competing with businesses in other countries).

The NZ ETS is intended to encourage the use of low emissions technologies and fuels by imposing costs. Industrial allocation reduces those costs for some industrial activities to avoid emissions leakage.²⁰

In theory, increasing ETS costs would act as a price signal that is either passed on to consumers resulting in a higher cost product (providing an incentive for consumers to purchase lower carbon products), and/or provide a price driver for producers to reduce carbon emissions.

Growers are 'price takers'

Growers are generally 'price-takers'. The ability to pass on higher production costs to consumers is limited. For example, research indicates that families in New Zealand living in more deprived areas substitute fruit and vegetables with cheaper energy-dense nutrient-poor products when there are increases in fruit and vegetable prices²¹.

The recent draft report by the Commerce Commission on the retail grocery sector indicates that major grocery retailers are a key route to market for many suppliers (between them an estimated 80-90% of the retail grocery market) and that competition does not appear to be working well for suppliers to the major grocery

²⁰ https://environment.govt.nz/what-government-is-doing/key-initiatives/ets/participating-in-the-nzets/overview-industrial-allocation/#introduction-to-industrial-allocation

²¹ Rush, E., Savila, F., Jalili-Moghaddam, S., & Amoah, I. (2018). Vegetables: New Zealand Children Are Not Eating Enough. *Front. Nutr.* <u>https://www.frontiersin.org/articles/10.3389/fnut.2018.00134/full</u>

retailers. The report highlights that most suppliers have limited ability to negotiate with the major grocery retailers.²²

An additional factor, is the perishability of fresh produce. The same Commerce Commission draft report noted that suppliers of some perishable products appear to be particularly vulnerable when dealing with grocery retailers, and included the following quote from the submission of T&G Fresh:

"When fresh produce is grown, it must be sold quickly because of its perishability. Unlike other industries, in fresh produce you can't pause production because demand is low or pricing isn't so good. You are at the mercy of mother nature, the market, and prices change daily due to supply and consumer demand."

While prices of fruit and vegetables may increase, this does not mean the growers returns are increasing. A 2019 report by NZIER on the farm share of retail prices, stated:

"For food, particularly perishable food, rising prices do not necessarily reflect farmers receiving increasing returns. As an example, higher prices can reflect increasing input costs such as transport costs being passed on to consumers."23

The same report also noted the volatility of fruit and vegetables prices, with a lot of supply and price variation due to weather conditions.

Growers need to produce all-year around for economic viability

Greenhouse growers need to produce fruit/vegetables all year to get a return on their infrastructure investment, continuity of their supply relationships and skilled staffing and retainment costs. Growers make their profit in spring and autumn when they can grow reasonable quantities of produce and demand (and pricing) holds up well. During summer there is an over production which drives down prices due to oversupply in the market, and in the winter the high costs and lower volume of fruit result in no money being made by growers.

Appendix B includes graphs of the import (quantity), export (quantity) and price index by month for 2018 for tomatoes, capsicum, cucumber and lettuce.

This indicates that for all four of these crops:

- Prices (monthly weighted average prices, per kg) peak over the winter • months (approx. May - August) and are lowest over the summer months;
- The greatest volume of imports coincides with this winter price peak;
- Exports from New Zealand occur during the summer months (when the • price is lower) rather than during the winter price peak period; this was most prominent in tomatoes and capsicums (as there is little export of lettuce and cucumber).

Domestic consumption is sensitive to price

²² Market study into the retail grocery sector – Draft Report (29 July 2021). Commerce Commission. ²³ NZIER (2019). Farm Share of Retail Prices.

There is a direct linkage between the price of fruit and vegetables and the volume sold - when prices are low (in summer) consumption is at its peak, and conversely when the price peaks in winter, consumption reduces.

"Figures from the HES [Household Economic Survey] suggest households buy fewer tomatoes when they are out of season and available at higher prices, and more tomatoes when they are in season and available at lower prices. The result of this is that New Zealanders' spending on fresh tomatoes actually tends to remain at similar levels throughout the year, whatever the season" – StatsNZ article.²⁴

Imports are also sensitive to market changes

For example, for fresh tomatoes, at present imports are low (refer Figure 3), because the New Zealand market is fully supplied locally, however that could rapidly change.



Figure 4: Import data (quantity, kgs) for Tomatoes (2001 - 2020)

Records of tomato statistics indicates how New Zealand production volumes influence import volumes.

- Pre-2011, few New Zealand tomato growers produced in winter. In 2011, Australian fresh tomato imports were paused when the Australian authorities banned the use of dimethoate (used as biosecurity measure for Fruit Fly).
- During this period NZ growers adjusted their production practices to supply more tomatoes in winter. They were able to do this because they were receiving a better price for their product in winter (where previously, the Australian imports kept the price down so it was less economic for growers to compete).
- Imports were reinstated in 2013 with the introduction of irradiation as the Fruit Fly quarantine treatment. However import volumes have never recovered. New Zealand growers are now producing a more stable year-

²⁴ 'Red, ripe and really versatile: tracking tomato prices in the CPI'. Statistics New Zealand, 11 January 2012.

round supply Between 2011 and 2019 (until Covid disruptions) prices had become stable year-round, which is good for both growers and consumers.

If ETS pricing leads to a decrease in New Zealand production volumes and/or price increases, this would leave the sector vulnerable to carbon leakage from imports. As price increases and/or supply decreases, it eventually reaches a tipping point where local demand for the product is not being met and Australian imports²⁵ become a more attractive and economic proposition for New Zealand food service and food retailers. This is particularly so when domestic Australian prices are not subject to the same carbon price increases, because as Australian produce prices remain more static relative to NZ produce prices, Australian growers can get more for their produce if they export it to NZ than if they sell it domestically in Australia. Therefore, rising NZ produce prices will support movement of the production of these vegetables offshore to Australia, where the growers pay no carbon costs.

Outdoor growing land has been lost.

With the exception of process tomatoes in the Hawkes Bay, the outdoor fresh tomato growing industry is largely gone from NZ, and there is no guarantee it would return.

For example, Otaki was renowned for growing tomatoes (two million tomato plants were grown), and the area supplied over 90% of the North Island's requirements. At its peak, the Otaki District Commercial Growers Society has over 150 registered growers. The average size of the garden ranged from half an acre to 5 acres - this is why the land is fragmented, because it used to be possible to work off small sites. When the tomato industry went indoor, the outdoor tomato industry in Otaki became uneconomic. The small land parcels and urbanisation of Otaki meant that the smaller (0.5 to 5ha) blocks were no longer large enough for a viable horticulture business, and have been lost to urban and lifestyle development. In Otaki, there is now less than 10 growers still in operation, and of those, only two or three are supplying the central marketing system.²⁶

Increased price of production could impact ability to supply domestic market

As has been touched on previously, growers mostly produce a domestic market if production are to be profitable, thus will impact on vegetable supply.

Higher prices of produce result in less consumption of vegetables. If NZ producers are driven out of business by the carbon price NZ consumers would be likely to pay the imported price year around resulting in reduced consumption. The consumption data in **Appendix B**, clearly illustrates the link between consumption and price. A recent study undertaken By Otago University²⁷ has modelled the impact of increased on vegetable prices on health, and found increased prices results in reduced vegetable consumption, substitution with less healthy food, and measurable negative health impacts

²⁵ Fresh Tomatoes can presently only be imported from Australia.

²⁶ Yung, Andrew. 2020 Evidence for Plan Change 2 Horizons.

²⁷ Cleghorn, C. 2020: The health and health system cost impacts of increasing vegetables prices over time, University of Otago

Consultation Questions

Criteria for assessing proposal

Response to specific consultation questions

Q. 1 Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

Support the criteria proposed - but consider additional criteria relating to food security and impact on ability to transition (which are discussed in more detail later in the submission) should also be included.

Proposed changes to allocation calcultations

General comments

We agree that there could be advantages in updating allocative baselines (to be more current).

There are also advantages to including a timeframe for future updates - as this will build additionally certainty (in respect of when baselines will be amended, although at the expense of certainty of the same allocative baseline for an indefinite period until future review) and keep the system current.

Updating baselines every year going forward would introduce a level of uncertainty which would outweigh any benefit gained, we would favour a five- or ten-year frequency for updating baselines.

Proposed changes to eligibility

General comments

In principle, HortNZ is not opposed to updating the eligibility base years, to be more current, and to introduce new emissions intensity thresholds for New Zealand industry if the benefits of such an approach outweigh the costs of developing these.

Response to specific consultation questions

Q. 9 Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate?

We discuss in further detail below, that we consider food security and support to transition, are both criteria which we consider would be useful to add in.

It is also relevant to consider that few or no other countries charge carbon costs on fruit and vegetable production. By providing IA by other crops that are below the current threshold, this would provide those users an opportunity to invest in transition, and provide a more equitable approach across the sector (compared to grants etc.).

Q. 10 Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?

We support consideration of a 'sliding scale' approach – this would enable more targeted support (i.e more closely matched to need) and also negate the situation whereby a sector may be just below the threshold for moderate EITE – and therefore instead of being eligible for 60% industrial allocation receive 0%, where some allocation may be warranted and justified (even if a lesser amount e.g 30%).

Q. 11 Should the New Zealand EAF be used when determining eligibility? Why, or why not?

We have not done any impact on the analysis for growers – if this route is taken, this should be a consideration. Particularly in the future if conversion results in greater use of electricity (by greenhouse growers) to meet heating needs.

Q. 13 Should the trade exposure test be changed? Why, or why not?

Q. 14 What would be a more appropriate method to determine trade exposure?

We consider it would be useful to take into consideration not just 'current state' - but the risk of imports increasing, due to a rising price (attributable to increasing ETS costs) and/or if the NZ market was to shrink for that product whether this would result in import substitution. This is particularly relevant for fruit and vegetable production.

It should consider what carbon costs our direct international competitors face (i.e. few or no other countries charge carbon costs on food production), and other countries are also subsidising transition.

Other reforms to industrial allocation

Q. 15 Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

The impact of this is unclear, without the detail it is hard to understand the practical implications.

New activities

Q. 17 Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not?

Yes, we support clarification of the process for new activities so that it is clearer. Use of the most recent activity data in the intensity test would seem a logical clarification (as opposed to being tied to historical baselines – whether or not this data exists).

The review could also consider a simplified system to access industrial allocations.

Q. 18 Should new activities be able to seek eligibility? Why, or why not?

Yes - we consider there should be the opportunity for new activities to seek eligibility for industrial allocation, within reason.

This is necessary to recognise:

- Situations may change activities which may have not been eligible, may become eligible due to changing circumstances.
- New activities could bring benefits that align to other policy objectives (such as food security, freshwater management and climate adaptation).
- Q. 19 Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?

Option 3 in the consultation document ('New activities can seek eligibility if they can prove environmental benefit') suggests that a new activity must demonstrate a positive environmental benefit compared to a competing activity – acknowledging that this could be complex and difficult (and costly) to determine.

This may be too narrow of a criteria in our view - depending on how widely the term environment was interpreted.

An additional consideration should also be alignment with other policy objectives and contribution to NZ's climate change goals and/or transition. We consider that there needs to be some flexibility, perhaps this could be achieved by having matters to consider with discretion left to the Minister, rather than prescriptive set criteria.

Reporting

Q. 20	Should firms that receive IA be required to report their emissions, revenue and production data annually? Why, or why not?
Q. 21	Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?

We consider that an annual requirement for data collection creates an unnecessary administrative data burden, and may also compromise commercially sensitive information

(e.g. production data and revenue, which are highly confidential to individual companies) and go beyond what is required to monitor the risk of 'over-allocation' – particularly in light of the other changes proposed in this consultation which address these concerns.

This is particularly the case for our sector, where there is a number of growers (approx. 250), a number of which are small businesses.

The benefits of data collection need to carefully balanced against the administrative costs of gathering the data and how that data will be used/whether that level of data collection improved the system.

We recommend that any data collection be undertaken in consultation with industry bodies, to ensure accurate data for the sector.

Transition period

Q. 22 Should the five-year transition period for changes in eligibility status remain, or be changed? Why, or why not?

The Consultation Document signals that some of the proposals being consulted on (regarding updating allocation calculations and eligibility criteria) would likely result in some activity classes no longer being eligible for IA (or a lesser amount of IA). It is also suggested that it is unlikely that alternative approaches would be implemented in the first emissions budget (i.e until after 2026).

We consider this poses a risk to some businesses that could be managed through an adequate transition period. It is key that growers have certainty with suitable time steps.

Given the potential for quite significant change in eligibility criteria/baselines, five years is not sufficient and will leave the industry 'high and dry'.

We seek that the transition period be amended to a ten-year transition period, to enable businesses to plan, and be in a position (hopefully) to transition to lower carbon fuels, rather than being forced out of business.

Long-term direction of industrial allocation and future mechanisms

HortNZ welcomes a discussion on the longer-term direction of IA policy and the potential for fundamental changes to assist in meeting climate targets.

We see a continued role for free allocation for domestic food supply and carbon leakage as part of enabling transition.

Q. 23 Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

Yes - we think there would be value at looking into other options to address emissions leakage.

Growers are concerned about the risk of imported products, not subject to climate change policies as robust as New Zealand's, displacing NZ grown products in the domestic market.

26
Commentary on alternative options in the consultation document

Carbon border adjustment mechanisms

There are pro's and con's to this approach, notably there are potential disadvantages in terms of potential trade barriers (and New Zealand's free trade policy approach) and administrative challenges.

We consider that it would be wise to hold off on implementing such as measure in New Zealand at this time and instead monitor and review the approach and success (or otherwise) of other countries that pursue this (for example, the EU's proposal for a Carbon Border Adjustment Mechanism). However it may be useful to consider whether such an approach would be suitable in New Zealand.

Credible assurance and carbon-footprint standards could also enable consumers to make choices that reduce the risk of carbon leakage. We seek policy support for the use of Industry Assurance Programmes use in regulation and markets.

For horticulture, the GAP (Good Agricultural Practice) are vehicles for growers to prove they meet regulatory and market requirements. These schemes could be used to provide certified carbon footprints. The Governments focus on farm planning presents an opportunity to support the use of credible Industry Assurance Programmes aligned to JAS-ANZ, such as GAP, to deliver product certification.

Direct payments to industry

HortNZ support further consideration of direct cash payments to EITE firms that would offset the cost impact of the ETS.

A benefit of this approach is that it would likely be more administratively efficient for greenhouse growers.

Partial exemptions from the NZ ETS

We do not support this option, as presented in the discussion document.

The way in which partial exemption from the NZ ETS is discussed appears on the face of it to be similar to how industrial allocation works (except not based on production, but actual NZ ETS costs). From our understanding of the discussion document, this would provide limited assistance to greenhouse growers, stating "this option would not help EITE firms that do not have surrender obligations but still incur indirect costs from higher fuel or electricity prices."

However, we consider that the following should be considered:

An exemption from ETS costs (or allocation) which aligns to the 95% allocation
provided for the rest of the agriculture sector under He Waka Eke Noa (this being
provided on the basis that there is not the technology/mitigation available). This
could be time-bound, until such time that as low carbon technology and fuels are
available and economically viable. This may require an investment in international
carbon credits to cover the emissions in this period.

An alternative option would be to invest directly in supporting the sector to transition to low carbon fuels (rather than purchasing international carbon credits). If we assume the government will have to buy international carbon credits to cover the costs of the free allocation, this could be worth in the order of \$80 million dollars to support the glass house sector. However as outlined in this submission the design of free allocation is not assisting the sector to transition, due to capital costs and the limited ability to increase the price of vegetables. If instead the government invested in of the future committed funding now (with a discount rate applied), it could assist the industry to transition sooner. For example, if the allocation air-marked for 2027 – 2030, was anticipated and spent in the next five years as capital cost, it could enable the sector to transition, and negate the need for the free allocation after 2030.

Our initial analysis suggests that both of these options have similar costs and theoretically globally have the same emissions - but the latter has the benefit of securing our food supply. Whereas, the status quo (as discussed in this submission) will likely lead to significant downsizing of the greenhouse growing sector, resulting in negative health outcomes and reduced food security. While this would reduce emissions locally it is unlikely to result in reduction in emissions globally because of carbon leakage.

Q. 24 What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?

We strongly support MfE evaluating alternative mechanisms, to not only address the risk of climate leakage, but also alternative mechanisms of assisting New Zealand to meet it's climate targets for the greenhouse industry.

HortNZ considers that there should be consideration of exempting greenhouse growers from the NZ ETS, as an alternative mechanism (alongside complementary measures to ensure progress is continues towards carbon targets).

The Netherlands provides an example of this kind of approach:

- As outlined in the Netherlands Climate Agreement²⁸, there is a comprehensive range of initiative supporting the greenhouse horticulture sector to progress towards carbon reduction targets, including projects relating to geothermal energy, use of residual heat, sustainable electricity and carbon capture and supply. We understand that the EU-ETS has a participation threshold of 20MW (i.e only greenhouses exceeding this would be included)²⁹. This Agreement signals 'a commitment to an opt-out provision from the EU-ETS for greenhouse horticulture businesses'.
- It is also noted that the Netherlands Carbon Tax (additional to the EU-ETS) excludes greenhouse horticulture.³⁰

We consider there is justification to explore such as approach for the greenhouse sector in New Zealand, alongside transitional assistance.

Q. 25 Should IA policy or any alternative explicitly encourage firms to reduce emissions? Why, or why not?

²⁸ Netherlands Climate Agreement, 2019

²⁹ https://www.europarl.europa.eu/doceo/document/E-7-2012-007462_EN.html?redirect

³⁰ https://www.stibbe.com/en/news/2020/june/public-consultation-on-the-industry-carbon-tax-act-levy-and-trade-in-dispensation-rights

The discussion document notes the concern that - *'Expanding the policy to explicitly support emissions reductions could undermine the objective to protect New Zealand firms from emissions leakage'*

We recognise this concern however consider that in some situations, it could be a useful criteria that would support the assessment of industrial allocation decisions (i.e would industrial allocation support a firm to reduce their emissions), however not as a mandatory criteria/requirement across the Board, recognising the different opportunity to transition different sectors.

Q. 26 What method could be used to encourage emissions reductions?

To support transition to low carbon fuels (and emissions reductions), the sector needs investment and time to move past industrial allocation as a means of easing the social transition, to investment in a strategy to achieve the transition. There is also a need for:

- Centralised strategy and planning,
- Enabling regulation to support the development and supply of sustainable alternative fuel sources, such as regional biofuel and geothermal hubs,
- Ongoing surety of supply of low-emissions fuels (this is currently a significant limiting factor for biomass).

Wider considerations in industrial allocation policy

HortNZ is strongly of the view that decisions around industrial allocation, or an alternative, needs to include wider considerations.

This has been something that we have called for in several recent submissions, for example in our submissions on Reforming the New Zealand Emissions Trading Scheme: Proposed settings (Feb 2020):

"There is a need to review the ETS system and free allocation criteria. Free allocation principles should be designed to account for global emissions and food security. There is a need to prepare for a more carbon constrained future, while maintaining domestic food security."

We consider that New Zealand's domestic food security, and whether support assists an industry to transition to a low emissions economy are both criteria that should be added to decision-making in regard to support for industry, for the reasons explained below.

HortNZ considers that the purpose of IA should shift towards maintaining food security and driving global emissions reductions.

We explain why we consider these two criteria to be necessary below.

Contribution to domestic food supply (food security)

Greenhouse growing is a resilient way of producing food that is part of our domestic food production network. Crops grown in greenhouses (e.g tomatoes, cucumber, capsicum) can only be grown for a short time of the year outside.

Producing food while adapting to climate change is vital - New Zealand needs to continue producing food to feed itself (for our domestic food security) and export food.

For the greenhouse growing sector, the technology and fuel sources are not yet available for economic transition. Faced with rising ETS prices, many greenhouse growers will go

out of business. If greenhouse growers go out of business, New Zealanders will face higher prices leading to reduced vegetable consumption and increased imports (this may also increase carbon leakage).

The Paris Agreement speaks to a 'fundamental priority of safeguarding food security' and action in a manner that does not threaten food production. A key theme of HortNZ's submissions on climate related policy is the need to provide for our ongoing domestic food security. Policy that forces covered crop growers out of business due to the required speed and/or costs of transition, would likely have negative impacts regarding food security.

<u>Health</u>

Winter growing provides for a variety of vegetables throughout the year. An Otago University study showed that when prices increase (as would be the case in New Zealand if crops grown indoor were replaced by imported and preserved products), consumption of vegetables is predicted to drop, with negative health consequences.

As discussed (in section 8), sales of these products is very price sensitive - as the price increases consumers purchase less volume.

Research indicates that families in New Zealand living in more deprived areas substitute fruit and vegetables with cheaper energy-dense nutrient-poor products when there are increases in fruit and vegetable prices³¹.

Resilience of supply

Greenhouse crops are an integral part of New Zealand's food system, enabling New Zealanders to access freshly grown vegetables from a local supplier throughout the year; provides resilience within the domestic food system; and is important for risk management at a national level. The covered crop industry plays an important role in levelling out market supply in the shoulder and off-seasons. This is particularly important when there are adverse weather events that impact the country's few areas where there is winter production of certain vegetables.

Loss of growers in the greenhouse growing sectors would likely reduce New Zealand's food security, likely with no reduction in global GHG emissions, as the vegetables would likely be replaced with imports that are not subjected to carbon pricing.

Supporting transition to low emissions economy

As explained elsewhere in this submission - there are challenges for the greenhouse sector in transitioning to a low emissions economy.

We do not consider that the rapidly rising ETS costs are assisting in growers making this transition, and are in the contrary making it more challenging.

If industrial allocation was one of the tools which was used to support industries such as greenhouse growing to transition away from fossil fuels, this would have a 'win-win' outcome; by both accelerating progress towards uptake of renewable fuels (and corresponding emissions reduction), but safeguarding an industry which produces fresh and healthy food for New Zealanders.

There is the potential to link this to ensuring ongoing efforts to decarbonize.

³¹ Rush, E., Savila, F., Jalili-Moghaddam, S., & Amoah, I. (2018). Vegetables: New Zealand Children Are Not Eating Enough. *Front. Nutr.* <u>https://www.frontiersin.org/articles/10.3389/fnut.2018.00134/full</u>

Other comments

Q. 29 Do you have any other comments, ideas or critical feedback that could help support the Government form final policy decisions?

Complementary supportive policy (need for a 'carrot' not 'stick' approach)

For the greenhouse growing sector - which is producing food for New Zealanders - there needs to be a holistic approach which supports the transition away from fossil fuels at a pace which is realistic and achievable for the industry.

"The cost of forcing businesses to change without practical help is likely to be a lot higher than the cost of government investing into changes. It literally could decimate our industry which is not the intention of the Paris Agreement." - Greenhouse grower

As touched on earlier in the submission - need to consider the ability of businesses to remain viable throughout the transition to a low emissions economy (especially with regard to food production).

We consider there a need for long term co-investment by government with industry, and or access to low cost loans, and/or rebates on ETS expenditure, should be considered, for example:

- Supporting development of alternative fuels for example, there may be opportunities for the government to investigate the feasibility, and then potentially facilitate the development, of geothermal for greenhouses in an area such as Canterbury or South Auckland.
- Recycling funds gathered by the ETS, so they are proportionally returned to those who participate in the scheme so they can be used to fund investment in low emissions transition.

Sector-specific considerations need to be considered

We consider it necessary to take into consideration specific features of the greenhouse industry, particularly:

- The greenhouse sector is producing health, fresh (perishable) food for New Zealanders and not necessarily able to pass on additional costs to consumers (this also has social implications) as explained in this submission.
- Range of business sizes; horticultural producers are mostly small to medium sized businesses with a few larger corporates in some sectors. Changes in costs can have a dramatic effect on the ability of these businesses to remain profitable and continue to offer job opportunities to New Zealanders.
- There remain challenges to transition, which the sector is making efforts to overcome, but it requires long-term thinking.

Certain policy environment

A certain policy environment is required to encourage the investment required to transition to a low emissions economy without businesses becoming uneconomic and closing.

There have been many changes to the ETS in recent times, and a very rapid rate of prices increases. Alongside this there is also policy proposals to regulate through the RMA the use of fossil fuels in process heat.

Regulation of fuel supply

The ETS has impacted on the market, increasing competition and costs of alternative fuels. In our view regulation is required to ensure the fuel market is operating efficiently and is designed to meet New Zealanders essential human health needs

In order to transition, growers need biomass. We consider regulation should be used to ensure a greater proportion of slash is recovered from forestry. Forestry is being encouraged through the ETS. Slash being left on the hillside has environmental risks, and its recovery and use as fuel has environmental benefits. There needs to be consideration of the current operation of the market, in terms of the environmental risk and the opportunities to support transition, and the role regulation might play in supporting these outcomes..

Growers who have transitioned to biomass are vulnerable to suppliers pricing. For example, growers who have abated their energy are essentially passing the lion's share of free allocation through to their woodchip supplier, so in effect wood chip when used for glasshouse heating, is priced by the supplier to align with the cost of alternative fuels such as coal and gas, rather the cost of woodchip for other uses.

Growers face competition for fuel form public sector organisations such as schools, and large export producers such as Fonterra. It is important that domestic food supply is not priced out of this market.

Appendix A

Examples of energy savings - grower case studies

SOUTH ISLAND GROWER

Indoor and outdoor vegetable crops

This grower operate 13ha of greenhouses growing tomatoes, capsicums, and eggplant in the South Island. They also have 250ha of outdoor crops and operate 365 days of the year.

They have taken a balanced approach to improving their energy efficiency and transition from coal as the primary heat source in their greenhouses. They have achieved a 20% carbon emission reduction since 2015, through a better understanding of their heating demand and needs, and by investing in energy efficiency improvements.

Their principles have been:

- Use less energy, by improving energy efficiency, and
- Emit less emissions, by switching to a lower carbon fuel.

The grower has utilised a heating specialist to develop an energy plan with their staff to meet their crop energy and site requirements. Their completed energy projects include:

- Installed Heat Flow Meters on Boilers
- Thermal Screens: Retrofitted 6ha (60% of site)
- Underground pipe: Linked all glasshouses with over 3km of pipe
- Buffer tank: Installation of a 2 million litre hot water buffer tank
- Boiler reduction: Reduced from 8 to 3 coal operational boilers

This grower was not previously using heat flow meters and these were installed to understand what boilers can and cannot do, in order to gain better efficiency and utilisation. They have also reduced their number of boilers from 8 down to 3 (and now use between 1 to 3 boilers depending on the environment). This has resulted in the operational boilers reducing from a total of 30MW capacity down to 9MW and the boilers running at higher loads and more efficiently.

When reviewing options for their operations, the grower investigated using electricity but it was not feasible for their location (research identifying a 4MW cable down the State Highway was needed!). They also looked at solar but their greenhouse heating use is at the wrong time of the year for solar heating to be feasible (i.e., their need is in winter).

Next steps for their site include:

- Retrofitting the remaining 4ha of glasshouses with thermal screens.
- Wood pellet conversion at leased properties.
- Biomass boilers switching fuel from coal to biomass (supported by GIDI funding).

The grower's biomass usage will be 33,000T per year, peaking over 5 months during winter. The wood supply needs be within 100km of their site to be feasible, and they are building up credible suppliers over time.



Key learnings on their journey to improved efficiency to date have included looking at how they could reduce demand, developing an energy reduction road map and breaking it down to achievable parts over time.

NEW ZEALAND GOURMET

Greenhouse tomatoes and capsicum Auckland and Waikato

<u>Waiuku</u>

New Zealand Gourmet (NZG) grow capsicums under 5ha of glass at Waiuku, South Auckland, for supply to the local domestic market, and also for export. The site employs approximately 40 staff (and 150 at the North Auckland site) during the peak of the season, growing capsicum plants for 11 ½ months. One square metre produces approximately 30kgs of fruit during this time. The site uses natural gas to feed their boiler to produce CO2 to optimise fruit quality and run their glasshouses at an average 19-20°C during winter. This is done to maintain production over the cooler months.

At this site, NZG are utilising the following energy saving measures:

- Energy screens thermal screens are used to control humidity, keeping moisture in the glasshouses during summer. During winter the screens keep heat in with growers closing the screens at night to keep the sun's radiation in and save energy. This site closes the glasshouse screens daily at 4pm and NZG report they have achieved at energy savings of 30- 40% (reduction in gas use) in their greenhouse by using the screens effectively.
- Hot water storage is used to heat the crop at night through the use of an insulated hot water buffer to store heat produced during the daytime operation to generate CO2 for use in the glasshouse and heat to be used at night when the heat demand is the greatest.
- Wind this site utilises a nearby windmill (decommissioned from the Netherlands) to provide power to the site.

NZG use CO2 from the natural gas supply to maintain the quality and shelf life of the capsicum crop, with the plants absorbing CO2 during daytime. Without CO2, they would not be able to produce export quality capsicums as the quality is reduced. This would mean for export they would be limited to sending fruit by air only, rather than by sea, resulting in a much higher carbon footprint. NZG advise that natural gas have given them a 20% increase in production which is needed to pay for higher costs.

Low carbon energy options investigated by NZG include:

• **Biomass** - to heat this area of glasshouse requires 10 to 13 truck and trailer loads of woodchip per day plus suitable dry storage area on site to store and handle the woodchip. A large chipper could be used to chip forestry slash plus two truck and trailers would be needed for transport. The problem with transitioning to biomass is growers will be competing for supply from the same forestry in the Auckland region as both the public sector and other process heat users, which would likely result in the forestry available being cleaned up after a few years and a supply problem. In the South Auckland area there is only approximately 25,000 tonnes of waste wood available per annum. A 5ha glasshouse would use 10,000 tonnes per year.

- **Biodigesters** an initial cost calculation indicates a \$30 million capital investment is needed to heat a 7.5 ha greenhouse. This is not feasible in the current market.
- **Geothermal** this requires a study on availability of underground heat. It looks to be the most cost-effective options however drilling a hole to explore for geothermal costs at minimum \$1 million just to get started. Also greenhouses would have no access to CO2 so would need to buy this in separately.
- **Solar** based on the size of this site NZG would need around 20ha of north facing land for solar panels to deliver the energy they need. They envisage they may be able to transition to 70% energy supply with solar and 30% natural gas for CO2 consumption in the future however need certainty of market settings to enable an investment of this scale.

<u>Mokai</u>

NZG also grow tomatoes and capsicums in glasshouses at Mokai in the central North Island. This site uses adjacent geothermal supply for their energy requirements.

At this site NZG have been working with technology innovator Hot Lime Labs to generate CO2 supply from wood chip to supplement the greenhouses.

They also have LED lighting installed to maximise growing conditions. They grow a tomato variety called 'Campari' and can grow up to 50kg of tomatoes per plant vs normal cocktail tomatoes would yield under 30kg without the use of grow lights. However, running LED lighting is very expensive and requires access to power thus this site's access to geothermal generation allows the use of the additional lighting to be feasible.

CO2 uptake

NZG have also done some work to quantify the CO2 uptake in a tomato, capsicum or cucumber crop.

- A crop takes up about 70 tonnes CO2 out of the atmosphere per ha on an annual basis. Normally NZG apply 120 tonnes CO2 per ha per annum that they produce from natural gas.
- This 120 tonnes keeps the CO2 level just above ambient (450 500 ppm, where ambient is 400ppm). In this way there is hardly any leakage as it is mainly dosed when vents are closed. When the vents are more than 20% open, they shut down the CO2 unless there is heat demand for the buffer.
- It is possible to dose more and the uptake will be higher (you can go up to 1000ppm without a problem), but this starts to lead to high losses as well. This is how they operate in Holland where they have CO2 coming from nearby industries on top of CO2 from their gas burners.



Appendix B 2018 Export, Import and Price Index data





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Data accessed from Statistics NZ Infoshare tool (August 2021).

Harmonised Trade - Exports (Monthly) and Harmonised Trade - Imports (Monthly) - Total for all countries:

- 0702000000 Vegetables; tomatoes, fresh or chilled
- 0709600000 Vegetables; fruits of the genus capsicum or of the genus pimenta, fresh or chilled
- 0707000000 Vegetables; cucumbers and gherkins, fresh or chilled
- 0705190000 Vegetables; lettuce (lactuca sativa), (other than cabbage lettuce), fresh or chilled

Food Price Index Selected Monthly Weighted Average Prices for New Zealand (Monthly):

- Tomatoes, 1kg
- Capsicums, green, else red, 1kg
- Cucumber, 1kg
- Lettuce, 1kg

Ameera Clayton

From:	Helen Goile
Sent:	Friday, 17 September 2021 4:20 pm
To:	etsconsultations
Subject:	Submission on the Emissions Trading Scheme Allocation Process

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

To take action in this climate emergency, New Zealand should be reducing greenhouse gas emissions as quickly as possible, regardless of its global share of those emissions.

The Emissions Trading Scheme should be a means to manage reductions efficiently.

So far New Zealand has made little progress towards a low carbon economy, and the Emissions Trading Scheme has been ineffectual. New Zealand's lack of progress has been noticed internationally. Besides reputational risk, our companies could soon face carbon border adjustment costs in other countries.

Allocating free ETS credits to industry subsidizes high emitters and allows them to defer their transition to carbon neutral processes. Instead, the government should set definite targets and provide incentives for industries to reduce their emissions and commit to carbon zero by 2030.

To be of any use, the Emissions Trading Scheme needs an overhaul and regular review.

- The New Zealand electricity allocation factor should be used.
- Emissions intensity thresholds and baselines specific for New Zealand should be developed.
- Allocative baselines and eligibility should be reviewed annually, to reduce allocation of credits and phase them
 out by 2030.
- Reviews should use the most recent data to take into account changes in technology and trade.
- Companies in the Scheme should report annually on their emissions reduction plans.
- Tariffs or grants to essential high-emission industries must require verifiable decarbonization plans.

Regards Helen Goile

Sent from Outlook

Submission from Climate Justice Taranaki on Reforming industrial allocations in the New Zealand Emissions Trading Scheme, Sept 2021

- Climate Justice Taranaki Inc. (CJT) is a community group dedicated to environmental sustainability and social justice. This includes issues of inter-generational equity, notably in relation to climate change, which will impact future generations' inalienable rights to safe water, food and shelter, crucial to sustaining livelihoods and quality of life. CJT became an incorporated society in 2015.
- CJT has submitted on the ETS consultation back in 2016 and on the Climate Change Response (Emissions Trading Reform) Amendment Bill in January 2020¹. The points we raised previously still hold, some of which are reiterated below in respect of the current consultation on industrial allocations.

Emissions leakage

- From our background readings, we could not find any definitive cases whereby substantial emissions leakage was demonstrated because of not granting industrial allocations (IA). Moreover, the risks of emissions leakage are expected to decline as more and more countries implement the Paris Agreement and as the pressures from regulators, markets and consumers on producers and investors increase. Emissions leakage should therefore not be a criterion for assessing proposals in relation to IA (Question 1)
- 4. The government should not use public money to continue subsidising heavily polluting industries with allocations of free carbon credits for fear of potential emissions leakage. Industries that are currently rated as moderately intensive could be supported by other means to practically reduce their emissions. For example, offer assistance financially, technologically and/or in terms of market outreach to horticulture that burns coal to operate glasshouses, so they could switch to other heat processes such as electricity or change over to crops that better suit the local climates. Putting efforts into nurturing domestic markets rather than continue to prop up export-focussed industries would greatly reduce overall emissions as well, given that international transport emissions are often unaccounted for.
- 5. Another alternative to handing out free IA is putting in place a Carbon Border Adjustment Mechanism such as what's recently been adopted by the EU². It puts a carbon price on imports of targeted products to level the price competitions and to encourage industries outside the EU to also take ambitious climate action. NZ should consider similar mechanisms rather than continuing IA.
- 6. Highly intensive emitting industries that are unable to reduce their emissions and unwilling to pay the full carbon price need to be phased out. We strongly agree with Motu's analysis that "The closure of some industrial production in New Zealand and the redeployment of its labour and capital may be a necessary and ultimately beneficial part of the country's low-emission transition" (Rontard and Leining, Sept 2021)³. As an example, Canadian owned Methanex uses Taranaki's natural gas extracted by fracking underneath our productive farmlands, to produce methanol for export. It has been profiting⁴ from free IA⁵ (1.18M units in 2020 alone)⁶ and avoiding tax⁷ while greenwashing its operation and product for far too long.

³ Rontard B. and C. Leining, September 2021. Future Options for Industrial Free Allocation in the NZ ETS. Motu Working Paper 21-13. <u>https://www.motu.org.nz/our-research/environment-and-resources/emission-mitigation/emissions-trading/future-options-industrial-free-allocation-nz-ets/</u>

¹ <u>https://climatejusticetaranaki.files.wordpress.com/2020/01/cjt-submission-on-climate-change-response-ets-reform-17jan20-final.pdf</u>

² <u>https://ec.europa.eu/taxation_customs/green-taxation-0/carbon-border-adjustment-mechanism_en</u>

⁴ <u>https://www.methanex.com/news/methanex-second-quarter-2021-results-demonstrate-favourable-methanol-industry-fundamentals-and</u>

⁵ <u>https://www.stuff.co.nz/taranaki-daily-news/news/2900627/Methanex-to-escape-ETS-penalties</u>

⁶ <u>https://www.epa.govt.nz/industry-areas/emissions-trading-scheme/industrial-allocations/decisions/</u>

⁷ <u>https://www.nzherald.co.nz/business/top-multinationals-pay-almost-no-tax-in-new-zealand/MABUXPEGHISZWPEDKC3EWA7M6I/</u>

7. Indeed, just transition to a low and ultimately zero carbon economy is only possible if we respect natural limits and reduce our overall energy consumption and economy, not just by increasing energy efficiencies or swapping fossil fuels with renewables⁸.

Cap and phase out IAs

8. No new activities should be considered eligible for IA (Question 18). We should be setting a cap on IAs and phasing it out much more rapidly than the current pace.

Allocation calculations

- 9. If IA are retained, then the baselines should be updated (Question 2). Technologies have generally been improved and become more energy efficient so IA calculated from out-dated baselines lead to over allocations, further diminishing any incentives to transition out of fossil fuels⁹. We also now know that the NZ Aluminium Smelters plans to close after December 2024 and Refining NZ is on its way to cease refining oil and become a fuel import terminal. The old baselines also pre-dated the emergence of Covid-19.
- 10. If periodic reassessment is legislated, then it needs to be done annually because of fast changing market and regulatory pressures and technological advancements (Question 4).

⁸ <u>https://climatejusticetaranaki.files.wordpress.com/2021/05/toitu-taranaki-2030-just-transition-community-strategy-apr21-web.pdf</u>

⁹ <u>https://www.stuff.co.nz/environment/climate-news/126300406/how-big-polluters-profit-off-the-governments-outdated-maths</u>

Ameera Clayton

From: Sent: To: Subject:

Friday, 17 September 2021 4:23 pm

etsconsultations

Submission on the ETS Industry Allocations Review 2021.

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

I would like to make a submission on the ETS Industry Allocations Review 2021. In brief, I oppose the proposal to allow major industries to not engage properly with the ETS until 2050. Given the climate change evidence, we need to take immediate action particularly focusing on the biggest emitters, because as individuals we simply cannot make enough of a dent in CO2 emissions. We need to START with the big industries, with measures that will encourage them to make big improvements fast, not wait till it's too late.

- New Zealand needs to immediately phase out, and find ways to decarbonise, all of our emitting
 industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a
 part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

More detailed answers to your 29 questions are below:

1. Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

Here are our suggested changes:

- Plan for a future with a definite and near timeline where there are no free allocations. The future
 of industrial allocation should be grounded in approaches that achieve fastest emissions reduction.
 Implementations of this include: Allocations or grants given only to companies with roadmaps to zero
 allocations usage. This enables government and industry to give certainty over future allocations and to
 scale down to zero, by 2030.
- 2. Capping emissions grants to ensure companies take on their responsibilities of environmental impact. Industry Allocations should avoid granting over 25% of carbon emissions to any company.
- 3. Add criteria to strengthen fairness and climate justice. The transition away from fossil fuels must be a just transition, and this needs to be built into all aspects of the system.

4. Change 4) to "Changes to IA should give recipients ****and the general public**** certainty around emissions reduction timelines.

2. Should allocative baselines be updated using new base years? Why, or why not?

Yes. Over-allocation is one of the worst features of the ETS as it stands. It has created perverse incentives which subsidise company profits in the short term, disincentivised immediate investment in transition and socialised the effects of burning fossil fuels. There is no evidence that those companies that have received over-allocations have used them to fund the transition away from fossil fuels. Over-allocation is an especially poor use of taxpayer funds and it must stop now

3. Should the reassessment be a one-off update, or a periodic update? Why, or why not?

When the facts change, approaches should change to reflect them. The IPCC reports demonstrate worse outcomes and shorter timeframes for meaningful action than when the ETS was last rewritten. Over-allocation has been enabled by a highly permissive approach to baselines updates. This must end now. Therefore, allocative baselines need to be reviewed annually, with the aim to end over-allocation and in the context of a phaseout of all industrial allocations by 2030.

Annual reassessment will require greater support from both government and industry. Given the critical importance of responding to the climate emergency, and the increasing pressure that will come on both Aotearoa as a nation and our most carbon-intensive industries, this will be money well spent.

4. If periodic reassessment is legislated, what would be an appropriate period – every year, 5 years, 10 years, or something else? Why?

- Every year
- 5 years
- 10 years
- Something else

Every year. The period to 2030 is especially critical in reducing emissions, and ending the use of coal, gas and other fossil fuels in industries is one of the areas it's possible to move fastest. Instead, the ETS in its present form is subsidising industries not to transition from fossil fuels. Annual reviews should occur in the context of a plan to reduce industrial allocations to zero by 2030. This will provide certainty to industries that they must act to transition - now. This can be supported by grant money where industries are able to demonstrate a clear need for such assistance.

5. Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not?

No. Only the most recent years should be used, given that earlier years do not reflect the rapid introduction of low emissions technologies.

6. Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?

Financial years 2019/20 and 2020/21 should be used as the baseline years, with COVID-appropriate weightings included, so that allocative baselines are based on the most recent data available.

7. Should eligibility be reassessed using new base years?

Yes. Far too many industries, including many non-essential industries, are currently covered by industry allocations. Eligibility should be reassessed using new base years, and the goal of the reassessment should be to ensure that as many industries and businesses as possible are removed from eligibility as soon as possible.

8. Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not?

Yes. Both New Zealand specific thresholds and New Zealand specific baselines should be developed, so that our decisions are made on the basis of information that applies to the New Zealand context.

9. Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate?

New thresholds should be added if and only if they are needed to reduce over-allocation. Under-allocation should not be a criterion for the development of thresholds - their purpose should be to reduce over-allocation.

Question 10: Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?

A sliding scale threshold system should be developed if and only if it is needed to reduce over-allocation. Under-allocation should not be a criterion for the development of such a system - its purpose should be to reduce over-allocation.

Question 11: Should the New Zealand EAF be used when determining eligibility? Why, or why not?

We strongly support using the New Zealand electricity allocation factor. As Australia has a considerably higher electricity emissions profile than Aotearoa, the effect of using the Australian EAF has been to allow businesses which should not have been subsidised to receive subsidies to pollute. This is utterly unacceptable. It must end now.

Question 12: Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?

Yes. The aim of reassessing eligibility should be to rapidly minimise the number of companies and industries receiving subsidies to pollute under the scheme.

Question 13: Should the trade exposure test be changed? Why, or why not?

The present trade exposure test is weak. It must be made far more rigorous. To pass it, businesses must be able to prove that they will suffer strong adverse effects from NZ's ETS. Given the rise of carbon reduction policies and carbon border adjustment mechanisms around the world, "emissions leakage" will become much less plausible as an argument that businesses can legitimately use. Again, the aim of this test should be to disqualify businesses unless they meet very rigorous criteria for inclusion.

Question 14: What would be a more appropriate method to determine trade exposure?

It should be for businesses to prove not only that they are trade exposed, but that they meet rigorous criteria for inclusion in the scheme. The aim of all such tests and thresholds under1 the ETS should be to minimise the number of companies and industries receiving industrial allocations.

Question 15: Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

Yes. The process should be simplified to ensure that it is straightforward and agile. This will enable us to rapidly increase our ambition and meet our commitments under the Paris Agreement. The ETS must provide means of increasing our ability to reduce emissions, not put barriers in the way of emissions reductions.

Question 16: Are there other changes to sections 161A-E of the Act that could better streamline IA processes?

If any further changes are made, they should contribute to the goal of making the ETS a tool for rapidly reducing emissions and decreasing industrial allocations so that they reach zero by 2030.

Question 17: Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not?

No new activity should be eligible for support from the ETS for burning fossil fuels. For example, no new heat plant (including high-temperature heat) should receive any industrial allocations for any fossil fuels that it burns.

The ETS must not be used to encourage or subsidise the establishment of new high-emitting businesses. If a business applies for inclusion on the basis that it is directly replacing a higher-emitting business or process, these claims should be subject to rigorous scrutiny, and should not be approved except in exceptional circumstances, bearing in mind the aim to phase out all industrial allocations by 2030.

Question 18: Should new activities be able to seek eligibility? Why, or why not?

See Question 17.

Question 19: Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?

See Question 17.

Question 20: Should firms that receive IA be required to report their emissions, revenue and production data annually? Why, or why not?

Yes. This will help reduce over-allocation and other potential abuses of the system.

Question 21: Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?

No. Reporting must be mandatory. Companies under the scheme are receiving taxpayer subsidies to pollute, amounting in some cases to many million dollars, and must present detailed, verifiable reporting. They must also prepare, and report annually against, emissions reductions plans. Voluntary reporting increases both the opportunity and the temptation to game the system.

The Government needs to fund internal audit and compliance capacity to ensure that company reports are subject to rigorous scrutiny.

Question 22: Should the five-year transition period for changes in eligibility status remain, or be changed? Why, or why not?

Yes, it must be changed. The transition period should be one year. A five- or ten-year transition period is utterly unacceptable and would continue to provide opportunities for companies to further delay urgently needed transitions.

Question 23: Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

Yes. There has been leakage both inside and outside the industrial allocation system (examples include NZAS, Marsden Point refinery, and consumption emissions). Other mechanisms should be considered but they must contribute to the overarching goal of reducing emissions.

Question 24: What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?

Providing decarbonisation grants to industry in return for sectoral decarbonisation plans should be seriously considered. The Swedish industry-led process is a possible model (<u>https://fossilfrittsverige.se/en/roadmaps/</u>)

Where industries are both high-emission and deemed to be essential, they will need protection and support, e.g. through targeted border tariffs and grants, but such support must be coupled with decarbonisation plans that have a set end date and verifiable, measurable progress targets that can be reported against. In addition, consumers (e.g. the construction industry) need to be exposed to the carbon cost of products such as cement and steel to some degree.

At present, the embodied emissions of imports are not regulated in any way and represent a large source of leakage as we are net CO2-importers. For example, an EV-heavy route for land transport could mean higher consumption emissions than an active/public transport route.

In addition to building credible roadmaps, industries could be required (e.g. in order to apply for grants) to demonstrate participation in the global decarbonisation plan of their industry.

Question 25: Should IA policy or any alternative explicitly encourage firms to reduce emissions? Why, or why not?

Yes, there should be explicit encouragement to reduce emissions. By requiring firms to have a verifiable decarbonisation plan with a set end date and measurable progress, and reviewing their targets annually, this could be achieved. MBIE found that even a carbon price of \$250/tonne by 2050 would not achieve the goals of the Zero Carbon Act. The ETS by itself is insufficient, and complementary policies are needed. We stand at a position where there are choices to be made between different pathways and technologies that cannot be put off much longer if we are to meet our Paris Agreement obligations. Government, industry and the public need to work together to choose.

Question 26: What method could be used to encourage emissions reductions?

A higher shadow price of carbon (<u>see recent UK decision</u>) for the government; high emitting industries to report their shadow carbon prices.

Question 27: Should IA decisions or any alternative include wider considerations – such as economic, social, cultural and environmental factors – when determining support for industry? Why, or why not?

Yes. All such work should be done within the framework of a commitment to honour Te Tiriti o Waitangi, protect and enhance the biophysical basis of life, and embody a just transition approach.

Our society, our economy and our planet are at a crossroads. The ETS and industry policy as a whole should be designed to require and support high-emitting industries to decarbonise in a planned, verifiable way, foster low-carbon industries, and enable a just transition to a low-carbon economy.

Question 28: How would these new considerations interact with the goal of reducing emissions leakage?

They would support it and embrace a wider concept of leakage, i.e. the global transition (not just the emissions of existing industries), and consumption emissions.

Other comments

Question 29: Do you have any other comments, ideas or critical feedback that could help support the Government form final policy decisions?

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future. Subsidies for polluters also disincentivises investment in better alternatives
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

The transition to low-emissions industry is not only vital for our climate future - it's better for our wellbeing, our environment and the future of Aotearoa. Major systems change all across Aotearoa is needed to bring our emissions curve in line with the requirements of our Paris Agreement commitments. The ETS as it stands has not only failed to reduce emissions - it has subsidised polluters to continue polluting, and in some cases has handed them windfall profits for doing so.

Therefore, if the ETS is to have a future, it must be redesigned in line with these overarching commitments, and able to respond rapidly to developing circumstances, or lose credibility on the world stage.

Best regards,

(Please do not publish my name)

Ameera Clayton

From: Sent: To: Subject: Kyle Matthews Friday, 17 September 2021 4:47 pm etsconsultations ETS Submission

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Kia ora,

My name is Kyle Matthews, I am a Doctoral candidate at the University of Otago and parent.

I wish to submit on ETS allocations.

I wish for the NZ government to adopt an ETS allocation scheme that rapidly phases out the use of fossil fuels and assists emitting industries to transition to alternative ways of working. The ongoing long term subsidy of these emitters beyond this decade is both a disaster for our climate and economically unsound. We must drastically reduce our carbon emissions, and sending clear price signals is one way of doing this. We must also send a clear signal to our international markets that we are a country that is addressing this problem and producing a 'brand' that people want to buy – both in terms of primary and manufactured goods, and tourism.

This transition must happen quickly. We cannot continue to allow businesses to stretch out their fossil fuel products and manufacturing processes because they are scared of the new world. They must adjust to this new world, and the sooner they do so, the less damage that they will do during that transition. Delaying that change is simply stretching out the length of time that 20C industries are allowed to survive on old methods, and preventing 21C industries from having markets for their environmentally friendly products.

I suggest the following in relation to the consultation document:

- 1. We must plan for a definite and near timeline to end free allocations. This will allow the market to do its work.
- 2. Capping emissions to ensure that no companies dominate the carbon market.
- 3. Consider ways to make the transition just, such as worker transition funding, allocation towards Iwi and regions heavily reliant upon the fossil fuel economy.
- 4. End over-allocation which is having no positive impact.
- 5. Frequent updates of assessments to reflect new knowledge and data, and this data to be both specific to New Zealand, but also viewed within a global context. This should happen every year and be based upon the most recent data. This includes using the NZ EAF rather than the Australian one which is not appropriate for our context.
- 6. No exemptions under the trade exposure text. The climate does not exempt these emissions.
- 7. No support for new activities. No industry should be building new fossil fuel powered capital in 2021.
- 8. Reporting must be mandatory and independently audited. This will help ensure that the system is transparent and accountable, and discourage fraud.
- 9. The document should reflect te tiriti o Waitangi and grant some authority in ETS procedures to tangata whenua bodies as kaitiaki.

Overall the prime goal of amendments should be to make the ETS a tool for rapidly reducing emissions, not a tool for maintaining emission levels.

Kind regards, Kyle Matthews

Submission: Ban ETS Industry Allocations by 2030

Email to: etsconsultation@mfe.govt.nz

From

Jenny Campbell,

QSM for the Environment



17 Sept 2021

<u>He iti, He pounamu</u> It may be small but it is very precious

Ko Oreti toku awa Ko Takitimu toku maunga, Ko Takitimu toku waka Ko Ngaitahu toku iwi Ko Te Rau Aroha toku marae No Mossburn toku kainga Ko Jenny Campbell ahau

Kia ora e hoa ma.

General Comments:-Calling on the government to phase out all ETS industry allocations by 2030

Emissions Trading Scheme (ETS) and industry allocations

FYI. Background article by Olivia Wannan on the ETS and 'industry exemptions': <u>https://www.stuff.co.nz/environment/climate-news/126300406/how-big-polluters-profit-off-the-governments-outdated-maths</u>

Several Reasons why NZ needs to step up in its commitments to reducing our carbon emissions:-

1. More stress on urgency of action.

2, Aotearoa is not meeting its international commitments when we should be leading in the field as an affluent country with a wealth of sustainable, renewable & fossil free energy sources.

3. We can do a lot more & have a moral & ethical mandate to do that.

4. There is very little about our commitment to not only present populations of people- but also every other living organism which can not speak for themselves as well as future generations, relying on us to take the necessary & essential actions needed right now

5. Reminder that cost of climate change is enormous so investing in measures which reduce carbon emissions is an excellent use of finance & resources.

6. Top priority is closing all coal mines and not allowing mines to re-open. Stopping any importing of coal.

7. The agricultural sector must be brought in to the ETS system and pay for their carbon emissions- not be exempt- as they along with transport are our greatest emitters.

8. Much more education and recognition that we can reduce our energy needs by conserving at every opportunity eg turn off every light in rooms when it is not occupied.

9. Retro-fitting and insulation- increase Govt funding to support.

10. Encouraging community and home gardens so everyone has fresh vegetables close by and the skills to feed themselves, cutting down food miles.

11. Have sustainable packaging & buy local policies, to cut down waste and food milestransport costs & emissions.

This **Emissions Trading Scheme (ETS)** is a carbon marketplace for industries which are sequestering / producing carbon to exchange services. It does not even include agriculture which along with our transport system is the largest producer of carbon emissions, along with the even more polluting methane gas.

Aotearoa New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industries, starting with the highest emitters.

As a member of Coal Action Network Aotearoa (CANA) organising group, I am committed to their kaupapa;

Coal Action Network Aotearoa (CAN Aotearoa) is a group of climate justice campaigners committed to fighting the continuation of coal mining in Aotearoa New Zealand.

CAN Aotearoa's objectives are to:

1. Phase out coal mining and coal usage by 2027, initially by opposing new and expanded coal mines.

2. Promote a cultural change so that mining and using coal are unacceptable.

3. Work towards a society where people and the environment are not exploited for profit.

4. Work towards a socially just transition to a coal-free Aotearoa New Zealand.

Find out more at: http://coalactionnetworkaotearoa.wordpress.com/

Free carbon credits given out to heavily polluting industries because of their huge emissions is not helping our carbon emissions reductions which we are trying to do as a country. These industries need to be paying a full carbon tax price for these emissions so they see the need for the urgency of reducing them in a short space of time because the world is watching Aotearoa /NZ and their lack of action on these fronts.

If we continue to subsidise our biggest emitters, we are exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries. Instead they need sustainable long-term plans to transition off fossil fuels, starting immediately.

The excuse for these so- called Industry Allocations is so they are not facing external competition from imported goods brought in from overseas. However just this week the UK and EU have announced that countries like ours, not being realistic about these huge emitters, will be taxed at the border of those countries as a penalty! They do not want products being produced by first world countries which are polluting our world with excessive carbon emissions!

We are losing our social licence around the world which does not help our economy or our place as an example to others. Our 'Clean Green' image is a 'green wash' which the world is not buying any more- both literally & metaphorically!

Instead of increasing risk to industry by giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing partnerships and guidance to these industries to reduce their emissions and commit to carbon zero by 2030. This action must support the just transition.

This present ETS scheme goes completely against the Government's Declaration of a Climate Emergency. Why should one sector benefit from Climate Change 'relief' while others are doing their best to respond to the Government's policies for other industries and consumers? Giving out free carbon credits to heavy polluters is not in line with the Government's own climate emergency declaration & asks. Some of Aotearoa's biggest industries are receiving millions of dollars in free allocations. While this is happening they continue to make little effort to transition to a low-carbon economy, as others now accept they have to do.

It is ludicrous that we are providing free allocations towards producing luxury items such as winter tomatoes, cucumbers, eggplants and cut flowers. Many of these growers continue to burn coal and gas to heat their glasshouses through the winter. There are other local energy sources available eg biomass, which can be used instead- but this change will not happen unless these subsidies are removed. We cannot afford these luxuries in a climate emergency. It is exciting to know though, that some horticultural growers in the Nelson area have already transitioned away from coal and so can be an example to others for how they did it with their local practical knowledge.

Our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans. We understand the current process is set up to slowly phase out allocations by 2050, but will still be granting millions of carbon credits (1 tonne per credit!) over the next 28 years. That is an indictment on the way we as a country are responding to the urgent actions we need to take to stop polluting through carbon emissions.

We need to end industry allocations by 2030.

We are losing our social licence around the world which does not help our economy or our place as an example to others. Our 'Clean Green' image is a 'green wash' which the world is not buying any more- both literally & metaphorically!

I are submitting on this 2021 review of the ETS Allocation process, giving feedback on this current unjust system and seeking urgent changes so this injustice does not continue. New criteria need to be set up to determine how allocations are granted and how long the present scheme exists in our system.

We need to end industry allocations by 2030.

He iti he pounamu. It may be small but it is very precious

Rangimarie,

Jenny Campbell

Specific answers to questions as asked on the website

https://consult.environment.govt.nz/climate/reforming-industrial-allocation-in-the-nz-ets/

Submitting as an individual. Region Murihiku/ Southland

Email address :-

1. Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

a. **Plan for a no allocations future.** Government needs to implement the fastest roadmap which gets industrial allocations to zero by 2030 – to achieve the fastest emissions reduction. To implement this allocations or grants should be only given to companies with a planned route to zero allocations usage. From this government and

industries will be given certainty over their future allocations, with the aim to make it down to zero, by 2030.

- b. Companies must take on their responsibilities around their environmental impact, with grants being given to ensure emissions are capped. Industry Allocations to any company should be no more than 25% of their carbon emissions.
- c. Strengthening fairness and climate justice must be done through set criteria. A just transition is essential as industries move away from fossil fuels. This must be included in all aspects of the system.

2. Should allocative baselines be updated using new base years? Why, or why not?

Yes. ETS over- allocation is an indictment of the present system. Some companies have gained huge profits as they continue to burn fossil fuels. There is little to suggest they have used these funds to move off fossil fuels. This is a travesty which has wasted Government / taxpayers funds which could have been used to good effect by setting them on track to move off fossil fuels.

3. Should the reassessment be a one-off update, or a periodic update? Why, or why not?

This over-allocation is a scandal and must end now. Allocative baselines must be reviewed annually, aiming to end over-allocation and so bring in a just system which phases out all industrial allocations by 2030.

Government and industry must reassess annually, with support being given to ensure this happens in a firm, supportive but timely manner. Responding to the urgent climate emergency situation, brings pressure on our international commitments as a country, demanding we do a lot more as a wealthy nation as we have used more than our fair share of the world's resources, especially in the use of fossil fuels- and are still doing that. The Government supporting these carbon-intensive industries off fossil fuels is a priority. Money well spent! They are losing their social licence and the general public is expecting this of them, when they have changed their own energy systems.

<u>4. If periodic reassessment is legislated, what would be an appropriate period – every year, 5 years, 10 years, or something else? Why?</u>

- Every year
- 5 years
- 10 years
- Something else

Every year. The next 9 years up to 2030 is critical in reducing emissions and stopping using fossil fuels would be a comparatively easy goal to achieve in that time frame. Ending the use of coal, gas and other fossil fuels in various boilers across many industries is possible to achieve by 2030. There is already a huge move by the Government to get the State Sector out of fossil fuels, with a special emphasis on schools, universities, hospitals, prisons. Many industries in the private sector have already realised they can help reduce our emissions and have either moved to biomass or electricity. It seems incongruous that people in the private sector are making an effort to help us reduce carbon emissions, while the Government is supporting other firms to keep using fossil fuels. The ETS in its present form is subsidising

industries not to transition from fossil fuels. Annual reviews need to occur in order to reduce industry allocations to zero by 2030. This will push industries to act and transition asap. Grant money can be made available where industries have a clear need for some assistance.

5. Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not?

No. Only the most recent years should be used. Low emission technology was not so available then and the opportunities to use other energy options were often not offered as an option.

6. Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?

Financial years 2019/20 and 2020/21 should be used as the baseline years. Covid appropriate weightings should be included, so that the most recent data only, is used when allocating baselines.

7. Should eligibility be reassessed using new base years?

Yes. Many non-essential industries along with essential industries are currently covered by industry allocations. Eligibility should be reassessed using new base years. Reassessment should be looking to remove as many industries and businesses as possible from being eligible, at the earliest opportunity.

8. Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not?

Yes. Decisions should be made using Aotearoa / New Zealand specific thresholds and baselines. Using local information is essential for making those decisions.

9. Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate?

New thresholds should be added only if they are needed to reduce over-allocation. The main purpose of thresholds should be to reduce over-allocation.

Question 10: Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?

This should be developed only if it is needed to reduce over-allocation. Under-allocation should not be a criterion for the development of such a system. Its main purpose should be to reduce over-allocation.

Question 11: Should the New Zealand EAF(Electricity Allocation Factor) be used when determining eligibility? Why, or why not?

It is essential that New Zealand electricity allocation factor is used as it is specifically for our situation. Australia has a considerably higher electricity emissions profile than Aotearoa. Using the Australian EAF has allowed businesses which should not have been subsidised to receive subsidies to pollute, which is definitely unacceptable and must not continue.

Question 12: Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?

Yes. Reassessing eligibility under the scheme will reduce the number of companies and industries receiving subsidies to pollute.

Question 13: Should the trade exposure test be changed? Why, or why not?

The present trade exposure test is weak, and must be made far more rigorous. To pass it, businesses must be able to prove that they will suffer strong adverse effects from NZ's ETS. With carbon reduction policies and carbon border adjustment mechanisms around the world becoming evident, "emissions leakage" will not be able to be used as an argument by businesses any more. This test should be used to disqualify businesses unless they meet very rigorous criteria for inclusion.

Question 14: What would be a more appropriate method to determine trade exposure?

Businesses need to prove that they are trade exposed and they must meet rigorous criteria for inclusion in the scheme. All tests and thresholds under the ETS should be used to reduce and minimise the number of companies and industries receiving industrial allocations.

Question 15: Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

Yes. A simplified process is essential to ensure that it is straightforward and agile, meaning we can rapidly increase our ambition and meet our Paris Agreement commitments. The main aim of the ETS is to ensure we can reduce emissions as opposed to putting obstacles in the way of reducing emissions .

Question 16: Are there other changes to sections 161A-E of the Act that could better streamline IA processes?

Any changes should add to the aim of the ETS being a tool for rapidly reducing emissions and decreasing industrial allocations so that they reach zero by 2030.

Question 17: Do you agree with the proposal to clarify the eligibility process for new activities? Why, or why not?

Support from the ETS for burning fossil fuels should not be offered to any new activities.

Industrial allocations should not be given out for any new heat plants which intend to burn any fossil fuels.

New high-emitting businesses should not be able to be encouraged or subsidised by the ETS.

The aim is to phase out all industrial allocations by 2030 so if a business applies for inclusion on the basis that it is directly replacing a higher-emitting business or process, these claims need to be subjected to rigorous scrutiny. They should not be approved except in exceptional circumstances, and definitely not encouraged.

Question 18: Should new activities be able to seek eligibility? Why, or why not?

New high-emitting businesses should not be able to be encouraged or subsidised by the ETS.

The aim is to phase out all industrial allocations by 2030 so if a business applies for inclusion on the basis that it is directly replacing a higher-emitting business or process, these claims need to be subjected to rigorous scrutiny. They should not be approved except in exceptional circumstances, and definitely not encouraged.

Question 19: Should there be any caveats on new activities seeking eligibility, such as proof of environmental benefits compared to existing activities?

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Question 20: Should firms that receive Industrial Allocations be required to report their emissions, revenue and production data annually? Why, or why not?

Yes. This will help reduce over-allocation, other potential abuses of the system and make people and businesses accountable. There can be affirmation of their reductions as well, as that is the whole aim of the process, ensuring phasing out all industrial allocations by 2030.

Question 21: Would voluntary reporting be more appropriate, and still provide some oversight of leakage and over-allocation risk? Why, or why not?

No. Mandatory reporting is essential. At present companies receiving IA under the scheme are receiving taxpayer subsidies to pollute. Receiving large subsidies and in some cases, many millions of dollars, they must present detailed reports which are open to scrutiny and able to be verified. Alongside this it is essential that they are required to produce emissions reductions plans, along with report annually against those plans. This needs to be transparent for public accountability. This is not a time for voluntary reporting when others have already made the changes to reduce their carbon emissions and are not using tax-payers money. Voluntary reporting does not make it a level playing field when our aim is to phase out all industrial allocations by 2030.

The Government needs to fund internal audit and compliance capacity to ensure that company reports are subject to rigorous scrutiny, so increasing accountability.

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Question 23: Should we look at an alternative mechanism to address emissions leakage? Why, or why not?

Yes. There has been leakage both inside and outside the industrial allocation system (examples include NZAS, Marsden Point refinery, and consumption emissions). The overarching goal of reducing emissions is the priority. Any other mechanisms must support this goal.

Question 24: What alternative mechanisms to IA would better address the risk of emissions leakage, and support domestic and international emissions reduction targets?

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At present, the embodied emissions of imports are not regulated in any way and represent a large source of leakage as we are net CO2-importers. For example, an EV-heavy route for land transport could mean higher consumption emissions than an active/public transport route.

In addition to building credible roadmaps, industries could be required (e.g. in order to apply for grants) to demonstrate participation in the global decarbonisation plan of their industry.

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Yes, there should be explicit encouragement to reduce emissions. This could be achieved by requiring firms to have a verifiable decarbonisation plan with a set end date and measurable progress and requiring targets to be reviewed annually. MBIE found that even a carbon price of \$250/tonne by 2050 would not achieve the goals of the Zero Carbon Act. The ETS by itself is insufficient, and complementary policies are needed. We stand at a position where there are choices to be made between different pathways and technologies that cannot be put off much longer if we are to meet our Paris Agreement obligations. Government, industry and

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Yes. All such work should be done within the framework of a commitment to honour Te Tiriti o Waitangi, protect and enhance the biophysical basis of life, and embody a just transition approach.

Our society, our economy, our biodiversity and our planet are at a crossroads. The ETS and industry policy as a whole should be designed to require and support high-emitting industries to decarbonise in a planned, verifiable way. We need to foster low-carbon industries urgently, and enable a just transition to a low-carbon economy. Conserving energy is a must in this new paradigm.

Question 28: How would these new considerations interact with the goal of reducing emissions leakage?

They would support it and embrace a wider concept of leakage, i.e. the global transition (not just the emissions of existing industries), and consumption emissions.

Other comments

Question 29: Do you have any other comments, ideas or critical feedback that could help support the Government form final policy decisions?

Aotearoa New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industries, starting with the highest emitters.

If we continue to subsidise our biggest emitters, we are exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries. Instead they need sustainable long-term plans to transition off fossil fuels, starting immediately.

Instead of increasing risk to industry by giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing partnerships and guidance to these industries to reduce their emissions and commit to carbon zero by 2030. This action must support the just transition.

Our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans. The transition to low-emissions industry is not only vital for our climate future - it's better for our wellbeing, our environment and the future of Aotearoa. Major systems change all across Aotearoa is needed to bring our emissions curve in line with the requirements of our Paris Agreement commitments. The ETS as it stands has not only failed to reduce emissions - it has subsidised polluters to continue polluting, and in some cases has handed them windfall profits for doing so.

Therefore, if the ETS is to have a future, it must be redesigned in line with these overarching commitments, and able to respond rapidly to developing circumstances.

Whakatauki

Titiro whakamuri, kōkiri whakamua

Look back and reflect so you can move forward.

Rangimarie

Jenny Campbell

QSM for the Environment

Ameera Clayton

From: Sent: To: Subject:

Friday, 17 September 2021 5:01 pm

etsconsultations My Submission on ETS

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

 In my opinion, NZ needs to immediately phase out, and find ways to decarbonise all of our emitting industries, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.

We MUST take urgent climate action, across the board!

- By continuing to subsidise our biggest emitters, as well as giving them a licence to pollute, we
 are exposing these companies to the risk of being subject to a carbon border adjustment
 mechanism in other countries, and not having a sustainable long-term plan to transition off
 fossil-fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing roadmaps to reduce their emissions as soon as possible, and committing to carbon zero by 2030. This plan should support a 'just' transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this.

•

 Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

Best regards,

[I wish for this to be published anonymously]



Submission: Ban ETS Industry Allocations by 2030

Email to: etsconsultation@mfe.govt.nz



17 Sept 2021

Kia ora e hoa ma.

General Comments:-Calling on the government to phase out all ETS industry allocations by 2030

Emissions Trading Scheme (ETS) and industry allocations

FYI. Background article by Olivia Wannan on the ETS and 'industry exemptions': <u>https://www.stuff.co.nz/environment/climate-news/126300406/how-big-polluters-profit-off-the-governments-outdated-maths</u>

This Emissions Trading Scheme (ETS) is a carbon marketplace for industries which are sequestering / producing carbon to exchange services. It does not even include agriculture which along with our transport system is the largest producer of carbon emissions, along with the even more polluting methane gas.

Aotearoa New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industries, starting with the highest emitters.

Free carbon credits given out to heavily polluting industries because of their huge emissions is not helping our carbon emissions reductions which we are trying to do as a country. The original intention of the ETS was to shift these same industries to cleaner ways of operating and yet they are currently financially supported to do the opposite. They should be paying a full carbon tax price for these emissions as a powerful incentive while there is such a small window of opportunity left for change and the real cost is transferred to the rest of us. The world is watching Aotearoa /NZ and their lack of action on these fronts.

If we continue to subsidise our biggest emitters, we are exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries. Instead they need sustainable long-term plans to transition off fossil fuels, starting immediately.

The excuse for these so- called Industry Allocations is so they are not facing external competition from imported goods brought in from overseas. However just this week the UK and EU have announced that countries like ours, not being realistic about these huge emitters, will be taxed at the border of those countries as a penalty! They do not want products being produced by first world countries which are polluting our world with excessive carbon emissions! There will soon be an economic advantage for those companies who have already adapted to the low carbon economy, we should be future focused.

If our 'Clean Green' image is considered 'green wash', which will happen if we continue as we are, we will quickly lose our reputation and global social licence to trade.

Instead of increasing risk to industry by giving out free emissions credits, we must incentivise industry to transition to carbon neutral, by developing partnerships and guidance to these industries to reduce their emissions and commit to carbon zero by 2030. This action must support the just transition.

This present ETS scheme goes completely against the Government's Declaration of a Climate Emergency. Why should one sector benefit from Climate Change 'relief' while others are doing their best to respond to the Government's policies for other industries and consumers? Giving out free carbon credits to heavy polluters is not in line with the Government's own climate emergency declaration & asks. Some of Aotearoa's biggest industries are receiving millions of dollars in free allocations. While this is happening they continue to make little effort to transition to a low-carbon economy, as others now accept they have to do.

It is ludicrous that we are providing free allocations towards producing luxury and items such as winter tomatoes, cucumbers, eggplants and cut flowers. Many of these growers continue to burn coal and gas to heat their glasshouses through the winter. There are other local energy sources available eg biomass, which can be used instead- but this change will not happen unless these subsidies are removed. Some horticultural growers in the Nelson area have already transitioned away from coal and so can be an example to others. Given the financial support and research that has been invested into managing COVID 19, one would hope that the same level of support could go into managing a just transition for an even bigger emergency.

Our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting - make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.

We understand the current process is set up to slowly phase out allocations by 2050, but will still be granting millions of carbon credits (1 tonne per credit!) over the next 28 years. That is an indictment on the way we as a country are responding to the urgent actions we need to take to stop polluting through carbon emissions.

We need to end industry allocations by 2030.

We are losing our social licence around the world which does not help our economy or our place as an example to others. Our 'Clean Green' image is a 'green wash' which the world is not buying any more- both literally & metaphorically!

We are submitting on this 2021 review of the ETS Allocation process, giving feedback on this current unjust system and seeking urgent changes so this injustice does not continue. New criteria need to be set up to determine how allocations are granted and how long the present scheme exists in our system.

We need to end industry allocations by 2030.
He iti he pounamu. It may be small but it is very precious

Rangimarie,



As co-convenors and along with other members of regional Coal Action Murihiku (CAM) we am committed to CANA's kaupapa as an allied group in Murihiku / Southland;

Coal Action Network Aotearoa (CAN Aotearoa) is a group of climate justice campaigners committed to fighting the continuation of coal mining in Aotearoa New Zealand.

CAN Aotearoa's objectives are to:

1. Phase out coal mining and coal usage by 2027, initially by opposing new and expanded coal mines.

- 2. Promote a cultural change so that mining and using coal are unacceptable.
- 3. Work towards a society where people and the environment are not exploited for profit.
- 4. Work towards a socially just transition to a coal-free Aotearoa New Zealand.

Find out more at: http://coalactionnetworkaotearoa.wordpress.com/

1. Do you agree with the five criteria to assess the proposals in this consultation document? Why, or why not?

- a. **Plan for a no allocations future.** Government needs to implement the fastest roadmap which gets industrial allocations to zero by 2030 to achieve the fastest emissions reduction. To implement this allocations or grants should be only given to companies with a planned route to zero allocations usage. From this government and industries will be given certainty over their future allocations, with the aim to make it down to zero, by 2030.
- b. Companies must take on their responsibilities around their environmental impact, with grants being given to ensure emissions are capped. Industry Allocations to any company should be no more than 25% of their carbon emissions.
- c. Strengthening fairness and climate justice must be done through set criteria. A just transition is essential as industries move away from fossil fuels. This must be included in all aspects of the system.

2. Should allocative baselines be updated using new base years? Why, or why not?

Yes. ETS over- allocation is an indictment of the present system. Some companies have gained huge profits as they continue to burn fossil fuels. There is little to suggest they have used these funds to move off fossil fuels. This is a travesty which has wasted Government / taxpayers funds which could have been used to good effect by setting them on track to move off fossil fuels.

3. Should the reassessment be a one-off update, or a periodic update? Why, or why not?

This over-allocation is a scandal and must end now. Allocative baselines must be reviewed annually, aiming to end over-allocation and so bring in a just system which phases out all industrial allocations by 2030.

Government and industry must reassess annually, with support being given to ensure this happens in a firm, supportive but timely manner. Responding to the urgent climate emergency situation, brings pressure on our international commitments as a country, demanding we do a lot more as a wealthy nation as we have used more than our fair share of the world's resources, especially in the use of fossil fuels- and are still doing that. The Government supporting these carbon-intensive industries off fossil fuels is a priority. Money well spent! They are losing their social licence and the general public is expecting this of them, when they have changed their own energy systems.

<u>4. If periodic reassessment is legislated, what would be an appropriate period – every year, 5 years, 10 years, or something else? Why?</u>

- Every year
- 5 years
- 10 years
- Something else

Every year. The next 9 years up to 2030 is critical in reducing emissions and stopping using fossil fuels would be a comparatively easy goal to achieve in that time frame. Ending the use of coal, gas and other fossil fuels in various boilers across many industries is possible to achieve by 2030. There is already a huge move by the Government to get the State Sector out of fossil fuels, with a special emphasis on schools, universities, hospitals, prisons. Many industries in the private sector have already realised they can help reduce our emissions and have either moved to biomass or electricity. It seems incongruous that people in the private sector are making an effort to help us reduce carbon emissions, while the Government is supporting other firms to keep using fossil fuels. The ETS in its present form is subsidising industries not to transition from fossil fuels. Annual reviews need to occur in order to reduce industry allocations to zero by 2030. This will push industries to act and transition asap. Grant money can be made available where industries have a clear need for some assistance.

5. Do you agree the financial years 2016/17, 2017/18 and 2018/19 should be used as new base years to update allocative baselines? Why, or why not?

No. Only the most recent years should be used. Low emission technology was not so available then and the opportunities to use other energy options were often not offered as an option.

6. Should the financial years 2019/20 and 2020/21 be included, but with a weighting provision? Why, or why not?

Financial years 2019/20 and 2020/21 should be used as the baseline years. Covid appropriate weightings should be included, so that the most recent data only, is used when allocating

baselines.

7. Should eligibility be reassessed using new base years?

Yes. Many non-essential industries along with essential industries are currently covered by industry allocations. Eligibility should be reassessed using new base years. Reassessment should be looking to remove as many industries and businesses as possible from being eligible, at the earliest opportunity.

8. Should new emissions intensity thresholds for New Zealand industry be developed? Why, or why not?

Yes. Decisions should be made using Aotearoa / New Zealand specific thresholds and baselines. Using local information is essential for making those decisions.

9. Should more thresholds be added into the eligibility criteria? Why, or why not? How many would be appropriate?

New thresholds should be added only if they are needed to reduce over-allocation. The main purpose of thresholds should be to reduce over-allocation.

Question 10: Would a sliding scale threshold system better target eligibility and assistance? Why, or why not?

This should be developed only if it is needed to reduce over-allocation. Under-allocation should not be a criterion for the development of such a system. Its main purpose should be to reduce over-allocation.

Question 11: Should the New Zealand EAF(Electricity Allocation Factor) be used when determining eligibility? Why, or why not?

It is essential that New Zealand electricity allocation factor is used as it is specifically for our situation. Australia has a considerably higher electricity emissions profile than Aotearoa. Using the Australian EAF has allowed businesses which should not have been subsidised to receive subsidies to pollute, which is definitely unacceptable and must not continue.

Question 12: Should periodic updates of the EAF trigger a recalculation of eligibility? Why, or why not?

Yes. Reassessing eligibility under the scheme will reduce the number of companies and industries receiving subsidies to pollute.

Question 13: Should the trade exposure test be changed? Why, or why not?

The present trade exposure test is weak, and must be made far more rigorous. To pass it, businesses must be able to prove that they will suffer strong adverse effects from NZ's ETS. With carbon reduction policies and carbon border adjustment mechanisms around the world

becoming evident, "emissions leakage" will not be able to be used as an argument by businesses any more. This test should be used to disqualify businesses unless they meet very rigorous criteria for inclusion.

Question 14: What would be a more appropriate method to determine trade exposure?

Businesses need to prove that they are trade exposed and they must meet rigorous criteria for inclusion in the scheme. All tests and thresholds under the ETS should be used to reduce and minimise the number of companies and industries receiving industrial allocations.

Question 15: Do you agree with the proposal to simplify the process to update allocative baselines, to reflect changes to emissions factors, EAF or other changes to methodology? Why, or why not?

Yes. A simplified process is essential to ensure that it is straightforward and agile, meaning we can rapidly increase our ambition and meet our Paris Agreement commitments. The main aim of the ETS is to ensure we can reduce emissions as opposed to putting obstacles in the way of reducing emissions .

Question 16: Are there other changes to sections 161A-E of the Act that could better streamline IA processes?

Any changes should add to the aim of the ETS being a tool for rapidly reducing emissions and decreasing industrial allocations so that they reach zero by 2030.

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Support from the ETS for burning fossil fuels should not be offered to any new activities. Industrial allocations should not be given out for any new heat plants which intend to burn any fossil fuels.

New high-emitting businesses should not be able to be encouraged or subsidised by the ETS.

The aim is to phase out all industrial allocations by 2030 so if a business applies for inclusion on the basis that it is directly replacing a higher-emitting business or process, these claims need to be subjected to rigorous scrutiny. They should not be approved except in exceptional circumstances, and definitely not encouraged.

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Therefore, if the ETS is to have a future, it must be redesigned in line with these overarching commitments, and able to respond rapidly to developing circumstances.

Additional considerations:

More stress on urgency of action.

Aotearoa is not meeting its international commitments when we should be leading in the field as an affluent country with a wealth of sustainable, renewable & fossil free energy sources.

We can do a lot more & have a moral & ethical mandate to do that.

There is very little about our commitment to not only present populations of people- but also every other living organism which cannot speak for themselves as well as future generations, relying on us to take the necessary & essential actions needed right now

Reminder that cost of climate change is enormous so investing in measures which reduce carbon emissions is an excellent use of finance & resources.

Top priority is closing all coal mines and not allowing mines to re-open or allowing extensions. Stopping any importing of coal.

The agricultural sector must be brought in to the ETS system and pay for their carbon emissions- not be exempt- as they along with transport are our greatest emitters.

Current science around climate change is revealing much faster change than existing models predicted, we have passed the tipping point and the window of action is rapidly shrinking.

Nau te rourou, naku te rourou, ka ora te iwi.

From my food basket and your food basket there is sufficient for everyone.

Attn:

etsconsultation@mfe.govt.nz Ministry for the Environment PO Box 10362 Wellington 6143

Submission from: Forest & Bird Youth: and Forest & Bird 205 Victoria Street Te Aro Wellington 6011

Forest & Bird Youth contact: George Hobson Chief Policy Lead youthpolicylead@forestandbird.org.nz

Forest & Bird contact: Geoff Keey Strategic Advisor



Submission on Reforming industrial allocation in the NZ ETS

Forest & Bird Youth kaupapa

Forest and Bird Youth is a nationwide network of young people (aged 14-25) who are protecting and restoring Aotearoa's wildlife and wild places. With over 500 members and supporters, our vision is to see empowered rangatahi actively engaged in our connection to te taiao and in the fight for our future. Our mission is to take action for nature as youth, with youth, and for youth.

Our organisation intersects with climate change in three main ways:

- As representatives of rangatahi, we will disproportionately face the intergenerational impacts of climate change.
- As environmentalists, we see the damage climate change will have on te taiao and our communities, as well as the many impacts of its interrelated crises.
- As conservationists, we are extremely concerned with the future of our native taonga our ngahere, moana and other ecosystems (and the species they contain) face an extremely grim future under business-as-usual climate change scenarios.

It is through these three lenses that Forest & Bird Youth derives its kaupapa and approach to the climate and ecological emergency.

Forest & Bird kaupapa

Forest & Bird is New Zealand's leading independent conservation organisation — protecting wildlife and wild places, on land and in the sea. For nearly a century we have been protecting and restoring Aotearoa's wildlife and wild places - on land and in the sea.

We have grown to number 80,000 members and supporters who make it possible for our staff to advocate for better legislation and policy to protect nature. Members also engage with local and regional councils to speak for nature in local and regional planning forums and educate their communities about conservation and environmental issues.

Since 1923 Forest & Bird has played a crucial role in preserving New Zealand's environment and native species. We've helped establish conservation protection for a third of our country's land mass, put an end to logging our publicly-owned native forests and helped prevent species such as the kakapo and kokako becoming extinct.

Our Recommendations

Rapid Removal of Free Allocation

- We recommend industrial allocation is phased out by 2030
 - While this has been ruled out of scope of this consultation, we don't believe anything should be out of scope when it comes to our future. Therefore, we are urging the government to phase out industrial allocation by 2030.
 - There should be clear recognition that the removal of free allocation and increases in the carbon price should be aimed at removing emissions intensive industry from the New Zealand economy at a rate that allows for a just transition, not to provide for permanent retention of the industry.
 - The current system of industrial allocation is set up to incrementally phase out allocations by 2050 which will mean intensely emitting industries will still be granted carbon credits.
 - The government has an opportunity to support industry to decarbonise through leveraging allocation/grants to be given to companies with clear transition plans. This enables government and industry certainty over future allocations and the ability to facilitate and be accountable to the transition.

Measures to Regulate Industry Compliance

- We recommend capping emissions under the ETS
 - This would encourage accountability, verifiability of and ambition toward industry decarbonising and measuring environmental impact of activities. The cap should be set at a level which allows us to rapidly decarbonise our economy.
- We believe allocative baselines should be updated with appropriate weightings to represent industry activities.
 - The baseline reassessment process should be to reduce the number of industries eligible for free allocation. The process should be reviewed regularly and in line with government emission reduction plans. This process should be supplemented with government and industry support and reflect the advancement of low emissions technology.
- We ask that a NZ EAF be implemented.
 - The removal of free allocation will be accelerated further by implementing a NZ EAF rather than the current Australian one for baselines. This will ensure the emissions profile of New Zealand businesses will be accurately represented.

Just Transition

- We urge the government to undertake a swift but just transition.
 - A just transition of emissions intensive industries is necessary to support workers to move into employment that is not emissions-intensive. This will include utilising transferable skills from emissions-intensive industries such as engineering to support long term sustainable employment.
- Climate justice must be central to all policies, including changes to the ETS.
 - There should be explicit provisions based around a just transition for the workforce, especially in the Māori economy which is more at risk of emissions leakage. Including the option of transferring the value of free allocation to the workforce (to enable workers to move to alternative industries rather than continuing to subsidise polluting employers) would help to prevent the exacerbation of the systemic inequities the current ETS has.
 - Local communities and those most affected by emissions intensive industries must be involved in designing the transition to ensure informed action.

The Trade Exposure Test and Emissions Leakage

- We recommend that the trade exposure test is strengthened so less businesses will be able to claim emissions leakage risk.
 - Industries should only be able to claim emissions leakage risk if:
 - The goods are easily tradable internationally
 - The main alternative suppliers of the goods are demonstrably more emissions intense
 - The New Zealand producer is demonstrably at world's best practice as a most emissions-efficient producer
- We support a border tax adjustment as an appropriate way to deal with trade exposure.
 - The overriding priority of climate policy is to reduce emissions as quickly as possible.
 - Trade exposure is a market failure of the international trading system. Because goods are generally not discriminated against in the trading system on the basis of how things are made, there is an incentive to externalise the environmental cost of production in order to gain or retain investment. So even where governments have a right to regulate to protect the environment, in practice they can face a strong disincentive from actually doing so. New Zealand's free allocation to high emitting sectors is a prime example of this.
 - Continued free allocation does not solve the underlying problem, it entrenches it and in effect is a substantial subsidy to emitters (albeit one that appears to be

WTO compliant). It protects New Zealand producers from the economic effects of a market failure, but does not address the environmental consequences of that market failure and so doesn't actually solve the underlying problem.

- A more appropriate method of dealing with trade exposure is to ensure that imported products intended for New Zealand markets face the same carbon price as domestic producers. This can be achieved by introducing a border tax adjustment to reflect any differential in carbon price. Such a border tax adjustment would not be trade distorting - the trade distortion comes from the subsidy. provided to producers who are able to externalise the environmental cost of production.
- A border tax adjustment solves both the environmental and economic effects of the climate change market failure associated with the trading system and is therefore better on policy grounds than the status quo.
- 0
- We believe new activities should not be eligible for industrial allocation.
 - The current system has not reduced emissions and we cannot risk incorporating new activities which will increase emissions further.

Governance of the ETS

- We ask that governance of the ETS be transparent and independent.
 - For the ETS to effectively be phased its governance must be separate from industry and government interests and support emissions based trading. Appointing registered regulators and having a rigorous management system of them will make the system more user friendly and to support industry to decarbonise.

17 September 2021

IA Review Ministry for the Environment Manatū Mō Te Taiao PO Box 10362 Wellington 6143

Via email: etsconsultation@mfe.govt.nz

Dear ETS Consultation Team,

Submission on "Reforming industrial allocation in the New Zealand Emission Trading Scheme" consultation document (Consultation Document)

Background

OMV New Zealand (OMV) is a major energy provider for New Zealanders. Our business helps to meet the energy demands of New Zealanders in economically, environmentally, and socially responsible ways.

OMV recognises and supports the objectives of the Climate Change Response (Zero Carbon) Amendment Act 2019 and its goal of achieving net zero emissions by 2050. The industrial allocation scheme, as the main mechanism for ensuring New Zealand does not achieve its goals by exporting its emissions to other countries, is fundamental to protecting the integrity of New Zealand's emissions reduction efforts.

OMV's operations are not Emissions Intensive Trade Exposed (EITE) activities and OMV does not receive an industrial allocation of ETS units. However, OMV produces about 40% of New Zealand's natural gas and many of our customers (past, current, and potential) do receive such allocations.

OMV welcomes the opportunity to make a submission on the Consultation Document.

Criteria for assession options (question 1)

OMV is generally supportive of the criteria proposed to evaluate changes to the current industrial allocation scheme. Namely, changes should:

- Support the purpose of the NZ ETS
 Address over-allocation
- 3. Address the risk of emissions leakage
- 4. Give recipients regulatory certainty and predictability
- 5. Minimize administrative burden and complexity

OMV understands the intent of Criteria 1 is to ensure that the industrial allocation policy provides an appropriate incentive to reduce emissions. OMV would not support this evaluation criterion if it suggested that there is a valid trade-off between meeting New Zealand's carbon budgets and mitigating emissions leakage. The goal of lowering global emissions is primary, as it is only global emissions reductions that will impact the climate.

OMV Upstream

Dylan Reid Senior Expert Regulatory and Stakeholder Management

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Or, in the words of the Climate Change Commission: "Aotearoa should focus on decarbonising its industries rather than reducing production in a way that could increase emissions offshore."

Allocation Calculations (questions 2 to 6)

It is valid to update the allocative baselines where an over-allocation has resulted from out-of-date policy settings. In contrast, updating the allocative baseline, where an "over-allocation" has resulted from companies investing to reduce emissions would not be a justifiable action. The Consultation Document expresses the view that the dominant cause of the current over-allocations is that settings have become out-of-date and, on that basis, OMV does support a recalculation of allocative baselines (question 2).

Notwithstanding OMV's support for recalculating allocative baselines, OMV has reservations about the lack of evidence presented in support of the view that the dominant cause of the current over-allocations is out-of-date policy settings. Greater transparency on the basis on which this conclusion is drawn would support business confidence. OMV also notes that even if a relatively small number of companies have invested in emissions reductions to secure the resultant surplus credits, the impact on investment confidence of having that investment undermined by re-baselining will be disproportionate.

Given the apparent potential for settings to drift and become out-of-date, it is appropriate to have a specified periodic review (question 3). This will prevent companies who undertake EITE activities from having to second-guess when re-baselining will occur.

Detailed questions of how often reviews should be undertaken (question 4) and the years that should be used as a baseline (questions 5 and 6) are best left to EITE participants to answer.

Eligibility Criteria (questions 7 to 14)

The problem statement that forms the basis of this consultation is primarily concerned with the issue of over-allocation and does not highlight issues with the eligibility criteria. For example, there is no assertion that there are domestic businesses that are erroneously being classed as trade exposed. Or that there are trade-exposed industries who have the wrong intensity classification.

The suggestions outlined in the Consultation Document for improving the eligibility criteria and assessment are legitimate. For example, there may be merit in having more granular thresholds, or NZ-based intensity thresholds or electricity allocation factors. However, without a clear problem statement related to eligibility, OMV does not support investing in a revised eligibility framework. Such an effort would risk spending time and money on a more perfect framework that delivers the same or similar result to the current regime.

OMV also notes that the significantly higher ETS price in 2021 will stress-test the industrial allocation regime in a way that it hasn't been to date. This will highlight issues with the current regime (if any) that could usefully inform the formation of a robust eligibility problem statement (if required) for future work and/or reform.

Other Matters (questions 15 to 22)

OMV is of the view that new participants should be allowed to join the industrial allocation scheme (question 17 and 18).

OMV agrees that it would be an undesirable outcome to allow new participants whose activities add to global emissions. However, in practice, New Zealand's relatively low-carbon electricity system, the availability of gas in the North Island and constrained supplies of domestic coal, means that it is likely that any new entrant that can compete internationally from New Zealand will also likely contribute to reduced emissions globally. On that basis, and like our answer to questions on eligibility criteria, OMV would encourage a robust problem statement to be developed before adding the complexity that would

be required to screen new entrants for their global emissions impact as a condition of entry to the industrial allocation regime (question 19).

Detailed questions on the process for updating the allocative baselines (question 15 and 16), reporting requirements (question 20 and 21) and transition periods for changes in eligibility (question 22) are best left entities who undertake EITE activities.

Future of industrial allocations (questions 23 to 28)

It is not obvious that an alternative mechanism to the industrial allocation scheme needs to be investigated. With the right settings, the industrial allocation arrangements address emissions leakage risks, provide an incentive to reduce emissions to participants, provide a relatively stable framework and can be administered relatively simply and cost-effectively.

Rather than developing a new system, OMV suggests that the performance of the industrial allocation scheme be monitored following any changes that result from recalculating the allocative baselines and based on that evidence develop a robust set of problem statements that address any other issues that may be identified (or not as the case may be). Those problem statements will usefully inform discussions on changes to the industrial allocation scheme and whether alternative arrangements are warranted.

OMV notes the consideration given to a Carbon Border Adjustment Mechanism (CBAM) in the Consultation Document. Our understanding is that this is primarily a mechanism to protect domestic industry against imports that bear lower carbon costs than domestic production and that it cannot, in practice, be used to protect exporters¹. This is relevant given that two of New Zealand's largest EITE activities are export activities (aluminium and methanol production).

Thank you for the opportunity to provide feedback on the Consultation Document.

Yours sincerely,

Dylan Reid

¹ Professor Jos Debeke speaking to the Climate Change Commission said of export rebates in a European context "exporters have been asking for an export rebate for the carbon price, but that is an absolute no-go in the WTO, that is the worst of all when you look at the WTO rules, an export rebate is the most difficult one to implement...on the export rebate debate there is much less heated debate, people say it is not going to be there." (254) International speaker series: EU strategy for net zero: emissions pricing and policies - Jos Delbeke - YouTube (@57 minutes and 15 seconds).

From:	Amanda Hunt
Sent:	Friday, 17 September 2021 9:17 pm
То:	etsconsultations
Subject:	Submission

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Kia ora

I was dismayed to learn recently that NZ is currently allocating "free" carbon credits to polluting industries — and even more so to learn that this is proposed to continue till 2050.

This is unacceptable government policy in the face of the urgent need to reduce emissions, stated most starkly in the recently released IPCC report.

Allowing this to continue makes a mockery of the Government's declaration of a climate emergency.

We don't have time for this level of industrial appeasement and apologism.

I request that all industry allocations end by 2030. There is no incentive for industries to develop or implement lower emitting, less polluting technologies, if the Government will continue to bail them out. Urgent change is needed now. We have only a few short years to act before emissions become too high to stay anywhere near the 2 degree Celsius threshold agreed in Paris 2015.

I request that regulations be revised, to end all industry allocations by 2030.

You may publish this submission, but not my contact details. I provide these below for the record. Ngā mihi

Amanda Hunt MPhil(EnvSc)Hons



From:	Emily Bailey
Sent:	Friday, 17 September 2021 10:44 pm
To:	etsconsultations
Subject:	Submission ETS industrial allocation reform

MFE CYBER SECURITY WARNING

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Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

The ETS is a terrible piece of legislation which I believe has done nothing to reduce greenhouse gas emissions and may have led to an increase in emissions instead by handing out free credits to polluters and not pricing or controlling them well enough.

We are in the midst of a social and environmental crisis at a scale never before witnessed by our species. Aotearoa needs to immediately phase out fossil fuels and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future. If those polluting industries don't want to reduce emissions then they can shut down and leave the country, as many of them have threatened to do for years. Enough with the threats, let them do it and see how expensive and unstable it is for their business. It doesn't mean we're being irresponsible as we can still monitor the companies and support any host countries to keep the industries in check. It is surely far more irresponsible to allow them to keep polluting here when all western and matauranga scientific advice says we must stop carbon emissions within this decade.

As for baseline years, let's just stop allocating any free credits at all. If they pollute, they pay, and a realistic price that matches the actual sequestration of the GHGs they're emitting within this decade. If they can't pay then they need to shut down or ideally find a way to stop polluting.

I support any improvements that will increase and improve accuracy and frequency of reporting on emissions by industry so polluting can be detected and stopped or sufficiently mitigated.

You, the government need to start standing up to corporate bullies who would put their own private shareholder profits and egos above the survival of our communities and taiao. We, the people will support such a stand. We don't need their jobs and money at the huge social and environmental cost we are and will have to pay for it. These polluting industries often stand in the way of other small, sustainable industries which can't compete when they're trying to operate responsibly by protecting the environment, workers and local communities. Send the bullies packing and let the transition happen.

Nga mihinui, Emily Tuhi-Ao Bailey Taranaki.

I wish for this to be published and to speak to my submission if there is opportunity.

From: Sent: To: Subject:

Saturday, 18 September 2021 7:29 am etsconsultations Re: Reforming industrial allocation in the NZ ETS

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

I would prefer for this submission to be published anonymously.

Kei te rangatira, tēnā koe

Thank you for seeking public input on the Emissions Trading Scheme.

The ETS can be an important tool in the urgent task of reducing greenhouse gas emissions. However, there are some changes that will be needed for it to be effective in this role.

One important change is to make sure that all sectors have real and steadily escalating incentives to reduce greenhouse gas emissions. This means the effective emissions cap must be set at a sufficiently low level that it will drive the necessary transition. Allocations that are too high amount to a loophole in the ETS. This government subsidy of continued greenhouse gas pollution should be dialled down.

I welcome the review of the allocations, and support a steady reduction in allocation amounts over time so that they are adequate for science-based emissions targets to be achieved. The science and economics behind the adequacy of the ETS needs to be continually assessed, and allocations should be adjusted to reflect true market conditions and trend strongly down towards zero by 2030.

If the government feels a need to protect certain export-exposed industries, I would prefer to see shorter-term incentives to support the capital investments that are needed for industry transitions to low carbon production coupled with a corresponding reduction in allocations.

Nāku noa, nā

From:	Green Back
Sent:	Friday, 17 September 2021 7:44 pm
To:	etsconsultations
Subject:	Re: Calling on the government to phase out all ETS industry allocations by 2030
Follow Up Flag:	Follow up
Flag Status:	Flagged

MFE CYBER SECURITY WARNING

This email originated from outside our organisation. Please take extra care when clicking on any links or opening any attachments.

Tēnā koutou katoa,

I am writing to submit on the ETS Industry Allocations Review 2021.

- New Zealand needs to immediately phase out, and find ways to decarbonise all of our emitting industry, starting with the highest emitters. It is not something we should subsidise as it cannot be a part of our future.
- By continuing to subsidise our biggest emitters, we're exposing these companies to the risk of being subject to a carbon border adjustment mechanism in other countries, and not having a sustainable long-term plan to transition off fossil fuels.
- Instead of increasing risk to industry, and giving out free emissions credits, we must incentivise
 industry to transition to carbon neutral, by developing solid roadmaps to reduce their emissions and
 commit to carbon zero by 2030. This plan should support the just transition.
- With regard to industry-specific funding, our government has the opportunity to set a precedent for how the future will look and enable industry to support this. Don't fund high-emitting industries to keep emitting make them commit to decarbonisation, and if necessary, help fund the transition by direct grants in response to verifiable, ambitious industry decarbonisation plans.
- Our lack of climate action is well noted overseas, damaging our national brand. New Zealand was
 referenced by the BBC as a climate villain. This focus on supporting particularly damaging sectors is
 not only further damaging our environment and planetary health but also takes away support for up and
 coming sectors which have the potential to sustainably transition our economy to carbon neutral by
 2030. Could we see some ambition please?

Best regards,

Fliss Roberts

Founder I Greenback

Be a Good Human, take the credit.



www.plantme,io

<u>LinkedIn</u>

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17 September 2021

Submission on MfE consultation document on reforming industrial allocation in the New Zealand Emissions Trading scheme

Contact person: Guy Salmon

Introduction

1. We congratulate the MfE team on the analysis contained in the issues paper, which demonstrates that the review project represents a serious effort to make the free allocation system work better, as well as signalling a degree of openness to proposals for a better system.

2. However we note six fundamental challenges which form the backdrop to the review project:

- While Parliament has declared a climate emergency, the political impetus behind free allocation policy is to create a privileged class of industries that do not need to act as though there is an emergency. If agriculture is included, the sectors so privileged amount to almost 60 percent of New Zealand's total emissions. This makes a mockery of the emergency. This creates two ongoing incentive effects: (a) to shift an impossible burden on to the remnant, non-privileged portion of the economy, especially non-farming small businesses and households on median-to-low incomes; (b) to encourage politicians to set an inadequate NDC whose effect in relation to meeting the global atmospheric budget for 1.5 degrees of warming, is to shift the burden on to other countries, notably less developed countries.
- While the terms of reference for the review project formally exclude agriculture, the Government's policy commitment to price agricultural emissions means that the free allocation regime eventually agreed on will have important implications for Ministers' currently weak bargaining position with the powerful agriculture sector when it comes to free allocations of allowances to agriculture.
- The European Union has decided to move away from a free allocation system to a carbon border adjustment mechanism for a very <u>simple reason</u>: it concluded that while the free allocation system was effective in addressing leakage, it also dampened the incentive for investment in greener production methods at home and abroad. Arguably the same applies to New Zealand's free allocation system. If so, the climate emergency requires a shift, similar to that in Europe, toward a new system.

Ecologic Foundation PO Box 756, Nelson, New Zealand. National Office, 74 B Wellington St, Nelson Phone: +64-3-548-336 Email: info@ecologic.co.nz www.ecologic.org.nz

- The wider context is that, over a period of almost 30 years, New Zealand's climate policies have failed to deliver on the promises New Zealand politicians have made. This has moral and political consequences for all those in business and politics who have worked, and are continuing to work, to frustrate emissions reductions. We note that:
 - a) At the Rio conference in 1992, New Zealand promised to stabilise its net emissions at their 1990 level – but since then, net emissions have consistently risen and are now a third above the stabilisation level we promised to deliver by the year 2000, as a precursor to beginning reductions of our emissions; and
 - b) Actual reductions of New Zealand's net emissions have been an oft-stated goal, but this has proved so far to be little more than vacuous rhetoric because of political constraints on implementation, based on the protection of the vested interests that are responsible for most of our emissions. The political conferment of protection on EITE industries, including the agriculture sector, has loaded the burden of climate policy on to small business, transport users and households in an unfair and politically impossible way, and it avoids the need for purposive transformation of emissions-intensive foundations of the New Zealand economy.
- The upshot is that the politics of climate policy has now been transformed. While the large emitters' lobby still retains the upper hand, there is no longer a hegemonic view that this sector can just push off its emissions reduction responsibilities on to smaller businesses, on to wage and salary earners, on to taxpayers, on to other countries, and on to future generations. Instead, there is now an angry generational rift, a widespread and well-deserved loss of trust in the institutions of climate policy, and a new determination amongst climate advocates. In this polarised yet purposeful environment of change, and despite demands for traditional farmer privilege around methane and for long term investment certainty, the Government is really in no position to make any credible promises to continue the privileged status of large emitting sectors beyond the middle of this decade. By that time, the progress of science around tipping points, the technological means for remedial action, the widespread public desire for change, and ongoing changes in political and business leadership can together be expected to have created a political tipping point for action. It is vitally important that decisions at that time are not constrained by the baggage from the long decades of evasion of responsibility.
- Finally, on the basis of almost thirty years' experience, there can be no public confidence that political processes for allocating privileges to private interests will reflect New Zealand's obligation to do its share of the global task to achieve the 1.5-degree target. This suggests a need for these decisions to be supervised in future through independent regulatory and judicial authorities that can provide independent scrutiny of all demands for privileged treatment against New Zealand's global fair share obligations, and against the needs of those sustainable businesses whose competitive prospects are being disadvantaged by politically-conferred privileges for polluters. We need to examine institutions like the Reserve Bank, the Environmental Protection Authority, and the Environment Court for better models to safeguard the future.

3. While we appreciate the Ministry's efforts to introduce some integrity to the stated purpose of the free allocation system, we see this as too little, too late. We believe a bolder approach is now needed. We do not therefore propose to comment on the details of the Ministry's proposals, except in relation to three aspects: the significance of the Minister's message; the need to transition to a

better system than free allocation to address EITE issues for the future; and in the interim, the need for wider purposes and a more independent and judicial process to shape eligibility for any ongoing industry protection. To set the backdrop for our high-level recommendations, we comment initially on the Minister's message; provide further analysis of the rationale and purpose of any EITE protection; identify a preferred approach that recognises our new circumstances; and finally address the question of transitional arrangements to the new preferred approach. This includes critical needs we see for a new and additional eligibility criterion; and an appropriate governance mechanism to oversee interim free allocation. We conclude with recommendations.

The political context

4. In his introductory remarks to the consultation document, the Minister (p6) reminds us that, in political reality, there have always been two separate drivers for EITE policy, not just the stated purpose of reducing the risk of leakage of emissions abroad (emphasis added is ours):

Industrial allocation helps to manage the impact of the emissions price on industry. **This is** *important to avoid the loss of international competitiveness for trade-exposed firms,* and reduce the risk of the NZ ETS driving emissions overseas, rather than mitigating them.

5. Three key points need to be made about the Minister's words. First, in a world which has long agreed that countries have common but differentiated responsibilities, so that advanced economies like New Zealand must move to reduce their emissions more rapidly than developing countries, it is inevitable that the emissions of our EITE businesses as a class (including agriculture) will have to be reduced. After such a long period of protection and delayed action, together with the lack of evidence that free allocations have ever been used to invest in emissions reduction (as repeatedly acknowledged by the MfE review team in its webinar transcript) there is now little time left to achieve New Zealand's existing NDC, let alone the more ambitious goals demanded by the terms of the Paris Agreement. The upshot is that EITE businesses' competitiveness with developing country producers will inevitably have to be reduced if New Zealand is to meet its Paris obligations.

6. Second, the Minister's choice of words is a subtle reminder to us that the politicians' interests, as a class, in this issue are not really confined to the longstanding stated purpose of free allocation, which is to address actual risks of emissions leakage. Indeed, it has been obvious for a long time that politicians want to protect selected industries for wider reasons. They wish to avoid job losses in their electorates, especially if the electorates in question are marginal, if loyal supporters and major donors may be affected, or if closures of long-established industries might attract national attention. Right from the time that the Working Group on Carbon Dioxide Policy (WOGOCOP) produced its interim and final reports in the mid-1990s recommending an emissions trading scheme and an interim carbon tax, the pressure for exemptions and privileges was massive. As soon as politicians opened the door to the creation of exemptions and privileges, it became impossible to stop, and both over-allocation and unjustified allocations became inevitable. Close observations over the years following WOGOCOP made it clear that every MP with businesses in his or her electorate which might be adversely affected by climate policy was visited by lobbyists and got on the free allocation bandwagon. As noted above, this political process led inexorably to the future potential costs of adjustment being implicitly shifted on to small non-farm businesses, motorists and households, which were never in a position to make the scale of adjustment required by New Zealand on their own. This situation led directly to the multi-decadal political impasse that presaged New Zealand's status as an international laggard. The public now needs a type of reform that offers clear safeguards against the capture of politicians and their stated climate policies by vested interests.

7. Third, the Minister's reference to driving emissions overseas, rather than mitigating them, subtly draws our attention to a key point: that the free allocation system actually contains no significant incentive to mitigate emissions. At best it could be said to have some incentive to mitigate uncontrolled growth in emissions. Overall it is a scheme driven for years by the joint desire of businesses and politicians to evade any significant responsibilities to mitigate.

8. The key point about the political context is that there has never been a Team of Five Million in climate policy – rather a political culture has been fostered which enables an endless shifting of burdensome environmental responsibilities on to others. This in turn is facilitated by a form of clientilist politics (involving close industry-political relationships and mutual support, although not necessarily of a financial nature). This has long characterised New Zealand's response to environmental issues, and especially the climate crisis, at every level – domestic and international. Today, there is possibly an opportunity, and certainly a need, for fresh and transformative political leadership on climate action. In short, the ingrained culture of free allocations/burden shifting under the ETS needs a more far-reaching, high profile and urgent reform than what is envisaged in the Ministry's consultation document.

The rationale and purpose of EITE protection

9. We agree with the MfE consultation paper that the risk of leakage could remain for some time, but this does not mean that free allocation should continue as the preferred policy instrument. The presence of a cost differential between a New Zealand producer and one in a developing country does not in itself justify free allocation, for three reasons:

- Leakage risk depends not only on the New Zealand policy framework, but also on the policies operated by countries with which we trade. For example, the progressive extension of China's emissions trading scheme could soon lead to a situation in which our largest trading partner has similar or even higher emissions prices than NZ does (especially if NZ continues its attempts to keep the ETS price low through a mixture of ETS price control powers, and government subsidies for pollution reductions). Neither the emissions intensity test nor the trade exposure test currently take into account the large scale moves by our trading partners into emissions pricing, nor the likelihood that these and equivalent nonprice policies to reduce methane emissions announced by the US and EU will soon cover a substantial proportion of our trade relationships. Presumably because of the difficulty of assessing actual leakage risk across a wide range of trading competitors, and the desire to protect against a worst-case scenario of competitors operating in climate policy-free countries, NZ's policy would not lead to any ongoing reductions in free allocation of units to businesses exporting to China, Korea, Japan, Canada, Europe and other countries with existing or announced emissions pricing schemes. However, in practice these changes in the external policy environment situation will continue to lead NZ to over-allocate free units to its privileged industries. This amounts to a disguised trade protection policy, because no valid environmental benefit, consistent with UNFCC obligations, is flowing from the free allocations.
- Even if a cost differential exists between a NZ exporter and a competitor in another nation with an even more lax climate policy framework, the existence of the cost differential is only a potentially valid basis for protecting an industry if New Zealand's NDC already meets global fair share criteria, in terms of common and differentiated allocation of what remains of the global emissions budget for the 1.5 degree target. It is widely acknowledged that our existing NDC does not meet fair share criteria. We consider that it is unlikely to do so in

future, given the huge cross-subsidy from all New Zealanders to the meat and dairy industries that is being provided by Climate Change Response Act's provisions on biogenic methane. These provisions establish a disguised trade protectionism for those industries, which will surely be challenged and will have to be changed, almost certainly during the present decade. Special protections for methane emitters simply function to shift responsibilities on to other countries, as recently pointed out by <u>Reisinger and his</u> <u>distinguished international co-authors</u>.

 Even from New Zealand's own perspective, it is hard to justify continued protection of businesses which have little prospect of competing with international competitors in a netzero emissions global environment in the medium term. As Sense Partners conclude in their *Countervailing Forces* report (p2): "historically weak innovation and comparatively poor productivity growth are reasons to doubt whether innovation and adaptation by New Zealand firms will be sufficient to overcome potentially wide cost differentials." The crucial questions are (a) whether businesses should continue to be propped up if they cannot show a clear pathway to competitiveness in an emissions-neutral world and (b) how policy can best ensure that they either change or die.

10. Turning next to the political objective discussed above, of politicians preferring to protect their industry clients at the expense of climate change policy considerations, we note that the free allocation system has not been conspicuously successful in delivering on the politicians' apparent objectives. Prominent examples of failure to achieve such objectives include NZ's experiences with the Westport cement works and its proposed Oamaru replacement; the Marsden Point oil refinery; and the Bluff aluminium smelter. It is important that politicians and the public are reminded of these examples, especially given the recent high profile tractor protests by Groundswell and the likelihood of another round of clientelist outcomes from He Waka Eke Noa. Attempts to guarantee protection of powerful interests from the need to change will ultimately create costs to everyone in our small country, if we end up again refusing to change, decade after decade, and fail to honour our commitments to the rest of the world in the face of important global trends and pressures.

11. In addressing the need to change, an important question is whether the free allocation system, albeit conceptually distinct from industry policy, functions in practice as an industry policy, conferring competitive advantage on selected, emissions-intensive industries against their competitors, and thereby discouraging needed adaptation, agility and innovation in the New Zealand economy. A couple of examples can serve to illustrate this issue:

(a) Steel and cement have been enabled by free allocation to compete unfairly with wood, especially in residential construction, so that as NZ belatedly resumes a long-needed high level of home-building, builders using low embodied-emissions materials in houses and apartments are placed at a competitive disadvantage.

(b) Sheep and beef farmers on hill country maintain high levels of methane emissions, reflecting entrenched business models and lifestyle preferences, notwithstanding their commonly low EBITs compared to the returns available from forestry on the same land. This situation is not generally in the national interest from either an economic or a climate policy perspective. The situation springs from the farmers' current exemption from methane pricing, a situation which would not materially change if they were brought under the free allocation system with a 95% free allocation as currently agreed among politicians. This free allocation appears intended to help red meat producers compete against low or zero net-emissions protein foods. The latter foods are sourced globally from plants, precision fermentation processes and cellular agriculture technologies generally. They are expanding

on the basis of a growing global concern that climate objectives cannot be met without transforming the global food system away from ruminant meat production. While the marginal cost of increasing methane emissions might be sufficient to deter an increase in livestock numbers under a free allocation regime, such an increase is no longer the issue: the challenge is actually to sharply and quickly *reduce* methane and nitrous oxide emissions. Needed reductions in the available time frame may only be achievable through reduced stocking rates and/or land use change.

12. We conclude that whether an allocation policy operates in practice as an industry policy, and acts counterproductively to climate policy, is an empirical matter. It is not a notion that can be dispensed with on semantic grounds. Given that the majority of emission sources in the economy are subject either to free allocations or to exemptions, there is a substantial risk that continuation of the whole industrial allocations approach will hard-wire the export economy into pollution-intensive modes of production, and will compete unfairly with the innovative, low-emissions business models the world needs, and which New Zealanders, for the most part, aspire to foster.

Future of EITE policy

13. Thirty years after signing the Framework Convention on Climate Change, New Zealand's primary policy task has shifted away from protecting emitters and buying time for them to adjust, toward ensuring a do-or-die performance in emissions reductions from our most laggard industries. A fundamental long-term requirement for a net-zero emissions economy for NZ is the consistent application of the polluter-pays principle. A policy of grandparenting ongoing rights to pollute without paying for them represents a major obstacle to effective climate policy, just as does in freshwater policy, where pollution-intensive incumbents are being empowered to crowd out new, environmentally friendly land uses in the face of environmental limits. It is important not only to apply the polluter pays principle domestically, but also to ensure it is applied to businesses elsewhere that sell into the New Zealand market. In this way New Zealand would be contributing to the incentives for needed global change. Of the three options for the future listed in section 6 of the consultation document, only the Climate Emissions Border Adjustment Mechanism (CEBAM) meets these requirements. (We do not use the term 'Carbon Border Adjustment Mechanism' for the obvious reason that non-carbon emissions dominate New Zealand's climate emissions profile, and they should not be shuffled out of focus.)

14. A CEBAM framework would still provide the opportunity to protect industries from unfair competition, albeit in a policy context requiring more rigorous scrutiny of the rationale for protection, including by trading partners in terms of WTO compliance. We believe this scrutiny would quickly discourage the practice by politicians, prevalent under free allocation, of shifting other people's money around in service of their clients' vested interests, to the disadvantage of low-emissions competitors everywhere. It would provide an environment in which protectionist interventions would need far more robust and transparent justification and would likely be more selectively applied.

15. In relation to introducing a CEBAM, we favour the EU model, including especially the intention to advance this model to cover a wider range of EITE sectors. Crucially, this framework would ensure that all traded goods embodying significant emissions would also embody emissions charges in their market prices; and that these charges are not to be rebated for exports. The last point is particularly important since we judge that most New Zealanders will not want to be seen by the world as subsidising livestock-based, emissions-intensive industries to compete against zero-net-emissions

protein foods, whether sourced in NZ itself or from anywhere in the world, given the urgent need, mentioned earlier, to transform the global food system for planetary survival and well-being.

16. In discussing a CEBAM, the MfE consultation document alludes to complexities of design and implementation. In examining and discussing details of the EU proposal for a CEBAM it appears to us that a very significant proportion of the design and implementation challenges in Europe relate to achieving consistent, robust and transparent administrative practices across 17 member states with devolved jurisdictions. These particular difficulties would not arise in the New Zealand context and there is good reason to believe that New Zealand could move faster than the EU or the US (where CEBAM legislation has also been introduced) to getting the new system up and running as soon as possible. However, it is clear this would nonetheless take some time, especially given the need for consultations on matters of detail with trading partners. There would therefore need to be a policy design and consultation period, followed by a transition period during which free allocation was phased out and CEBAM provisions were phased in, where they can be justified. We see a strong case for New Zealand taking leadership on CEBAM as this country finally brings all emitting sectors into an emissions pricing regime. During these transition phases, an important step could be taken by reforming eligibility and institutions for free allocation under the existing scheme, which we briefly discuss next.

Elements in a transition to a new system

17. Following from the considerations discussed above, we suggest there is a need to establish an eligibility-for-State-protection mechanism that embodies two major changes from the present system:

- Introducing in legislation a new allocation criterion, beyond emissions intensity and trade exposure: namely a requirement to confirm that every business or sector receiving privileged, State-mandated support can demonstrate a credible pathway to a sustainable business model for a net-zero emissions world. The purpose of introducing this new criterion is threefold:
 - To reconfigure the allocation regime away from its culture of entitlement to climate policy exemption and resistance to change, toward a new culture of business transformation for a world that demands climate stability; and
 - To weed out those applicants including a number of the incumbent privilegeholders – that are primarily rent-seekers and/or have no medium-term survival prospects without public support as the polluter-pays principle is progressively introduced to climate policy during the decade to 2030; and
 - To enable the establishment of a series of accountable performance milestones for those businesses or sectors that are approved for free allocations (or later, for CEBAM protections) as part of an agreed journey to sustainability.
- Introducing in legislation a new governance mechanism, independent of direct political control, to assess whether businesses and sectors meet the required criteria for State protection privileges; and to enable consideration of appeals on these important decisions by (a) those who believe their more sustainable business models are being undermined by unfair competition from the beneficiaries of free allocation, and (b) from those who represent a relevant aspect of the public interest, including from Pacific countries. The purpose of this mechanism is to safeguard against the adverse effects of New Zealand's clientelist political culture in the field of climate policy, and to ensure that the system is driven by emissions reduction drivers rather than by traditional entitlements to pollute.

18. We have not yet given detailed consideration to the entity that should make these decisions. Our preliminary view is that the existing Environmental Protection Authority (EPA) might be an appropriate entity for the purpose, with hearings and rights of appeal to the Environment Court. However, we are looking for a balance between a political statement of broad policy objectives, and independent assessment of how these are best delivered in practice, that is rather similar to the scheme under which the Reserve Bank operates. There is a need for further consideration of whether and how the institutional arrangements around the EPA might need to be modified to meet the needs we have outlined here.

Recommendations

1. The Government should declare that, consistent with the OECD's polluter-pays principle, it will make preparations to introduce a Climate Emissions Border Adjustment Mechanism (CEBAM) to progressively replace its current policy of free allocations and exemptions for emissions-intensive, trade-exposed industries from 2026 at the latest.

2. Given the key role which privileges such as free allocation and total exemption from emissions pricing have played in New Zealand's climate laggard status, Ministers should signal their desire for agility in the transition to CEBAM by stating that their aim is to get this new policy framework operative faster than the corresponding initiatives that are already under way in other jurisdictions such as the EU and the US.

3. In the meantime, the current review of the existing free allocations system should lead to a policy which explicitly states that whatever free allocation policies are now proposed cannot be guaranteed beyond 2026 because of the foreseeable political unsustainability of outright wealth transfers to risk-creating climate polluters beyond that date.

4. Revised legislative criteria for interim free allocations up to 2026, and for protection via a border adjustment mechanism after that date, should be established forthwith, together with the allocation of responsibility to a suitable and independent regulatory authority to hear applications from any existing beneficiaries and new applicants who seek ongoing privileged, partial exemptions from New Zealand's collective duty to reduce emissions to net zero on a fair global share basis in the needed time to meet the 1.5-degree target to which New Zealand is committed.

5. The current eligibility criteria for free allocations should be extended from establishing the existence of emissions intensity and trade exposure. They should also place an onus on applicants to demonstrate a clear, evidence-based, medium-term pathway to operating their businesses successfully in a competitive, net-zero world in accordance with the polluter-pays principle. Accountable performance milestones should be required, and rights of appeal should be available.



Submission on the Emissions Trading Scheme Designing a Governance Framework and Industrial Allocation

September 2021

Parents for Climate Aotearoa is a group of largely parents and wider whānau, concerned with our families and particularly the future of our tamariki and mokopuna in a rapidly warming world. Our parents come from a range of backgrounds and experiences, including direct experience with the Emissions Trading Scheme (ETS). We are ordinary parents standing up for climate justice, to ensure all children have a safe climate and world to live in.

Introduction

Our Submission has four key themes, Enabling Rapid Emissions Reductions, Fairness, Rethink and Transparency. A summary of these themes are as follows:

Enabling Rapid Emissions Reductions

While we appreciate and support efforts being made to improve the system, we are continually frustrated by the lack of urgency. The purpose of the Emissions Trading Scheme (ETS) is to reduce emissions. The ETS has sadly not lived up to its promise and after much tinkering over the past 20 years our emissions continue to rise. It has not been successful. We wonder what position we would be in now if it had been set up for success and left to run? We appreciate that efforts are now being made to improve the system to enable it to support emissions reductions.

The focus of the ETS must be on a rapid reduction of emissions, rather than protecting Emissions Intensive, Trade Exposed (EITE) industries. There have been far too many free allocations and whole sectors excluded, making the system ineffectual. We need a laser focus on reducing emissions across all sectors and we do not see these amendments achieving this.

Given its history and recent changes, we have no confidence that the ETS is the best system to drive rapid emissions reductions. We note that there is little faith in the system from many users and extensive tinkering over the decades has undermined confidence in it. The system remains unbelievably complex and the fact that many participants in forestry are not in the ETS side and for those that are, many need to employ consultants to manage their obligations is a sign that the system is not fit for purpose. This lack of confidence both within and outside the scheme is slowing emissions reductions.

Fairness

The ETS needs to be grounded in fairness. EITE industries have received 20 years of free allocations while emissions have continued to rise. This is a policy failure. Too many free allocations have been given and too many of our emissions exempted to make the system

effective. New Zealand will need to change this if we are to bend the curve and get anywhere close to our commitments under the Paris Agreement. Money spent on continued corporate welfare through Industrial Allocation is money that cannot go to support communities who will be affected by climate change.

<u>Rethink</u>

We advocate for a rethink on how allocations are made. This rethink would look at what sustainable activities would be compatible with a safe climate, wellbeing economy and healthy communities. We are committed to supporting a just transition to a low carbon economy for communities and whānau. We are less concerned about the welfare of large international companies who run the majority of the EITE industries in New Zealand, who have had decades to plan and reduce their emissions. Free allocations impose a burden on the tax system and is money that cannot be spent on supporting that just transition.

We support a system that requires all emitters to rapidly reduce emissions, with government support to do so. There are industry practices that are simply not compatible with a liveable future for the planet. Agriculture can survive without fossil fuel fertilizers but this will require significant change in the current model. We can live with significantly less steel, as houses and even skyscrapers can be built of wood, a commodity that we are good at producing here in New Zealand. Winter tomatoes, cucumbers, eggplants and cut flowers grown with the support of coal and gas, are luxuries that we cannot afford in a climate emergency.

Transparency

Transparency, accountability and open reporting are essential to the future of the ETS. To date there has been too little easily accessible and understandable information available on the ETS. We need to know how many units companies hold, how their emissions are tracking and what support they are eligible for. Having this information publicly available will help to hold companies and the government accountable for emissions reduction. Our continually rising emissions and the opaque and complex nature of the current system makes it very difficult to tell if we are moving in the right direction or not.

Industrial Allocation

- Parents for Climate Aotearoa note that phase out of industrial allocations is out of scope of this review. However, we would submit that we need to phase these out as soon as possible. High emitting industries are not sustainable in a climate crisis and we must stop using taxpayer funds to support their continued operation
- These industries must take responsibility alongside the government for their past emissions and seriously examine their impacts on our children's future. We acknowledge that steeper reductions will be challenging to some industries and suggest the government work closely with them and support them as needed. However, these industries have had decades to plan for emission reductions. The potential consequences of steeper reductions need to be carefully monitored and support given to those affected, particularly our most vulnerable.

- Industrial allocations could be replaced by grants to immediately decarbonize high emitting industries. This will help our national emissions reduction efforts permanently.
- In the introduction, the Minister of Climate Change states that the Emissions Trading Scheme has been a success. A successful scheme would be able to show measurable bending down of our emissions. However, emissions in NZ continue to rise unabated. It is time to make some difficult decisions about what industries can afford to be given taxpayer subsidies to continue to pollute. In order to ensure a liveable planet for our tamariki, we need to stop our high emitting activities in short order and replace these with more sustainable options. We need a rethink. For example, let's promote seasonally appropriate horticulture, rather than supporting coal burning to keep South Island greenhouses warm in winter. Let us move back to wooden piles and framing for houses, rather than unsustainable steel. Let's reduce concrete use by encouraging impermeable surfaces that reduce water run-off in our increasing high rainfall events. Rather than give millions of taxpayer dollars to fertilizer companies whose products pollute our waterways and aquifers, let's support regenerative agriculture and phase out fossil fuel based fertilizer use permanently.
- Our companies need clearer signals that some activities will not be supported unless they can be decarbonised, fit with a wellbeing economy. These activities cannot be continued to be allowed to offset.
- EITE industries are predominantly overseas owned companies. New Zealand needs to seriously examine the role of these companies from a NZ-Inc perspective. What return do they provide to NZ, what jobs are provided and where (do they import overseas labour, are there other work options available, what are the broader environmental impacts of their activities). If it is determined that these companies provide a net benefit to NZ, then the next step should be determining what ETS support they receive. There may well be industries that do not provide net benefits (once environmental impacts are fully accounted for) and that we may be better off without them in our country.
- EITE industries have had 20 years of government subsidy to work on reducing their emissions intensity. They have received enough support and now need to take responsibility for rapidly decarbonizing. We would like companies to commit to climate action, without ongoing taxpayer handouts. Those funds are needed by families and communities who will need to adapt to a climate disrupted future and to support low carbon jobs.
- Much emphasis has been placed throughout the consultation document on the need to provide certainty for industries. Parents for Climate Aotearoa have been calling for clear communications from government with all sectors and parts of the community on the climate crisis. We believe that many don't yet grasp the urgency or wide ranging implications of the crisis. We are yet to see widespread commitment to the kinds of actions that are required to secure a stable climate for our children. We believe the Government could provide certainty to industry by

communicating unequivocally that we are in a climate crisis, that all emissions that are fueling this crisis must be reduced in short order and that all and any policies that support the polluting status quo must be subject to change. In short, if you are polluting you need to stop, and quickly. Coupled with support for activities that hasten the transition to low emissions technologies, we think this approach would give certainty that ongoing subsidies for pollution cannot be guaranteed and business models need to be reviewed on this basis.

Our response to consultation questions:

Q1. We agree with the five criteria used to assess the proposals but suggest one is missing around fairness and climate justice. Is it appropriate to continue to subsidise businesses who have received funding under this system for the past 20 years but not meaningfully reduced their emissions intensity? Is this the best use of climate related taxpayer funds? We do ot think so. We think the Government would be better to provide one off grants to adopt low emissions technologies that would prevent further payments into the future?

Q2. If we are to continue with industrial allocations, we urgently need to review allocative baselines. Over allocation is a waste of taxpayer funds and is a subsidy to polluting industries. This needs to be stopped immediately.

Q3. These allocative baselines need to be reviewed annually. It is unacceptable in a climate emergency to allow polluting companies to carry on with a baseline for a decade. We need escalating emissions reduction ambition. And yes, this will require resources from both government and industry to report and monitor but it is essential that we do not provide unneeded taxpayer subsidies. We need to provide certainty to highly emitting industries that they need to rapidly reduce emissions. We need to provide grants for rapid adoption of lower emissions technologies. It is a complete failure of policy that we have continued to pay taxpayer subsidies for high emitting industries at inflated rates for over a decade. This is precisely the reason why we have failed to bend our emissions curve downwards. We prefer short review periods, with a sharply declining industrial allocation that sees no industrial allocations being provided after 2030. Government can provide certainty to industry, certainty that unless they drastically reduce emissions, they have no future. Our planet relies on us acting courageously.

Q5 & 6. We support using most recent years (19/20 and 20/21) for baselines with weightings added to avoid distortions caused by COVID. It makes sense to work with the most up to date information available. Low emissions technologies have been increasingly introduced, so earlier years are not suitable for baselines.

- We support developing New Zealand specific baselines. New Zealand industry tends to be different to overseas operations and we want to ensure that we are not using inefficient, subsidized overseas operations as our baselines.
- Q7. We support reassessment of eligibility based on new baselines. The fewer industries covered by Industry Allocations, the better.
- We support development of New Zealand specific thresholds. There is significant work required to do this, but if the ETS is the tool we are

committing to using to address industrial emissions, we should put maximum effort to ensure that we have the best information possible to achieve the best outcomes (ie falling emissions)

Q11 We support using the New Zealand EAF. It is outrageous that additional allocations have been given because we have equated New Zealand's emissions profiles with those of Australia, which has a significantly worse electricity emissions profile than us. This represents an overpayment to polluting industries. From a justice and fairness perspective, we would question whether oversubsidised industries deserve any additional subsidy in future, given the multitude of other pressing needs.

Q12 We support periodic review of eligibility based on updates of New Zealand's EAF. Reducing the number of eligible businesses over time should be an explicit aim of the ETS in line with our desire to reduce our emissions intensity.

Q13 The trade exposure test should be changed to rigorously assess the eligibility of businesses. Simply having products traded overseas is insufficient. Businesses must be able to prove that they will be adversely affected by NZ's ETS. As other jurisdictions adopt carbon reduction policies, it will become increasingly unnecessary to provide subsidies, as emissions leakage will become much less likely.

Q14 If the onus is shifted to industry to prove their trade exposure, this will reduce the administrative burden for government. The requirement will also mean it may not be worth it for small businesses to claim eligibility. The fewer eligible businesses, the better for New Zealand's emissions budgets.

Q15 We support the proposal to simplify the updating of allocative baselines. It is essential that the industrial allocation process be made as simple and agile as possible to enable us to ratchet up our ambition as required to meet our commitments under the Paris Agreement. Any government processes that are overly burdensome and time consuming need urgent attention so that we can make faster progress on emissions reduction.

Q17/18/19 We need to be very cautious about adding additional high emitting industries to New Zealand. These need to be given the highest level of scrutiny. We cannot be encouraging new high emitting businesses, unless these will be a direct replacement for even higher emitting businesses. We suggest these should be considered on a case by case basis. Given the climate emergency, we need to cap and seek to actively reduce the number of firms receiving industrial allocations. New businesses must not have an automatic right to receive free allocations and this needs to be clearly communicated to industry. The onus must be on the industry to provide evidence of environmental benefit before free allocations can be considered and this must be a rare and closely examined case, possibly requiring the agreement of the Minister for Climate Change.

Q20 Companies receiving industrial allocations should be required to report annually on their emissions, revenue and production data. We need to ensure that their emissions intensity is reducing over time and that the system is working to reduce emissions over time.

Q21 We support mandatory reporting rather than voluntary reporting. These companies are receiving significant amounts of tax payer subsidies and should be accounting for these. This reporting is essential to keep a close eye on the success of the system in reducing

emissions and without company reporting, the onus will be on government officials to attempt to monitor performance through indirect means, which is inefficient. We also suggest that to be eligible for industrial allocations, companies must submit plans of how they intend to reduce the emissions intensity of their operations over time.

Q22 The five year transition period for changes to eligibility is far too long. While we would like to abolish the transition period to prevent costly overallocation, we accept a one year transition period might be needed to make the change less abrupt for businesses. We are not sure why the 10 year period is provided as an option as this is outrageously generous and a complete waste of taxpayer money.

The future of industrial allocation should be grounded in approaches that achieve fastest emissions reduction. We should learn from overseas experience, but not be slowed down by the inevitable glacial pace at which international co-operation happens. Low emissions industry is not only good for our climate future, it is better for our collective health and promotes sustainable business models that value more than just profit. We encourage investigating alternative models for reducing industrial emissions. The current system is opaque and complex and hasn't yet succeeded in driving down emissions. We welcome any new approaches that will materially reduce emissions in the short to medium term (ie before 2030). We need to be clear that drastic system changes across all NZ sectors are needed to bend our emissions curve towards our Paris commitments. The health of our planet and the future of our children and grandchildren depends not on the promises we make, but on the actions that we take.

Designing a Governance Framework

As stated earlier, we are unsure whether the ETS can support the rapid decarbonization of all sectors of New Zealand society in line with our commitments to the Paris Agreement. It is a system that is devilishly complex, worryingly opaque and seems to be roundly loathed by those participating in it. However, in the interests of supporting all efforts to improve New Zealand's climate actions, we will share our thoughts on the proposals outlined in this consultation. Our key recommendations are as follow:

- We support all efforts to educate ETS users so they can make informed decisions. We believe the system isn't sufficiently transparent and this puts users, Government and the NZ public at a significant disadvantage.
- Full transparency is essential to ensure that everyone can judge if the ETS system is working and have confidence that it will reduce New Zealand's emissions rapidly in line with the Paris Agreement.
- The system needs to be able to respond quickly to new standards and systems developed internationally. It is essential that the system can be rapidly changed to align with international best practice and not bogged down in time consuming bureaucratic delays.

Section 3: Governance of Advice

- If the ETS is to be the main mechanism to reduce NZ's emissions, we need to ensure that the system is as transparent and robust as possible.
- We support education and information provision to help ETS users make informed decisions.
- We support a code of conduct, licensing and registration of advisers. The ETS remains an unwieldy, complex and opaque system, with most users relying on paid consultants to navigate the process. First, we recommend the Government invest more in making the system much more user friendly, to eliminate the need for costly advice. However, until such time as the system is improved, it is essential that advisors are regulated to ensure that participants are fairly treated. Unwitting participants have been duped out of thousands of dollars by unscrupulous advisors and the system needs amendment to prevent this. We support a rigorous system to manage advisors to help protect the integrity of the system and perhaps to restore some of the faith that has been lost.

Section 4: Governance of Trading

- The current system lacks transparency and that undermines confidence in it. We support exchange based trading, with full disclosure of participant positions.
- We also support position and purchase limits to restrict market powers. There are no benefits to allowing unfettered purchasing of NZU's and market dominance will hamper NZ's ability to manage its emissions budgets.
- We also support full transaction detail reporting so the regulator and the public have a clear view of the market and what is happening.

Section 5: Governance of market conduct

- Transparency, once again, is key. Having full information available to the regulator, ETS parties and the public will provide confidence in the system and enable identification of fraudulent activities.
- We support position and purchase limits to prevent market dominance by any one party.
- We support full transaction detail reporting to enable transparency, to ensure the market is operating as it should and to prevent fraud.

Section 5: Appointing a regulator

- If New Zealand is to rely on the ETS as its primary mechanism to reduce emissions, it is imperative that it appoints a strong regulator, which sufficient powers to collect the information it needs, and to amend the system as required to align with international obligations.
- We support the strongest regulatory body offered in the consultation (a market design regulator). While it will be costly to establish, failure of the ETS to achieve reduction in emissions due to insufficient regulatory oversight is a much higher risk in our opinion.
• We anticipate that appointing a regulator will help to increase confidence in the system, as it has a clear owner, and a pathway of improvement to follow.

Overall, we support the option that offers the most control of the system. If the ETS is to be one of the key means by which we ratchet up climate ambition, we need it to be responsive, agile and able to make changes without cumbersome legislative requirements that take years to progress. The climate emergency requires us to set up a system that can move quickly, is open and transparent and regularly reports on its progress in a publicly accessible way.

Thank you for considering our submission

Sonya Bissmire & Olivia Hyatt Parents for Climate Aotearoa



24 September 2021

Ministry for the Environment

via email: etsconsultation@mfe.govt.nz

Submission on Reforming Industrial Allocation in the New Zealand Emissions Trading Scheme

Introduction

- 1. Energy Resources Aotearoa represents people and firms in the energy resources sector, from explorers and producers to distributors and users of natural resources like oil, LPG, natural gas and hydrogen.
- 2. This document constitutes Energy Resources Aotearoa's submission to the Ministry for the Environment on its *Reforming Industrial Allocation in the New Zealand Emissions Trading Scheme* discussion document.
- 3. We greatly appreciate the extension granted to us and are pleased to be able to comment on the discussion document.
- 4. We unequivocally support the objective of transitioning to a low emissions economy. The question is not about the 'what' but the 'how', and free allocation is an important part of this consideration.

Submission

The fundamental underpinnings of free allocation

- 5. At its most fundamental, the conceptual underpinning for free allocation is to protect the property rights of incumbent firms affected by the imposition of the Emissions Trading Scheme ("ETS").
- 6. Businesses should be able to operate with the legitimate expectation that they can continue to operate without undue interference and this amounts to a property right (although obviously not property in the physical sense).

- 7. It is a widely accepted core principle of good public policy that the appropriation of physical property (through eminent domain) must be compensated, and that certain other property rights are similar enough to physical property so as to warrant a similar compensation approach. Below those two tiers, other general regulation that affects business may not be compensated. As was recognised at the time, the imposition of the ETS was such a ground-breaking and game-changing regulation so as to warrant compensation. The practical means by which this was acknowledged was through the free allocation regime.
- 8. This is important as prior to that, businesses invested on the basis that greenhouse gas emissions were unpriced. Subsequently imposing a price on emissions materially reduced the value of such investments, potentially leading to stranded assets. The free allocation regime compensates them, overtime, for a regulatory taking and to minimise the impact of sovereign risk.
- 9. We acknowledge that the prevailing narrative has generally shifted to explaining free allocation on the basis that it mitigates the risk of carbon leakage. This is indeed an important consideration and co-benefit, but is not the fundamental reason for free allocation. The Climate Change Response Act 2002 and the ETS regime established a framework for mitigating greenhouse gas emissions, but it is not the tool to deliver industry policy or subsidies to business.

Stable settings are crucial

10. Stable and predictable settings are crucial for investor confidence, and major regulatory takings without compensation increase risk and dissuade investment. Materially reducing the allocation of free units at a pace misaligned with trade competitors would represent bad faith on government's part and would signal to investors a willingness to change the rules of the game halfway through.

Free allocation still incentivises abatement opportunities

11. We occasionally see the claim made that free allocation of units leads to inaction, but even with the free allocation of units, emitters face the price at the margin and therefore receive the signal to lower emissions. This is because units have a market value so emitting beyond free allocation limits means purchasing more units and abating emissions means the units can be kept or sold. In addition, free units were never guaranteed for the long-term, so no firm would rely on perpetually free units as a reason to do nothing by way of emissions abatement.¹

¹

We see numerous positive examples of firms with free allocation still choosing to invest in domestic abatement such as Ballance Agri-Nutrients investment in renewably generated hydrogen, Golden Bay Cement's investment to replace coal with chipped tyres, and Methanex's consideration of recycling carbon.

Free allocation is only achieved through the ETS, so "complementary measures" undermine the goals of free allocation

- 12. It is important that the ETS is employed as the primary instrument for achieving emission reductions. The ETS best achieves efficient allocation of resources, and is also the mechanism that can manage the adverse consequences of emission prices (such as carbon leakage and impacts on competitiveness) due to the industrial allocation regime being tied to it. That is, if there is an increased reliance on complementary measures, then the associated economic costs of those measures cannot be compensated as only the ETS delivers free units. The complementary measures can (and are more likely to) simply become an impost.
- 13. One cannot assume that competitiveness of firms is protected by free allocation if the ETS is undermined by an increased reliance on other measures.

Mitigation of the impacts of high carbon prices will remain important as domestic carbon prices increase

- 14. Carbon prices hit \$65.80/NZU earlier in September this year. We would anticipate adverse economic consequences and a lumpy transition if New Zealand's carbon price continues to increase faster than substitutes fuels become affordable and available at scale. If too severe, we will see job losses and the closure of firms.
- 15. Should exporting firms close, the risk of carbon leakage arises. Although dependent on circumstances, this cannot be disregarded as a serious unintended consequence of aggressive emissions policies.
- 16. Not all countries have enforced domestic emission caps. This has direct implications for the likelihood of leakage from firms that we work with in the energy resources sector.²

The role and purpose of compensation

- 17. Drawing the previous sections together, compensation (ultimately whether through a cash payment or the stable provision of free units) is important for emissions-intensive, trade-exposed firms. It is needed in order to:
 - a. protect the property rights of incumbent firms at the time of the ETS's inception;
 - b. preserve the international competitiveness of firms, reducing the risk of economic activity and jobs being lost prematurely; and
 - c. prevent carbon leakage.

² For example, in the scenario of New Zealand methanol no longer being produced by Methanex here due to emission pricing imposts, it is most likely that production will simply shift to China. It is likely that any reduction in the amount of Methanol produced will be picked up by other producers (potentially China). New Zealand methanol is the swing producer in the region so its closure would immediately be felt and other participants would be able to seize the opportunity to fill the supply gap.

18. We now make some specific remarks on the issues raised in the discussion document.

We prefer that settings, especially allocation baselines, not be regularly tinkered with

- 19. The discussion document proposes revision to the allocation baselines. We understand the conceptual interest in updating these baselines, given the Ministry's view that businesses profiting from sale of surplus units implies that the baselines are out of date. However, going beyond the superficial, if baselines are higher than current *actual* emissions intensities, this is because firms have reduced their emissions intensity over time. The allocation regime has *contributed* to these efficiency gains as it provides the incentive to become less emissions intensive than the benchmark (as 'surplus' units can be sold). This is an analogous to the general point we make in paragraph 11 above where we explain how free allocation does not lead to inaction.
- 20. Given the importance of private property rights, and because investments were made based on previous assumptions, we prefer the baselines not be amended further.
- 21. If the baselines are changed, the incentive to invest in emission reductions should not be unduly undermined. Should they be amended, we prefer changes at the more gradual end, such as every ten years as per the Technical Advisory Groups' recommendation (as opposed to every year as floated in the discussion document).

If the free allocation is to be undermined with constant change, a one-off cash payment is more efficient

- 22. We prefer to continue to see the ongoing use of industrial allocation. However, if property rights and the incentive to invest efficiently in emission abatement are undermined by constant tinkering with the free allocation regime, then a one-off lump sum cash payment emerges as a credible and principled alternative to ongoing (although steadily phased down) stable free allocation.
- 23. This is because a lump sum payment cannot be amended in future and provides compensation for the regulatory taking associated with the imposition of the ETS. In principle, this is in line with Infometrics' 2007 report which considered that compensation via free allocation should be via a once-only allocation of emission permits equal in value to the change in asset value.³
- 24. A lump sum could be calculated as the net present value of the residual rights that have been affected through the imposition of the ETS. With compensation, firms can decide whether to continue to operate or not, but continued operation

³

General Equilibrium Analysis of Options for Meeting New Zealand's International Emissions Obligations. Infometrics. This was prepared for the Emissions Trading Group and is dated October 2007.

is rendered economically viable by the cash payment which offsets losses imposed by regulation.

25. The next few sections make comments about the importance of a compensation framework to manage risks.

We do not consider the industrial allocation regime or compensation should necessarily be open to new entrants

- 26. The discussion document asks whether new entrants should be able to access units under industrial allocation. We do not consider it should be.
- 27. As stated upfront, the underlying conceptual reason for free allocation is to protect the property rights of incumbent firms affected by the imposition of the ETS when it was introduced.
- 28. It is completely appropriate to use such a regime to transition incumbents into the new economic settings under an ETS. But new entrants from henceforth have knowledge of the rules of the game so can factor the ETS into their commercial plans.
- 29. Free allocation to new firms effectively amounts to *industry policy* to support the competitiveness of new entrants. This could potentially be viewed as a legitimate policy decision, but if achieving an industry policy objective is the goal then this should be made explicit and delivered through the appropriate policy vehicle. We do not consider that the ETS is the right mechanism to deliver that objective should it be one that is sought.

We oppose Border Carbon Tax Adjustments

- 30. The discussion document floats the ideas of Border Carbon Tax Adjustments. We oppose the use of border tax adjustments as an alternative to free allocation. Such a regime would be administratively difficult to administer, anachronistic, and completely 'out of character' for New Zealand given our position as an early remover of tariffs and promoter of free trade. There is a risk of tit-for-tat retaliation and may therefore leave New Zealand as a net-loser from the implementation of such a policy. This risk is now amplified in a world looking to better manage the risks associated with global supply chains.
- 31. The case for border carbon tax adjustment in fact implicitly relies on the assumption that carbon leakage is indeed a risk (a problem that free allocation indirectly but already effectively manages). This is because it would apply to imports (to prevent domestic production/import substitution from being rendered uneconomic because of the carbon costs faced by New Zealand firms). Apart from preventing *import* substitution, a border tax adjustment does not address the issue of leakage from New Zealand firms operating solely as *exporters* such as Methanex.

32. Without free allocation to protect exporters, alternatives such as general tax relief would be required, meaning a new regime must be developed which would lead us into a complicated tax rabbit hole.

International carbon units should be brought into the policy mix

- 33. We recognise that a discussion on international units is not part of the current consultation, but consider this to be a significant gap. We consider that international units as a 'pressure relief valve' should be included in the policy mix as another legitimate tool to address the underlying issue of competitiveness that much of the discussion on free allocation seeks to address.
- 34. International units are a legitimate and important mitigation option, especially to avoid unreasonable domestic costs and impacts on firms. As discussions relating to Article 6 of the Paris Agreement and/or bilateral or multilateral agreements advance, we hope that New Zealand will be able to take advantage of offshore mitigation.
- 35. International units are also important so that emitters have an alternative source of units should foresters seek to deliberately hold back the supply of units to increase their price.
- 36. In considering access to international units, it is also important to recognise the mutually beneficial nature of trade. If the New Zealand Government or firms purchase units from offshore, there is a finance transfer meaning that the counterparty can use that money for domestic decarbonisation, and technologies can be deployed which might not otherwise be accessible.

Impact of premature closure of firms on skills transfer can compromise the energy transition

- 37. Before concluding, we also note the importance of considering jobs and skills when looking at changes to emissions policy. Skills retention and transfer are important for the energy transition. In terms of skills transfer to the low emission energy sector, it is important that existing skills in the energy resources sector are not prematurely ended through the effects of carbon pricing before new jobs are available in alternate firms and sectors. If a 'gap' emerges, this is adverse not only for workers between employment but also for firms in the low emissions energy sector.
- 38. The skills in the petroleum sector (such as those related to drilling and pipelines) will have a critical role in supporting other industries such as geothermal, hydrogen or biogas. These skills can also support increased importation of refined petroleum products which will be important as the Marsden Point refinery is set to cease. A vibrant ecosystem of service providers is vital both to the current sector but also to the transference of skills and capabilities to adjacent sectors. If such firms cannot access skills then they will struggle to profitably operate.

Conclusion

39. We are increasingly concerned at the increasing regularity of changes to the industrial allocation regime. The changes undermine the property rights of firms that were meant to be protected through the implementation of the free allocation regime. Constant tinkering not only weakens the incentive to invest efficiently in emission reduction opportunities going forward, but it also undermines the investments of those who have already taken early action to reduce emissions.

He tono nā



Te Rünanga o NGÂI TAHU

ki te MINISTRY FOR THE ENVIRONMENT

e pā ana ki te 'DESIGNING A GOVERNNACE FRAMEWORK FOR THE NZ ETS' me 'REFORMING INDUSTRIAL ALLOCATION IN THE NZ ETS'

24 September 2021

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1. INTRODUCTION

- 1.1 Te Rūnanga o Ngāi Tahu ("Te Rūnanga") welcomes the opportunity to respond to the Ministry for the Environment (the "Ministry") proposed design of a governance framework for the New Zealand ("NZ") Emissions Trading Scheme ("ETS") and reform of the industrial allocation in the NZ ETS. Te Rūnanga welcomes these efforts as an important step towards achieving sustainable net emissions reductions in Aotearoa.
- 1.2 As an iwi, Ngāi Tahu view the world through an intergenerational lens. Te Rūnanga is guided by the whakataukī "Mō tātou, ā, mō kā uri a muri ake nei" (for us, and those who come after us), which is particularly relevant in the context of climate change. We all have a responsibility to set the foundations for the world our tamariki and mokopuna will inherit. Our responsibility today is to ensure that they have a safe and prosperous future, with freedom and choice.
- 1.3 Te Rūnanga has been considering the impact of climate change on the Ngāi Tahu takiwā and our people for some years. In 2018 Te Rūnanga launched a tribal climate change strategy, *He Rautaki Mō Te Huringa o Te Āhuarangi*. This strategy guides us to take action to future-proof all tribal assets, interests and activities, and to ensure that Ngāi Tahu, our Papatipu Rūnanga and whānau are supported to respond effectively to the risks of climate change, as well as positioning the iwi to make the most of the opportunities a changing economy and climate may offer.
- 1.4 Te Rūnanga supports the Government's commitment to reducing Aotearoa's emissions and responding to climate change, by moving to a low emission, climate-resilient economy through a just transition.
- 1.5 Te Rūnanga welcomes the work undertaken by the Ministry to improve the governance framework of the ETS so it effectively supports this transition, and the proposed amendments to the industrial allocations to ensure the ETS carries out its primary purpose of reducing greenhouse gas emissions.

2. TE RŪNANGA O NGĀI TAHU

- 2.1 This response is made on behalf of Te Rūnanga which is statutorily recognised as the representative tribal body of Ngāi Tahu whānui and was established as a body corporate on 24 April 1996 under section 6 of the Te Rūnanga o Ngāi Tahu Act 1996 ("**TRONT Act**").
- 2.2 Te Rūnanga encompasses 18 Papatipu Rūnanga, who uphold the mana whenua and mana moana of their rohe. Te Rūnanga is responsible for managing, advocating and protecting, the rights and interests inherent to Ngāi Tahu as mana whenua.
- 2.3 Te Rūnanga respectfully requests that the Ministry accords this response with the status and weight of the tribal collective of Ngāi Tahu whānui comprising over 70,000 registered iwi members, in a takiwā comprising the majority of Te

Waipounamu. A map of the takiwā of Te Rūnanga is included as **Appendix One**.

2.4 Notwithstanding its statutory status as the representative voice of Ngāi Tahu whānui "for all purposes", Te Rūnanga accepts and respects the right of individuals and Papatipu Rūnanga to make their own responses in relation to this matter.

3. TE TIRITI O WAITANGI AND PARTNERSHIP

- 3.1 The contemporary relationship between the Crown and Ngāi Tahu is defined by three core documents; the Treaty, the Ngāi Tahu Deed of Settlement 1997 ("Deed of Settlement") and the Ngāi Tahu Claims Settlement Act ("NTCSA"). These documents form an important legal relationship between Ngāi Tahu and the Crown and entrench the Treaty partnership.
- 3.2 Of significance, the Deed of Settlement and NTCSA confirmed the rangatiratanga of Ngāi Tahu and its relationship with the natural environment and whenua within the takiwā.
- 3.3 As recorded in the Crown Apology to Ngāi Tahu (see **Appendix Two**), the Ngāi Tahu Settlement marked a turning point, and the beginning for a "new age of co-operation". In doing so, the Crown acknowledged that Ngāi Tahu holds rangatiratanga within the Ngāi Tahu takiwā. The Crown Apology also acts as a guide for the basis of the post-Settlement relationship between Ngāi Tahu and the Crown and as such, underpins this response.

4. TE RŪNANGA RESPONSE

4.1 The response of Te Rūnanga to the two consultation documents 'Designing a Governance Framework for the NZ ETS' and 'Reforming the Industrial Allocation in the NZ ETS' is set out below.

Designing a Governance Framework for the NZ ETS

- 4.2 Te Rūnanga supports the efforts of the Ministry in improving the integrity of the ETS and to protect it from misconduct, and agree that a comprehensive framework and appointing regulator is important in achieving this.
- 4.3 Te Rūnanga does not support maintaining the status quo, as this does not adequately address the market governance risks.

Governance of Advice

4.4 Te Rūnanga recommends the Ministry ensures the strongest regulations on ETS advisors who might offer advice to users, and therefore recommends the uptake of **Option A4 – Code of Conduct, licensing and registration of NZU.** This Option would reduce financial harm which might disproportionately affect smaller Māori landowners and maximise the financial benefits from improved quality of advice on forestry investments. 4.5 Te Rūnanga is conscious that this option requires the Government to appoint a regulator to enforce and monitor compliance. Te Rūnanga requests input into the appointment of that regulator.

Governance of Trading

4.6 Te Rūnanga supports stronger regulations for financial reporting users to reduce financial harm, and increase transparency, noting that there is an increased cost of exchange. Te Rūnanga therefore supports **Option B4-Exchange Based Trading**.

Governance of Market Conduct

4.7 Te Rūnanga recommends the selection of **Option C – Position and Purchase Limits** to reduce the risk of financial harm, prevent unfair dominance of the market by a few users and in turn provide smaller users a chance to compete.

Appointing a Regulator

- 4.8 Te Rūnanga recommends that the Ministry appoint a market compliance regulator (**Option D5**). This will promote a level of confidence and integrity without the high costs and potentially excessive intervention of a market design regulator which can change the rules.
- Te Tiriti o Waitangi
- 4.9 As noted by the Ministry, there is a strong Te Tiriti o Waitangi and Māori interest in the NZ ETS, particularly as there is a significant Māori involvement in the agriculture and forestry sectors.
- 4.10 Ngāi Tahu Holdings Corporation has significant investments in both forestry and agriculture. Te Rūnanga owns approximately 1100 hectares of ETS registered post-1989 forest land on the West Coast of the South Island planted between 1997 and 2007. In addition, Te Rūnanga will be purchasing and/or converting existing land to forestry which will be eligible for ETS entry. Therefore, Te Rūnanga have a considerable interest in ETS related matters.

Reforming Industrial Allocation in the NZ ETS

- 4.11 Te Rūnanga supports in principle changes to the Industrial Allocation within the ETS to ensure that over-allocation and profiteering does not occur. Such changes would also assist the ETS to meet its primary purpose of reducing greenhouse gas emissions from Aotearoa. Te Rūnanga shares the concerns of the Ministry that the current levels of Industrial Allocation are unsustainable in the light of future emissions budgets and that some industries may be receiving more NZ emission units than necessary to stop them relocating overseas.
- 4.12 Te Rūnanga supports the five criteria used to assess the proposals considered in the consultation document.

Allocation Calculations

- 4.13 Te Rūnanga supports the Ministry's proposal to update the baseline years for Industrial Allocations to 2016/17, 2017/18 and 2018/19. There have been significant climate change developments in Aotearoa since the original allocation of units and the baseline years need to reflect this movement.
- 4.14 Te Rūnanga recommends such an update is undertaken every ten years (as per the recommendations by the Technical Advisory Group) balancing concerns of over-allocation with a need for business certainty.

Eligibility for Industrial Allocation

- 4.15 Te Rūnanga does not agree with maintaining the status quo with no reassessment for eligibility of industrial allocation.
- 4.16 Te Rūnanga supports the reassessment of eligibility, so the industrial allocation accurately reflects the risk of emissions leakage, reducing possible profiteering.
- 4.17 Te Rūnanga supports the development of New Zealand specific thresholds based on our domestic industries.
- 4.18 Te Rūnanga supports the use of the New Zealand electricity allocation factor, to help ensure that future eligibility decisions reflect the actual impact of the NZ ETS.

Other options to reform industrial allocation

- 4.19 Te Rūnanga supports the proposals by the Ministry to streamline and clarify the process of industrial allocations.
- 4.20 Te Rūnanga supports the proposal to clarify the eligibility process for new activities, however it is vital that this does not lead to a rise in emissions. In line with this Te Rūnanga would support new activities seeking eligibility if they can prove environmental benefits, and that there are clear measures in place to ensure these environmental benefits are not just 'green washing'.
- 4.21 It is important that the Government has the ability to monitor industrial allocation through accurate data, therefore Te Rūnanga supports the requirement for reporting.

APPENDIX ONE: NGĀI TAHU TAKIWĀ



APPENDIX TWO: TEXT OF CROWN APOLOGY

The following is text of the Crown apology contained in the Ngāi Tahu Claims Settlement Act 1998.

Part One – Apology by the Crown to Ngāi Tahu

Section 5: Text in Māori

The text of the apology in Māori is as follows:

- 1. Kei te möhio te Karauna i te tino roa o ngā tūpuna o Ngāi Tahu e totohe ana kia utu mai rātou e te Karauna—tata atu ki 150 ngā tau i puta ai tēnei pēpeha a Ngāi Tahu arā: "He mahi kai tākata, he mahi kai hoaka". Nā te whai mahara o ngā tūpuna o Ngāi Tahu ki ngā āhuatanga o ngā kawenga a te Karauna i kawea ai e Matiaha Tiramōrehu tana petihana ki a Kuini Wikitoria i te tau 1857. I tuhia e Tiramōrehu tana petihana arā: 'Koia nei te whakahau a tōu aroha i whiua e koe ki runga i ēnei kāwana... tērā kia whakakotahitia te ture, kia whakakotahitia ngā whakahau, kia ōrite ngā āhuatanga mō te kiri mā kia rite ki tō te kiri waitutu, me te whakatakoto i te aroha o tōu ngākau pai ki runga i te iwi Māori kia noho ngākau pai tonu ai rātou me te mau mahara tonu ki te mana o tōu ingoa.' Nā konei te Karauna i whakaae ai tērā, te taumaha o ngā mahi a ngā tūpuna o Ngāi Tahu, nā rēira i tū whakaiti atu ai i nāianei i mua i ā rātou mokopuna.
- 2. E whakaae ana te Karauna ki tõna tino hēanga, tērā i takakino tāruaruatia e ia ngā kaupapa o te Tiriti o Waitangi i roto i āna hokonga mai i ngā whenua o Ngāi Tahu. Tēnā, ka whakaae anō te Karauna tērā i roto i ngā āhuatanga i takoto ki roto i ngā pukapuka ā-herenga whakaatu i aua hokonga mai, kāore te Karauna i whai whakaaro ki tāna hoa nā rāua rā i haina te Tiriti, kāore hoki ia I whai whakaaro ki te wehe ake i ētahi whenua hei whai oranga tinana, whai oranga ngākau rānei mō Ngāi Tahu.
- 3. E whakaae ana te Karauna tērā, i roto i tāna takakino i te wāhanga tuarua o te Tiriti, kāore ia i whai whakaaro ki te manaaki, ki te tiaki rānei i ngā mauanga whenua a Ngāi Tahu me ngā tino taonga i hiahia a Ngāi Tahu ki te pupuri.
- 4. E mõhio ana te Karauna tērā, kāore ia i whai whakaaro ki a Ngāi Tahu i runga I te ngākau pono o roto i ngā tikanga i pūtake mai i te mana o te Karauna. Nā tāua whakaaro kore a te Karauna i puaki mai ai tēnei pēpeha a Ngāi Tahu: "Te Hapa o Niu Tīreni". E mõhio ana te Karauna i tāna hē ki te kaipono i ngā āhuatanga whai oranga mō Ngāi Tahu i noho põhara noa ai te iwi ia whakatupuranga heke iho. Te whakatauākī i pūtake mai i aua āhuatanga: "Te mate o te iwi".
- 5. E whakaae ana te Karauna tērā, mai rāno te piri pono o Ngāi Tahu ki te Karauna me te kawa pono a te iwi i ā rātou kawenga i raro i te Tiriti o Waitangi, pērā anō tō rātou piri atu ki raro i te Hoko Whitu a Tū i ngā wā o ngā pakanga nunui o te ao. E tino mihi ana te Karauna ki a Ngāi Tahu mō tōna ngākau pono mō te koha hoki a te iwi o Ngāi Tahu ki te katoa o Aotearoa.
- 6. E whakapuaki atu ana te Karauna ki te iwi whānui o Ngāi Tahu i te hōhonu o te āwhitu a te Karauna mō ngā mamaetanga, mō ngā whakawhiringa i pūtake mai nō roto i ngā takakino a te Karauna i takaongetia ai a Ngāi Tahu Whānui. Ewhakaae ana te Karauna tērā, aua mamaetanga me ngā whakawhiringa hoki I hua mai nō roto i ngā takakino a te Karauna, arā, kāore te Karauna i whai i ngā tohutohu a ngā pukapuka ā-herenga i tōna hokonga mai i ngā whenua o Ngāi Tahu, kāore hoki te Karauna i wehe ake kia

rawaka he whenua mō te iwi, hei whakahaere mā rātou i ngā āhuatanga e whai oranga ai rātou, kāore hoki te Karauna i hanga i tētahi tikanga e maru motuhake ai te mana o Ngāi Tahu ki runga i ā rātou pounamu me ērā atu tāonga i hiahia te iwi ki te pupuri. Kore rawa te Karauna i aro ake ki ngā aurere a Ngāi Tahu.

- 7. E whakapāha ana te Karauna ki a Ngāi Tahu mō tōna hēanga, tērā, kāore ia I whai whakaaro mō te rangatiratanga o Ngāi Tahu, ki te mana rānei o Ngāi Tahu ki runga i ōna whenua ā-rohe o Te Wai Pounamu, nā rēira, i runga i ngā whakaritenga me ngā herenga a Te Tiriti o Waitangi, ka whakaae te Karauna ko Ngāi Tahu Whānui anō te tāngata whenua hei pupuri i te rangatiratanga o roto I ōna takiwā.
- 8. E ai mõ ngā iwi katoa o Aotearoa e hiahia ana te Karauna ki te whakamārie I ngā hara kua whākina ake nei—otirā, ērā e taea i nāianei i te mea kua āta tau ngā kõrero tūturu ki roto i te pukapuka ā-herenga whakaritenga i hainatia i te 21 o ngā rā o Whitu hei tīmatanga whai oranga i roto i te ao hõu o te mahinga tahi a te Karauna rāua ko Ngāi Tahu.

Section 6: Text in English

The text of the apology in English is as follows:

 The Crown recognises the protracted labours of the Ngāi Tahu ancestors in pursuit of their claims for redress and compensation against the Crown for nearly 150 years, as alluded to in the Ngāi Tahu proverb 'He mahi kai takata, he mahi kai hoaka' ('It is work that consumes people, as greenstone consumes sandstone'). The Ngāi Tahu understanding of the Crown's responsibilities conveyed to Queen Victoria by Matiaha Tiramorehu in a petition in 1857, guided the Ngāi Tahu ancestors. Tiramorehu wrote:

> "This was the command thy love laid upon these Governors ... that the law be made one, that the commandments be made one, that the nation be made one, that the white skin be made just equal with the dark skin, and to lay down the love of thy graciousness to the Māori that they dwell happily ... and remember the power of thy name."

- 2. The Crown hereby acknowledges the work of the Ngāi Tahu ancestors and makes this apology to them and to their descendants.
- 3. The Crown acknowledges that it acted unconscionably and in repeated breach of the principles of the Treaty of Waitangi in its dealings with Ngāi Tahu in the purchases of Ngāi Tahu land. The Crown further acknowledges that in relation to the deeds of purchase it has failed in most material respects to honour its obligations to Ngāi Tahu as its Treaty partner, while it also failed to set aside adequate lands for Ngāi Tahu's use, and to provide adequate economic and social resources for Ngāi Tahu.
- 4. The Crown acknowledges that, in breach of Article Two of the Treaty, it failed to preserve and protect Ngāi Tahu's use and ownership of such of their land and valued possessions as they wished to retain.
- 5. The Crown recognises that it has failed to act towards Ngāi Tahu reasonably and with the utmost good faith in a manner consistent with the honour of the Crown. That failure is referred to in the Ngāi Tahu saying 'Te Hapa o Niu Tireni!' ('The unfulfilled promise of New Zealand'). The Crown further recognises that its failure always to act in good faith deprived Ngāi Tahu of the opportunity to develop and kept the tribe for several

generations in a state of poverty, a state referred to in the proverb 'Te mate o te iwi' ('The malaise of the tribe').

- 6. The Crown recognises that Ngāi Tahu has been consistently loyal to the Crown, and that the tribe has honoured its obligations and responsibilities under the Treaty of Waitangi and duties as citizens of the nation, especially, but not exclusively, in their active service in all of the major conflicts up to the present time to which New Zealand has sent troops. The Crown pays tribute to Ngāi Tahu's loyalty and to the contribution made by the tribe to the nation.
- 7. The Crown expresses its profound regret and apologises unreservedly to all members of Ngāi Tahu Whānui for the suffering and hardship caused to Ngāi Tahu, and for the harmful effects which resulted to the welfare, economy and development of Ngāi Tahu as a tribe. The Crown acknowledges that such suffering, hardship and harmful effects resulted from its failures to honour its obligations to Ngāi Tahu under the deeds of purchase whereby it acquired Ngāi Tahu lands, to set aside adequate lands for the tribe's use, to allow reasonable access to traditional sources of food, to protect Ngāi Tahu's rights to pounamu and such other valued possessions as the tribe wished to retain, or to remedy effectually Ngāi Tahu's grievances.
- 8. The Crown apologises to Ngāi Tahu for its past failures to acknowledge Ngāi Tahu rangatiratanga and mana over the South Island lands within its boundaries, and, in fulfilment of its Treaty obligations, the Crown recognises Ngāi Tahu as the tāngata whenua of, and as holding rangatiratanga within, the Takiwā of Ngāi Tahu Whānui.
- 9. Accordingly, the Crown seeks on behalf of all New Zealanders to atone for these acknowledged injustices, so far as that is now possible, and, with the historical grievances finally settled as to matters set out in the Deed of Settlement signed on 21 November 1997, to begin the process of healing and to enter a new age of co-operation with Ngāi Tahu."