

## Attendee questions from the industrial allocation consultation webinar

Webinar link: [ETS - Reforming industrial allocation in the New Zealand Emissions Trading Scheme - YouTube](#)

### **If emissions-intensive, trade-exposed firms shut down, do they still receive NZUs?**

Allocations are based on the output of production. If firms carry out an eligible emissions-intensive, trade-exposed (EITE) activity and produce a product as defined in regulations, they can receive an allocation. If they no longer manufacture the product as defined in regulations, they are unable to apply for allocation.

### **What industries are classed as emissions-intensive, trade-exposed (EITE)?**

There are 26 EITE activities in total covering activities in the horticultural, paper, cement, fertiliser, and metal industries. A full list can be found in the [Climate Change \(Eligible Industrial Activities\) Regulations 2010](#).

### **Why are you only focused on over allocation as opposed to under allocation?**

The Government has not collected evidence of 'under-allocation'. If evidence of under-allocation was found, this risk could be addressed through the review. We would invite you to provide evidence of under-allocation in your submission.

### **Why do some horticultural activities receive an allocation, and others do not? For example, cucumbers receive ETS credits while lettuce does not. They are both grown in glasshouses. Both use carbon for heating. There is an effective subsidy for cucumbers? How can this be addressed?**

Tomatoes, cucumbers, and capsicums are eligible to receive industrial allocation. The eligibility assessment performed in 2010 determined that these three horticultural activities have an emissions intensity greater than 800 t CO<sub>2</sub>-e/\$1 million revenue and therefore they are classed as moderately emissions intensive and eligible to receive an allocation. Other horticultural activities (including lettuce) were assessed and did not to pass this eligibility threshold.

### **Why do you use baseline years and not simply use actual emissions?**

The baseline approach was developed as it is simpler to administer because it doesn't require regular reporting of emissions. It also provides a level of certainty to business on future allocations as their allocations are fixed and unchanging. One of the options in the discussion document is to update allocative baselines annually, which effectively bases allocations on the average 'actual' emissions of an industry in New Zealand. We would encourage you to provide details on using actual emissions as a basis for allocations in your submission.

### **Why are these units able to be sold on the open market, should they only be available for surrender?**

This is an option the government could consider in the review. We invite you to provide a submission talking about this proposal. It is worth noting that some firms who receive an allocation do not have direct surrender obligations in the NZ ETS. Rather, the increased cost of energy (because of surrender obligations higher in the value chain) is passed on to them. In these cases, firms need to be able to sell units on the secondary market.

**The EITE scheme was always designed to reward low emissions producers, that is why the allocation is based on production, not emissions. To now call this "over allocation" is not in line with the schemes intent of rewarding those producers that are more efficient, or become more efficient over time.**

We agree that in theory allocations can be used to fund investments that lead to emissions reductions. However, we don't have evidence that NZ businesses have used allocations in this way. We would invite you to provide evidence through your submission of how allocations have been used to invest in emissions and energy intensity improvements.

**If industries are close to the eligibility threshold, would your proposed change to eligibility act as a disincentive to reduce emissions in order to remain eligible?**

Eligibility is based on industry average emissions and revenue, and therefore a single firm deliberately keeping their emissions high would not necessarily retain the activity's eligibility. This is more of a risk for activities for which there is only a single participating firm - however all EITE activities are still exposed to an emissions price regardless of the support they receive. Choosing to keep their emissions high to retain eligibility would perpetuate their emissions costs.

**Your charts show decreasing emissions from emissions-intensive, trade-exposed (EITE) industries over time in spite of those EITEs receiving massive subsidies. Perhaps allocation is unnecessary?**

The chart in the webinar was for illustration purposes only and was to help explain how over-allocation to industries is occurring. The review of industrial allocation is proposing changes to industrial allocation policy that will reduce these over-allocations. Additionally, it is the government's view that there is still a material risk of emissions leakage - although this risk will change over time. There is a continued need to provide some support to industry.

**Can you please address the question of equity in the proposed changes? An organisation that has proactively reduced carbon emissions will be penalised under these proposals, whereas those who have not improved potentially will not.**

A company that reduces its emissions sees the benefit of reduced emissions costs over those companies that choose not to. While reducing over-allocation would affect the number of units that industry gets, the Government doesn't have any evidence that allocation above a firm's emissions costs have been used to invest in emissions efficiency improvements. Additionally, some of the causes of over-allocation such as changes in market participants, and exemptions of certain fuel use are not tied to investments that reduce emissions. We haven't collected evidence that this could happen. We encourage you to provide evidence of this through your submissions. We will certainly consider equity considerations when further developing the proposals.

**Reducing emissions has a capital and operational cost. At present, when emissions are reduced, allocated units can be sold to offset costs. This enables and encourages increased emission reduction. Why is this a problem?**

We agree that allocations could be used in this way. However, we do not have evidence to support this use of allocations. We would encourage you to provide evidence through your submission of this.

**Is data provided by EITE firms audited?**

Allocation applications are reviewed by the Environmental Protection Authority and they follow up with firms where necessary to ensure production data is correct.

**Free allocation to emissions-intensive, trade-exposed (EITE) firms reduces the quantity of each emissions budget left for non-EITE firms. Do any of the proposals limit the total quantity of units allocated to EITE firms? Or will the total quantity of allocations remain proportional to the output of EITE firms?**

There are no proposals in the discussion document that put a limit on allocations. The technical advisory group indicated that capping allocations would be difficult to implement and minimally beneficial. We welcome submissions that consider the benefit of capping total allocation while preventing emissions leakage.

**Is it possible to determine who has received an over-allocation? Is this information public?**

No this is not possible without having access to updated information. To determine over-allocation, historical baselines and historical eligibility decisions need to be compared to baselines, and reassessed eligibility decisions that are calculated from recent emissions, production, and revenue data. This exercise was done for a selection of EITE industry, however, to determine over-allocations to all 26 industries, a full data collection exercise would be required. One of the proposals in the discussion document is for the reporting of data to better determine over-allocations and the risk of leakage.