Factsheet

Industrial allocation under the New Zealand Emissions Trading Scheme (NZ ETS)

December 2009

What is the NZ ETS?

The NZ ETS is a key part of the Government's response to global climate change. It is the primary means by which New Zealand will meet its obligations under international agreements, such as the Kyoto Protocol.

Under the NZ ETS, some businesses will have a legal obligation to surrender emission units to cover their direct greenhouse gas emissions or the emissions associated with their products. The need to acquire these units will effectively put a price on emissions of these greenhouse gases.

More information about the scheme and who will have legal obligations can be found at www.climatechange.govt.nz/emissions-trading-scheme.

How is industry affected by the NZ ETS?

From 1 July 2010 certain businesses in the stationary energy and industrial processes sectors will begin to face legal obligations under the NZ ETS for greenhouse gas emissions. Some industrial businesses will directly face obligations to surrender emission units. Regardless of whether businesses face direct obligations, they will face costs as a result of the NZ ETS in the form of increased fuel and energy prices.

The Government intends to give some emission units to those firms that will be particularly affected by costs from the NZ ETS. This is called 'allocation'. Where businesses have legal obligations to surrender emission units, allocation can help them meet these obligations at a lower cost. Businesses without obligations will be able to sell their allocated units to offset part of the increased costs they face.

Who will receive industrial allocation?

Businesses will receive allocation if they are carrying out an activity that is emissions-intensive and trade-exposed. These activities will generate a significant amount of emissions and/or use large amounts of energy relative to revenue from output (at least 800 tonnes carbon dioxide equivalent per $1 million revenue). Firms carrying out these activities will not be able to pass NZ ETS costs on to consumers through increased prices because of competition from foreign firms that do not face a comparable cost on emissions in their home countries.

What is an 'activity' for the purposes of allocation?

Allocation will be awarded on the basis of emissions from an 'activity', rather than on the basis of firms or sites. Each eligible activity will be defined by an activity description, which will include a starting point (the input of a specified substance or substances) and an end point (the output of a specified saleable product). An example of an activity might be the production of glass or newsprint.

How will allocation be awarded?

Regulations will prescribe which activities are eligible for industrial allocation and how much will be allocated for each activity. People conducting eligible activities will be able to apply for allocation after regulations come into force.

What will be the process for developing regulations prescribing eligible industrial activities?

A diagram setting out the process for developing regulations is at the end of this factsheet.

The process for regulations starts with developing descriptions of activities that are likely to be eligible. A number of activity descriptions have been developed for activities that either would be eligible, or are likely to be eligible, under the proposed Australian Carbon Pollution Reduction Scheme. The current thinking of the Government is to assess whether these activities can be made eligible on the basis of New Zealand data. Activities for which draft activity descriptions have been developed are listed below.

- Producing bulk flat glass
- Producing methanol
- Producing carbon black
- Producing silicon
- Smelting zinc
- Producing newsprint
- Producing glass containers
- Producing white titanium dioxide pigment
- Manufacturing dry pulp
- Refining alumina
- Smelting aluminium
- Producing carbamide (urea)
- Manufacturing cartonboard
- Producing carbon steel from cold ferrous feed
- Producing chlorine gas and sodium hydroxide (caustic soda)
- Producing clinker
- Producing fused alumina
- Producing fused zirconia
- Producing high-purity ethanol
- Producing hydrogen peroxide
- Producing integrated iron and steel
- Producing integrated lead and zinc
- Producing iron ore pellet
- Producing lime
- Producing magnesia
- Manufacturing packaging and industrial paper
- Refining petroleum
- Producing pig iron
- Manufacturing printing and writing paper
- Producing soda ash
- Producing synthetic rutile
- Manufacturing tissue paper

Where other activities are likely to be eligible, activity descriptions will need to be developed with reference to criteria set out in the Climate Change Response Act 2002 (the Act).

Once activity descriptions have been finalised, a legal notice will be published. The notice will call for firms to submit data on revenue and emissions. Following data collection, a decision will be made as to whether an activity meets eligibility requirements and baselines for allocation will be calculated. Baselines for allocation will indicate how many emission units a firm will receive for carrying out an activity.

What are the requirements for data collection?

Data submitted by firms must comply with data collection rules which set out how revenue and emissions should be calculated. Draft data collection rules are set out in section 5 of the consultation document. A legal notice calling for data will provide further clarification about emissions to be included within the activity boundary for data collection, and emissions to be excluded.

What should I do next?

If you think you might be eligible to receive industrial allocation, you should read the consultation document on industrial allocation under the New Zealand Emissions Trading Scheme, which is available at:

www.climatechange.govt.nz/industrialallocation.

Details on how to make a submission are contained in the consultation document.

Submissions close at 5 pm on 12 February 2010.

Where to go for more information

For more information about the Government's climate change work, including more information about the emissions trading scheme, visit www.climatechange.govt.nz or call 0800 CLIMATE (0800 254 628).

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