

OraTaiao Submission on “Reforming industrial allocation in the New Zealand Emissions Trading scheme – Consultation document”.

15 September 2021

Tēnā koe,

We commend successive Governments for the robust consultation process and clear signalling to the market of proposed reforms to the Emissions Trading Scheme (ETS). We support the intent of the review of industrial allocations (IA) to improve the efficiency and effectiveness of the ETS to reduce New Zealand’s greenhouse gas emissions. Outlined below are our key messages on this consultation followed by answers to the specific questions asked in the consultation.

1. The ETS is important for public health, since it is the central policy platform by which NZ’s domestic emissions will be priced and reduced. NZ’s role in reducing global emissions is vital for protecting the health and wellbeing of current and future generations. In addition, well-designed pathways for reducing our emissions provide the greatest opportunity to improve public health and health equity this century.
2. The current free allocation of units represents a subsidy by the Government of climate pollution by industry and is not consistent with the rapid decarbonization of industry that is required to address the climate crisis and meet the ambitions of net zero emissions in Aotearoa/New Zealand by 2050. Many of these industries are overseas owned and highly profitable. If the credits were not allocated, they could be auctioned off, and the revenue used to support low income and disadvantaged communities adapt to climate change, address the impacts of the ETS and reduce emissions (e.g. through home insulation and clean home heating programs and providing public and active transport to these communities). This would improve health and address inequity in our society instead of subsidising the pollution of highly profitable, often overseas owned, companies.
3. There is a dominant discourse in ETS discussions about the risk of emissions leakage. We consider this to be based on flawed logic, and therefore this non-argument should not interfere with our response to the climate change and health emergency. We have the following reasons for arguing this: -
  - a. As all countries move towards net zero under Paris agreement then the risk of leakage is low.
  - b. Price is not the only thing that drives competitiveness in the global market. We are competitive not as a mass producer but as a high-quality producer. We may well be able to gain in market share by actually living up to what is currently an empty promise of sustainability even if costs go up slightly. A good example of this is the production of low carbon aluminium at the Tiwai point smelter and the competitive advantage this provides Rio Tinto.
  - c. We are more likely to have “policy leakage” than emissions leakage.<sup>1</sup> Policy leadership is infectious. The public and policy makers among our trading partners are influenced by the policies of others, including NZ.<sup>2</sup> The sudden amplified presence of US-based pro-gun social media activity in New Zealand, as we have deliberated on our gun legislation reforms, is a testament to the fact that small countries like NZ do in fact influence the policies of even the largest players. New Zealand too can have a role contributing to developing international policy norms.
  - d. “Climate Clubs” represent an international opportunity for New Zealand to take advantage of leadership in ETS reform.<sup>3</sup> Here, ‘eager’ countries come together in ‘clubs’, which provide peer pressure, reputation advantages, as well as some exclusive benefits for the club member countries. The benefits that are provided exclusively to member countries could for example be low-emission technologies low-tariff zones, international linkage of ETS, and border tax adjustments to combat leakage.

- e. Finally, any small risk of leakage could be mitigated through carbon border adjustment mechanisms as suggested in the 2018 report commissioned by the Ministry for the Environment and being implemented overseas in the European Green Deal.
4. As an organisation with a strong focus on applying Te Tiriti principles we note the assessment of the impact of IA reform proposals on Māori. As Māori owned businesses largely do not receive IA, they would not be directly affected by changes to allocation or eligibility settings.
5. We note the phase down plan is not up for review. We have previously argued that the proposed slow phase down of the free allocation of units is inconsistent with our climate goals and will use up an increasing share of New Zealand's carbon budgets. We will therefore continue to strongly advise the climate change commission to recommend an acceleration of the phase down rate of free units in future.
6. In the meantime, and with regard to this review, we support all steps that reduce the allocation of free units to industry. Please see our response to the questions asked in the consultation document below. Any questions not answered is a "no comment".

## References

1. Ebbe V. Thisted & Rune V. Thisted (2019): *The diffusion of carbon taxes and emission trading schemes: the emerging norm of carbon pricing*, *Environmental Politics*, DOI: 10.1080/09644016.2019.1661155
2. Håkon Jackson Inderberg T, Bailey I, Harmer N, *Designing New Zealand's Emissions Trading Scheme*. *Global Environmental Politics* 17:3, August 2017.
3. Hovi J, Sprinz D, Sælen H, Underdal A, *Climate change mitigation: a role for climate clubs?* Palgrave Communications.

## Reforming Industrial allocation in the New Zealand Emissions Trading Scheme

### Qn. 1

Yes, to criteria 1,2,4 and 5 and no to criteria 3. Criteria 3 should acknowledge that the concept of emissions leakage has some significant flaws as outlined above. The allocation of free units represents a government subsidy of large, highly profitable and often overseas owned companies and risks disincentivising industry from taking steps to mitigate emissions. By tightening the criteria for emissions intensity and trade exposure the allocation of free units will be reduced. The revenue from auctioning units not allocated to industry would be better targeted at those who can least afford the impacts of the ETS - poor and disadvantaged communities, including Māori and Pacifica communities in New Zealand. This will help address the equity impacts of climate change mitigation policy. Any concerns about emissions leakage should be addressed with a carbon border adjustment mechanism or similar.

### Qn. 2

Yes, new base years are essential to prevent overallocation, as stated in the consultation document, it is not clear that overallocation, or IA in general, is driving investment in emissions reductions by industry.

### Qn. 3

Yes, to a periodic update to reflect emissions reductions by industry and avoid the risks outlined of over allocation.

### Qn. 4

A 5-year review period is best as it supports a strong ETS price signal and aligns with emissions budgets.

Qn. 7

Yes. In addition, the eligibility threshold should be adjusted and tightened to make it more difficult to qualify for IA.

Qn. 8

Yes. This is an opportunity to increase thresholds to reduce subsidy of polluting industries.

Qn. 9

More thresholds should be added to avoid over allocation.

Qn. 10

Not sure. However, any sliding scale eligibility should be tested to ensure it does not increase but in fact reduces the IA of free units.

Qn. 11

Yes

Qn. 12

Yes. This would more accurately reflect the emissions intensity of production related to electricity use and prevent overallocation.

Qn. 13

Yes. The current assessment is too broad and a change would more accurately capture the impact of trade exposure.

Qn. 17

We disagree with any expansion of IA to consider new activities

Qn. 18

We disagree with any expansion of IA to consider new activities

Qn. 19

We disagree with any expansion of IA to consider new activities

Qn. 20

We agree with option 2 – taxpayer funded IA should require regular data collection, to provide confidence that appropriate levels of allocation are being administered.

Qn. 21

Reporting should be mandatory.

Qn. 22

The transition period should be removed. Firms should be able to measure their emissions, emissions intensity and plan accordingly.

Qn. 23

Yes. IA is a flawed system for addressing emissions leakage for all of the reasons outlined in the opening statement. Better alternatives such as a carbon border adjustment mechanism or direct assistance for emissions mitigation activities by industries would better align with the goals of the ETS to reduce New Zealand's greenhouse gas emissions.

Qn. 25.

No alternative is required. The best incentive to reduce emissions is a price on emissions which is already provided for by the emissions trading scheme. The problem is that industry is protected from this incentive by IA. Removal of IA is the best tool available to encourage industry to reduce emissions (in conjunction with a carbon border adjustment mechanism or similar). An example of this is the agricultural sector. Removal of subsidies in the 1980's encouraged efficiency in the sector to keep them competitive with overseas produced subsidised products. Any concern about leakage would be better addressed with a carbon boarder adjustment mechanism.

Qn. 26

See answer to question 25.

Qn. 27

Yes and no. Broader social, cultural and environmental outcomes would be best achieved by reducing IA. Instead of subsidising the pollution of highly profitable, often overseas owned companies, the revenue from auctioning units not allocated to industry could be used to reduce the impacts of the ETS on poor and disadvantaged communities, including Māori and Pacifica communities in New Zealand. This will help address the equity impacts of climate change mitigation policy and improve the health of these communities (e.g. through home insulation and clean energy programs and providing public and active transport to these communities).

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'Dermot Coffey', with a stylized flourish.

Dr. Dermot Coffey  
OraTaiao: NZ Climate & Health Council  
co-convenor@orataiao.org.nz  
mobile 021 026 75452

## About OraTaiao

OraTaiao: The New Zealand Climate and Health Council is an organisation calling for urgent, fair, and Tiriti-based climate action in Aotearoa; we recognise the important co-benefits to health, well-being and fairness from strong and well-designed mitigative policies. We honour Māori aspirations, are committed to the principles of te Tiriti o Waitangi, and strive to reduce inequities between Māori and other New Zealanders. We are guided in our practice by the concepts of kaitiakitanga (guardianship), kotahitanga (unity), manaakitanga (caring), and whakatipuranga (future generations).

OraTaiao has grown over a decade to more than 700 health professionals concerned with:

- The negative impacts of climate change on health, well-being, and fairness;
- The gains to health, well-being, and fairness that are possible through strong, health-centred climate action;
- Highlighting the impacts of climate change on those who already experience disadvantage or ill-health (i.e., equity impacts);
- Reducing the health sector's contribution to climate change.

As well as individual members, we are backed by 19 of New Zealand's leading health professional organisations for our Health Professionals Joint Call to Action on Climate Change and Health (see [https://www.orataiao.org.nz/friends\\_and\\_supporters](https://www.orataiao.org.nz/friends_and_supporters)). This support includes the New Zealand Medical Association, the New Zealand Nurses Organisation and the Public Health Association, plus numerous specialist colleges. Together, these organisations represent tens of thousands of our country's health workforce.

As an organisational member of the Board of the Global Climate & Health Alliance, we work with a worldwide movement of health professionals and health organisations focused on the urgent health challenges of climate change - and the health opportunities of climate action. OraTaiao signed the Doha Declaration on Climate, Health and Wellbeing of December 2012, which reflects this international perspective.