Coversheet: A phase-down of industrial allocation

Advising agencies	Ministry for the Environment
Decision sought	Approval
Proposing Ministers	Hon James Shaw, Minister for Climate Change

Summary: Problem and Proposed Approach

Problem Definition

What problem or opportunity does this proposal seek to address? Why is Government intervention required?

Industrial allocation is the free provision of New Zealand Units (NZUs) to participants in the New Zealand Emissions Trading Scheme (NZ ETS) that undertake eligible activities deemed to be emissions-intensive and trade exposed (EITE). Current levels of industrial allocation are not likely to be either sustainable in the context of New Zealand's future emission budgets, or necessary to meet the policy purpose of mitigating the risk of emission leakage.

The Government has the opportunity to adjust industrial allocation settings, balancing avoidance of leakage against our emission budgets. The challenge will be to ensure that over time enough units are still allocated to avoid any risk of emission leakage, while also meeting both domestic and international targets to reduce emissions.

Proposed Approach

How will Government intervention work to bring about the desired change? How is this the best option?

The proposed approach is to phase down industrial allocation beginning in 2021, by implementing two complementary proposals:

1. Establishing a base phase-down rate, which would apply equally to all industrial activities in the Climate Change Response Act 2002 (CCRA). The base phase-down would be set in legislation, with a rate set at 0.01 for the period 2021 to 2030[1].
2. Establishing an ability for the Minister for Climate Change to set activity-specific phase-down rates that will make additional reductions in the levels of assistance to individual activities. These will be set in regulations and based on detailed analysis and advice from the Climate Change Commission (CCC). Due to the time required for this work,

[1] The CCRA sets allocations using a measure called the Level of Assistance (LA) which is now set at 0.9 and 0.6 for the two classes of eligible activities. A phase-down rate of 0.01 means that LAs are reduced by 0.01 each year, e.g. to 0.89 in the first year, 0.88 in the second year and so forth.

they are expected to apply from the second Climate Change Bill (CCB) budget period starting in 2026.

This package of proposals is preferred as together they will help align the NZ ETS with New Zealand's Nationally Determined Contribution (NDC) and proposed Climate Change Bill (CCB) target, while continuing to manage any ongoing risk of emissions leakage.

This RIA focuses on the issue of managing levels of allocation for the period up to 2030, which is the term of New Zealand's first NDC and takes in the first and second national emission budgets expected to be set under the CCB. Further reductions in allocation beyond this timeframe will also be necessary, to help meet New Zealand's future targets and commitments to reduce emissions.

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

The Government: improves the management of unit supply in the NZ ETS, increases the number of NZUs available for auctioning in the 2030 NDC period (which in turn increases the revenue the Crown receives from auctioning during this period), and better enables linking with emissions trading schemes in other countries.

EITE participants in the NZ ETS: sends a signal to participants that levels of industrial allocation will be reduced in the 2020s. Greater regulatory certainty and predictability for future levels of industrial allocation will help participants make more informed and confident business and investment decisions.

General public: phasing-down industrial allocation will help New Zealand meet its domestic emissions reduction targets and international obligations, and avoid the cost of over-allocation which places an unnecessary burden on other sectors and the public. The Government's climate change response, including the proposed improvements to the NZ ETS, is expected to benefit all New Zealanders over time.

Where do the costs fall?

EITE participants in the NZ ETS: increases the costs of participating in the scheme. As a consequence, some highly emissions-intensive participants may face greater competitive disadvantages and potentially lose market share.

New Zealand economy: greater risk of emissions leakage, i.e. EITE participants losing market share and shifting production overseas to avoid a high domestic emissions price. Emissions leakage could have significant regional impacts where there is an emissions-intensive single-point emitters (e.g. Northland with the oil refinery or Southland with the aluminium smelter). There are also broader economic risks from participants passing on the increased costs of being in the NZ ETS to consumers through higher commodity prices.

What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?

Emission leakage remains a significant concern for New Zealand industries. There is still a need for some level of assistance. If the Government sets an ambitious phase-down rate and levels of industrial allocation are reduced too quickly, the risk of emissions leakage could become unacceptably great.

It is difficult to judge an appropriate phase-down rate that maintains a level of assistance sufficient to mitigate the risks of emissions leakage, while at the same time achieving the other benefits gained from adjusting current industrial allocation settings. The Government will have to balance the risk of emissions leakage with the target risk of not reducing industrial allocation.

The proposals outlined in this RIA mitigate the risk of the phase-down rate being set too high and causing emissions leakage. They achieve this by:

- Limiting the base phase-down rate to 0.01 until 2030. This is consistent with efforts to reduce free allocations in other jurisdictions and with avoiding any risk of leakage even for the most emission-intensive activities;
- Introducing an activity-specific rate that will allow the Government to accelerate the phase-down of industrial allocation for those activities determined to be low risk of leakage;
- Setting the activity-specific phase-down rates in regulation, which will provide the Government with the flexibility to manage the phase-down, in line with the evolving risk of emissions leakage and other factors;
- Requiring the CCC to consider the risk of leakage along with other factors when providing advice on activity-specific phase-down rates; and
- Proposing a five-year cycle of consultation, analysis, and decision-making that will result in activity-specific changes to allocation.

Identify any significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.

The proposal outlined in this Impact Statement is consistent with the Government's 'Expectations for the design of regulatory systems'.

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?

Quite confident. As indicated below, estimating the risk of emission leakage is challenging. The preferred option addresses this by starting with a low phase-down rate to mitigate any risk, and allowing for the use of better information and analysis in the future to enable additional reductions. This creates some risk that the phase-down is slower than would be optimal over the first five to ten years, but avoids the risk of triggering emission leakage.

The Ministry for the Environment and EPA have reliable and accurate data on the implementation of industrial allocation in the NZ ETS, including who has received an allocation and the numbers of units that have been allocated so far. We can predict with some certainty the demand for free allocations in the future, the cost of this allocation, and the impact that it may have on New Zealand's NDC budget. There is also reliable information on the allocative baselines used to determine levels of allocation.

The Ministry also has information on the emissions-intensity and revenue of EITE participants that have received industrial allocations. These variables are necessary for assessing the cost impact of adjusting current industrial allocation settings. These data, however, are based on historical emissions and costs that were used to set allocation rates in 2010. Without updated information it is impossible to take into account changes in company emissions-intensity and revenue, as well as domestic and international emissions prices. This is compounded by little recent analysis on changes in emissions-intensity for EITE activities.

There are some gaps in the Ministry's knowledge of emissions pricings regimes in other countries. Broadly, we know what countries price their emissions and if they have some form of industrial allocation, but meaningful differences between these programmes and the NZ ETS make robust comparisons difficult. This can complicate an assessment of the risks of emissions leakage, and currently we assess any risk on the basis that there will be some competing jurisdictions with no emission pricing at all.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:
Ministry for the Environment and the Treasury Regulatory Quality team.
Quality Assurance Assessment:
A Quality Assurance Panel with representatives from the Ministry for the Environment and the Treasury Regulatory Quality Team has reviewed the 'Phase-down of industrial allocation' Regulatory Impact Assessment (RIA) produced by the Ministry for the Environment and dated April 2019. The Panel considers that the RIA meets the Quality Assurance criteria.
Reviewer Comments and Recommendations:

Impact Statement: A phase-down of industrial allocation

Section 1: General information

Purpose
The Ministry for the Environment (the Ministry) is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by or on behalf of Cabinet.

Key Limitations or Constraints on Analysis

We are generally confident with our scoping of the problem, the reliable evidence base, the broad range of options considered, the criteria used to assess the options and the underlying assumptions and quality of data. We have also considered the feedback provided by stakeholders during consultation.

While we are generally confident in the evidence base used for this RIA, there are some limitations with the information. The RIA uses historical emissions and costs that were used to set allocation rates in 2010 as an indicator of the net costs of the ETS to allocation recipients (total direct and indirect ETS costs, less the value of the allocation). Some more up-to-date information on their emissions is available, but it is not straightforward to estimate the net cost in a methodologically consistent way. This means that the RIA provides an approximate, and somewhat conservative, assessment of the net costs of the ETS as industrial allocation is phased down in the 2020s.

There are several additional factors that constrain the analysis:

- comparing emissions trading regimes between countries, particularly the provision of industrial allocation;
- predicting the behaviour of EITE participants in response to a phase down of industrial allocation, their adaptability, and their ability to pass costs on to customers;
- the Government has yet to legislate New Zealand's 2050 target or to determine national emission budgets under the CCB;
- there is still some uncertainty in New Zealand's 2021-2030 NDC as we have not yet set an exact amount or all the details of forestry accounting;
- some NZ ETS settings have not been decided on; and
- estimating the long-term trends in emission intensity for individual EITE activities.

This RIA uses a simple accounting approach to considering the risk of emission leakage – if the net cost of the NZ ETS for an activity is sufficiently material to potentially affect its profit margins, we assume there will be a risk. In reality, most of the factors listed above will act to reduce the risk, now and increasingly in future.

A more detailed economic analysis of each activity, including the market for international trade in its product, could provide a better assessment. Such detailed analysis may be a feature of decision-making on allocation in the future, as detailed below, but there will always be some uncertainty.

Responsible Manager (signature and date):
Matthew Cowie, Manager ETS Policy Climate Directorate Ministry for the Environment

Section 2: Problem definition and objectives

2.1 What is the context within which action is proposed?

Industrial allocation and the risk of emissions leakage

The purpose of industrial allocation is to mitigate any risk of emission leakage. Emission leakage occurs if asymmetrical domestic climate policy causes emission-intensive activities to lose market share to offshore competitors, or eventually close down, resulting in higher emissions in another jurisdiction. There is a risk of emissions leakage in New Zealand as some of our major trading partners do not have comparable emissions pricing policies in place. In some cases, competing jurisdictions only have incipient climate policies with little or no cost impact on their industry.

However, this does not mean that 'leakage' of economic activity per se is a problem or that the Government wants to address it through free allocation. The movement of investment and economic activity in response to an emission price, even internationally, is an intended result of the NZ ETS or any emission pricing scheme. Actual emission leakage would be a situation in which:

- An emission-intensive activity in New Zealand cannot compete with similar activities in other jurisdictions, for the specific reason that those jurisdictions do not include any similar cost of climate policies
- The New Zealand activity loses market share and may close down, but the demand for its products is met by the competing jurisdictions
- New Zealand consequently loses economic activity, but achieves no environmental benefit because global emissions will stay the same or increase.

If emission leakage occurred, it would be a significant concern because of the economic and employment impacts, incurred for no real environmental benefit, and particularly for regions where a single emission-intensive facility may be an important part of the local economy. Managing the risk of emission leakage is a key part of ensuring a just and careful transition to a lower-emission society.

How real is the risk of emission leakage?

In early 2018 the Ministry for the Environment commissioned a report on competitiveness, emission leakage, and innovation[2], and prepared a broad review of international economic literature about the impacts of policy on competitiveness and innovation[3]. Indications from these two reports include:

- There is some evidence that emission pricing stimulates innovation, and that the provision of free allocation may reduce the incentive to innovate
- There is very little evidence of emission leakage from existing emission pricing schemes; however, this may be due to generous allocation and other support
- Some New Zealand sectors are highly sensitive to emission prices and would be

[2] http://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/Countervailing%20forces%20-%20Sense%20Partners%202018%20FINAL%20report.pdf

[3] http://www.mfe.govt.nz/publications/climate-change/emissions-pricing-impact-innovation-and-competitiveness-review-of

vulnerable to leakage if there was a high emission price and competing jurisdictions did not have comparable climate policies.

As indicated in the Impact Analysis section of this RIA, for some EITE activities a too-rapid phase-out of allocation could result in a credible threat to their competitiveness simply on the basis that the net cost would be high enough to offset their profit margins. As highlighted by the reports cited above, this simple accounting approach might over-estimate the real risk. The exchange rate will adjust in response to the effects of emission pricing, and individual firms can adapt in response to new costs. In addition, the level of risk varies between activities and changes over time.

In its 2018 report on transition to a low-emissions economy, the Productivity Commission recommended that the Government should progressively withdraw industrial allocation over a twenty to thirty year schedule, which indicates phase-down rates of 0.03 or higher. The Commission also recommended the Government retain flexibility to slow the withdrawal rate if, on independent advice, it finds that major competitors are not 'actually or imminently' facing comparable emission prices.

Industrial allocation in the CCRA

Industrial allocation was introduced with the NZ ETS. It was always expected that levels of industrial allocation would be reduced over time as other countries introduced their own emission reduction programmes and domestic industries adapted to a price on emissions.

A phase-down rate of 0.01 was part of the policy package that set up the allocation regime in 2009, and was confirmed as a recommendation in the 2011 statutory review of the NZ ETS. The phase-down was legislated to start in 2013, but a further amendment to the CCRA in 2012 put it on hold. The CCRA now allows for a phase-out at a rate of 0.01 to be introduced at any time by Order in Council. An amendment to the CCRA would be needed to phase down allocation at any other rate.

The counterfactual

If the Government makes no decisions on industrial allocation, the allocations will continue at the current levels for all eligible activities. With no amendments to the current legislation as it affects industrial allocation, the Government will retain the option of introducing a phase-down at a rate of 0.01 by regulation at any time.

However, maintaining current levels of industrial allocation creates risks for:

- New Zealand meeting its CCB budgets and Paris Agreement obligations;
- the over-allocation of NZUs to EITE participants; and
- linking with emissions trading schemes in other countries.

2015/16 Review of the NZ ETS

The NZ ETS Review asked for submissions on the conditions, timing, and rate for a phase-out of industrial allocation. The Review found that:

- a lack of clarity on the timing of a phase-down is a source of regulatory uncertainty;
- industrial allocation has both direct cost and opportunity costs for the Government;

- as carbon pricing coverage spreads globally, industrial allocation levels are increasingly likely to be more generous than necessary to protect against emissions leakage;
- as emissions intensity improves, it is increasingly likely that the value of allocation will exceed the activity's real exposure to NZ ETS costs (referred to as over-allocation); and
- current levels of allocation will use up an increasing share of New Zealand's NDC carbon budget and will put pressure on future carbon budgets.

Following the Review, the Government opted to maintain current industrial allocation settings until the end of 2020. It committed to further public consultation on the conditions, timing and rate for a phase-down of industrial allocation. Cabinet re-affirmed this decision after the 2017 election.

Consultation on Improvements to the NZ ETS

In August and September 2018, the Ministry for the Environment conducted public consultation on proposals designed to improve the NZ ETS. One section of the Ministry's consultation related to proposals to improve how decisions on a phase-down of industrial allocation should be made, including:

- setting a test or a condition that would trigger a phase-down during 2021-2030;
- establishing a decision-making process to determine industrial allocation rates over time; and
- an upfront decision to start phasing-down industrial allocation from 2021.

Feedback was sought on phase-down rates from 0.01 to 0.03.

Tranche 1 and 2 amendments to the CCRA

In December 2018, Cabinet agreed to a first tranche of proposals to improve the NZ ETS. A second tranche of proposals – which includes changes to current industrial allocation settings – are under consideration. This RIA provides analysis for this process. All tranche one and two decisions will result in one set of changes to the CCRA, scheduled to be presented to Parliament in mid-2019.

International connections

It will be important in the future for New Zealand to have access to international units with environmental integrity. The Government has agreed to retain the option to use international carbon markets after 2020, as high-integrity international units may play an important role in New Zealand meeting its NDCs.

s 9(2)(j) [redacted]

s 9(2)(j) [redacted]

s 9(2)(j) [redacted]

2.2 What regulatory system, or systems, are already in place?

The proposals discussed in this RIA seek to change the provision of industrial allocation that is already in place within the NZ ETS. The CCRA provides an eligibility process and methodology that must be used, and regulations specify allocation for the 26 activities that are eligible because they have been assessed to be emission-intensive and trade-exposed. Highly emission-intensive activities are entitled to a 0.90 allocation, while moderately intensive activities are eligible for a 0.60 allocation.

The CCRA provides for a phase-down of industrial allocation at a rate of 0.01 per year, which is currently suspended and can be started at any time by Order in Council. However, if the Government wants to phase down allocations at any other rate, or to vary the rates over time or between activities, it is necessary to amend the CCRA.

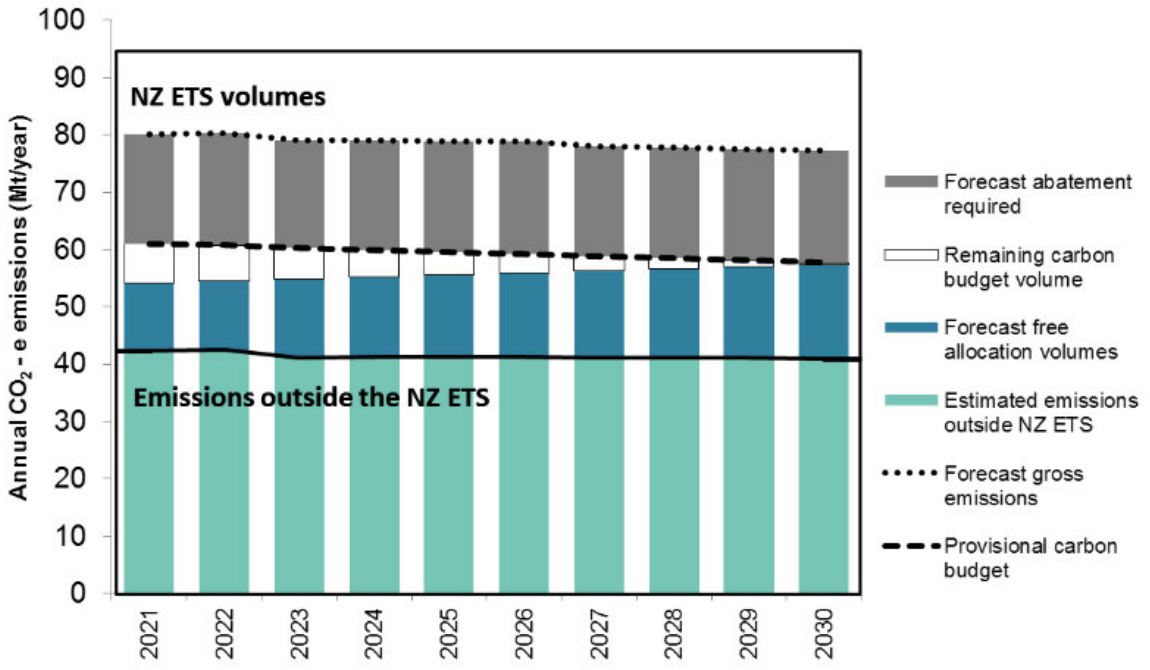
The proposals in this RIA to adjust industrial allocation will not affect any other regulatory system in New Zealand.

2.3 What is the policy problem or opportunity?

Under the status quo/counterfactual, the Government will continue to allocate NZUs at current levels of assistance indefinitely, to the currently eligible activities and to Refining New Zealand when it joins the ETS in 2023. The ongoing demand is about 12.2 million NZUs each year, with a fiscal value of $305 million at the current unit price of $25.

Over time, ongoing allocation at current levels will lead to a number of issues for the effectiveness of the ETS and for New Zealand's ability to meet its broad goals for climate policy.

Allocation will put increasing pressure on New Zealand's CCB emission budgets, increasing the cost of meeting them for the government and other participants. Eventually allocation at current rates would use more units than are readily available within budgets. Current levels of allocation will also make it marginally more challenging for New Zealand to meet its ambitious 2021-2030 NDC, as indicated in the graph below.



As other countries price emissions, the amounts that are allocated currently will be higher than needed to meet the purpose of mitigating the risk of emission leakage. However, emission leakage remains a risk for some ETS participants. There is a continuing need for some level of industrial allocation to mitigate the risk.

The real cost of the ETS for industry is likely to decline slowly over time, due to improvements in efficiency and lower-carbon fuels and process inputs. Eventually over-allocation would lead to windfall gains and turn the ETS into a net subsidy for EITE firms.

Over-allocation would also be a major impediment to linking with other emissions trading schemes, because it is seen as a fundamental problem for environmental integrity.

Overall we think that the objective for a phase-down should be to:

Ensure that the levels of assistance which determine industrial allocation provided to EITE participants in the NZ ETS are set in a way that aligns the NZ ETS with New Zealand's domestic and international commitments, while continuing to minimise the risk of emission leakage.

2.4 Are there any constraints on the scope for decision making?

Cabinet has previously decided that there will be no phase-down of allocation before 2021, so any change to allocation before that time is out of scope. Also, to keep consistency with the options that have been consulted on, and to fit in with broader climate policy, this analysis will focus on options for the treatment of allocation from 2021 to 2030. This period covers the first NDC, and is likely to include the first and second domestic emission budgets set under the CCB.

Phase-down rates higher than 0.03 (for the short to medium term) will not be considered because this is outside the range that was consulted on, and because such rates are not likely to be necessary to meet emission budgets.

Allocation, or other forms of assistance for parties affected by the policy, will be an important factor in development of emission pricing and/or non-price policies for agricultural emissions. Some agriculture stakeholders may look to industrial allocation as an indication for the future. However, decisions made on industry have no real implications for agriculture. The sectors, the policies, and the issues for allocation are quite different.

2.5 What do stakeholders think?

There tend to be two groups of stakeholders with an interest in industrial allocation: those who want to maintain current levels of industrial allocation, and those who want the allocation to be phased down. Firms that receive industrial allocation are largely interested in maintaining the status quo, although some of them do advocate for a phase-down subject to consideration of the risk of leakage. The second group has advocated for reductions in allocation greater than what is recommended in this analysis.

Consultation on the tranche one and two amendments to the CCRA – including the proposals to phase-down industrial allocation – was held in August and September 2018. The consultation document set out three approaches for adjusting industrial allocation:

- making an upfront decision to start a phase-down from 2021;
- setting a test or condition that would begin a phase-down; and
- establishing a decision-making process to determine allocation rates over time.

These approaches were met with a mixed response. Some submitters supported a decision-making process, while others supported an upfront decision to phase-down industrial allocation. The recipients of industrial allocation tended to support a test or decision-making process for phasing-down industrial allocation.

Some submitters, including several large allocation recipients, advocated for a '70 per cent of competitors test' to trigger a phase-down. Based on a similar provision in Australia's emissions trading scheme (which has since been abandoned), the 70 per cent test would delay the phase-down of industrial allocation until at least 70 per cent of competitors globally faced a similar net cost from emissions reduction measures in their home countries.

Those in favour of the 70 per cent test argued that decisions on phasing-down industrial allocation should be linked to the economic conditions and risk of emissions leakage EITE

participants will face. A test to trigger a phase-down or set phase-down rates would prevent a reduction in assistance that would expose industries to an onerous cost of participating in the NZ ETS, and risk emissions leakage.

Submitters who did not receive free allocations were more likely to emphasise the pressures that it places on domestic emissions budgets and New Zealand's NDC, and indicated a preference for a more rapid phase-down of allocations.

There was a range of views on the phase-down rate. Approximately half of submitters preferred a rate of 0.03 or more per year, while the rest supported lower rates or a decision-making process.

Section 3: Options identification

3.1 What options are available to address the problem?

The Government has consulted on three broad, and not exclusive, approaches to making and implementing decisions on a phase-down. These are:

a. An up-front decision to phase down all LAs at the same rate

b. A test or condition that would trigger decision(s) on a phase-down

c. A decision-making process to adjust allocations along with other supply into the ETS over time

The recommended option may involve one or a combination of two or all of the approaches mooted during consultation. To arrive at a recommended option, we break the consideration of these options into four decisions or sets of decisions:

Decision 1: whether to phase down industrial allocation from 2021
An upfront decision whether to phase down industrial allocation beginning in 2021 – options are:

a. Government starts a phase-down of industrial allocation beginning in 2021

b. Government does not start a phase-down of industrial allocation in 2021

c. Government waits until the CCC is in place to receive advice and make any decision on phasing down industrial allocation

Decision 2: responsibility and process for a phase-down.
If Decision 1 is to begin a phase-down, a decision is then needed on the responsibility and process for setting phase-down rates. Options are:

a. Government sets a flat phase-down rate that applies equally to all eligible activities

b. Rates are set for individual activities following advice from the CCC (in practice the CCC may not be in a position to advise on phase-down until the lead-up to the second CCB budget period, with the new rates taking effect from 2026)

c. Do both: the Government sets a base phase-down rate which will apply from 2021, and the CCC advises on rates for activity-specific phase-downs in 2026–30 and subsequent budget periods, in addition to the base rate

Decision 3: setting the base rate

If the outcome of Decision 2 includes setting a base phase-down rate, the Government also needs to decide on the actual rate. Options are:

a. Initial/base phase-down rate of 0.01 (levels of allocation reduced by 0.01 annually)

b. Initial/base phase-down rate of 0.02

c. Initial/base phase-down rate of 0.03

Decision 4: the nature of CCC advice on activity-specific phase-down

If the outcome of Decision 2 includes activity-specific phase-down based on advice from the CCC, the Government also needs to decide on how the legislation will guide this advice and set any constraints on the decisions.

The Act would need to specify the matters that the CCC must assess and that the Minister of Climate Change must be satisfied on, or have regard to, in making decisions. Factors may include:

a. New Zealand's emission budgets

b. Assessment of the risk of emission leakage for specific activities, potentially including consideration of:

- Emission pricing and other climate policies in competing jurisdictions, their cost, any assistance such as allocation, and its phase-out
- The markets for products traded internationally
- Any ability of the firms carrying out eligible activities in New Zealand to pass on increased costs to consumers

c. Any risk of over-allocation

d. Other sources of supply into the NZ ETS, including international units

e. Availability of low-emission technologies to each activity

f. New Zealand's international obligations

The CCRA might also specify a test or condition that must be satisfied before a particular decision can be made. The 70 per cent of competitors test, for instance, could be included in CCRA that would inform the advice and recommendations of the CCC on setting activity-specific rates.

3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?

We will assess the options against the following five criteria, consistent with the objective discussed in section 2.3, the criteria used in the 2015/16 NZ ETS Review, and for Tranche 1 proposals on improvements to the NZ ETS:

1. Support alignment of NZ ETS supply settings with domestic emissions budget and New Zealand's NDC;
2. Minimise the risk of emission leakage;
3. Avoid over-allocation;

4. Support regulatory certainty and predictability; and
5. Minimise administrative burden and complexity.

The alignment and emission leakage criteria (1 and 2 above) are the most important and will have most weighting in all policy decisions. These two criteria will determine whether allocation continues to meet its purpose, and whether the phase-down meets the objective given above.

There is clearly a tension between these two criteria but we do not know whether, or when, this will become a matter of trading them off against each other. If possible, the Government would aim to achieve the objective above by both:

- Managing allocation in line with New Zealand's emission budgets and commitments; and
- Ensuring there is no substantial risk of emission leakage.

It will become a trade-off between these criteria if the pressure of domestic and international budgets, and the availability of international units, mandate reductions such that it becomes impossible to mitigate the risk of leakage.

It is essential to avoid over-allocation, both for domestic reasons and to ensure that allocation is not a barrier to linking with other trading schemes. Over-allocation is a significant risk under the status quo; however, over time if allocations are reduced enough to meet the other criteria over-allocation will be unlikely.

The other two criteria (4 and 5) are important for the efficient operation of the ETS but not central to meeting the objective.

The identifiable monetary costs of a phase-down will comprise:

- Increased costs for the firms that receive progressively fewer units over time, and need to either buy units or reduce emissions; and
- An ongoing cost to the Government for the CCC to carry out analysis and to advise on decisions about allocation rates.

There is a benefit to the Government in allocating fewer units over time. This will result in a lower fiscal cost so at the margin other industry sectors and consumers will pay less in taxes or in ETS obligations.

These costs and benefits are not critical to the choice of a preferred option. Differences in the costs or benefits are not significant for the broad choice of a longer-term policy approach, which focuses on non-cost related issues as indicated in the analysis section below.

In a preferred option involving the CCC advising on activity-specific changes to allocation, we anticipate that it will become possible to bring sector-specific economic analysis, modelling results, and an informed analysis of costs and benefits to bear on these decisions.

3.3 What other options have been ruled out of scope, or not considered, and why?

There are many potential approaches for adjusting allocation over time and for changing the basis and methods for calculating allocations. These decisions are limited to options that can feasibly be implemented in the context of New Zealand's broader climate policy, as planned and legislated through the CCB.

Unless there were good reasons to change the range of options, it is preferable to keep to the general range of options on which the Government has already consulted stakeholders and the public. In particular a maximum phase-down rate of 0.03 was consulted on last year, as rates higher than this do not seem necessary to meet the objective.

This means that we exclude:

- Respective/separate base phase-down rates for highly and moderately emissions-intensive activities;
- Immediately ending all free allocation in the NZ ETS;
- As indicated above, phase-down rates higher than 0.03 are also excluded;
- Border tariff adjustments, subsidies, or other forms of assistance that might be used instead of allocating units;
- Changing the basis of allocation – the eligibility tests, or the formula that is used to calculate allocation amounts;
- Capping the level of allocation, as proposed when the NZ ETS was first established; and
- Using a measure other than the level of assistance (LA) which the legislation already provides for this purpose.

Section 4: Impact Analysis

Decision 1: whether to phase down industrial allocation from 2021

This is the basic decision that a phase-down will or will not occur. This assessment is qualitative, as we are not considering the rate of phase-down. The options include **no action**, which is the status quo, i.e. the 0.01 phase-down now specified in legislation stays in place. The Government makes no up-front decision to trigger a phase-down, but retains the option to start such a phase-down at any time. The second option of **no phase-down** means that the Government makes a firm up-front decision not to implement this existing provision.

	No action	No phase-down	Phase down allocation	Defer any decision
Supports sustainability of domestic and NDC carbon budgets	0	- - A step back from phase-down that industry may already expect	++ Signals direction of travel to the market and starts to make more units available for other sectors	- Other CCC/Government decisions on supply in the ETS will be more difficult and uncertain until the phase-down decision is made
Minimises the risk of emission leakage	0	+ No phase-down means even less risk than the status quo as the option to start a 0.01 phase-down is removed	- Any risk depends on the rate chosen and can be managed by selection of rate and process	- Industry will be aware that a decision is likely in a few years' time, and this prospect may deter investment
Minimises the risks of over-allocation	0	- - Significant risk as current levels of assistance are maintained	++ Ensures adjustments in LAs	- - Significant risk
Supports regulatory certainty and predictability	0	- Provide short-term certainty but likely to create need for sharper adjustment later – stake-holders will know this leading to long-term uncertainty	+ Would increase regulatory certainty depending on the approach taken and its credibility	- - Significantly increases uncertainty compared to status quo; the prospect of phase-down later with no guidance for industry on rate or basis
Minimises administrative burden and complexity	0	0	0	0
Overall assessment		-	++	- -

Our overall assessment is that the Government should make a clear decision that there will be a phase-down. There is a significant risk of over-allocation under the no action or no phase-down options. Clearly, any phase-down has potential to create some added risk of emission leakage, but depending on the rates of phase-down (see Decision 3 below) this risk will be small. Ultimately, the risk of emission leakage can be managed through the industrial allocation phase-down rate.

The option of deferring any decision would be significantly worse than the status quo because it would perpetuate and even increase uncertainty for EITE firms, with no corresponding benefit for the other criteria. A bright line test, such as the 70% of competitors test recommended by some submitters, could be the basis of a deferred decision to start a phase-down. However, such a test would only compare net costs at a point in time. We think that the decision to start a phase-down should also consider the other issues listed above.

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Decision 2: responsibility and process for a phase-down

This assessment is also qualitative as we are setting a framework rather than deciding on rates. As before, the **no action** option is the status quo with the existing provision for a 0.01 phase-down in the CCRA but no up-front decision made to start the phase-down.

A consideration here is that there is a wide range in emission-intensity between eligible activities (see below). If only a flat rate is available, ultimately it must either create a significant risk of leakage for the most emission-intensive activities, or result in over-allocation for others.

Activity-specific rates cannot feasibly be brought into use until the CCC is established and has done the necessary analysis and consultation – therefore effectively the ‘activity-specific rates only’ option means the status quo, or no phase-down, will apply for the first CCB budget period. For the same reason the ‘flat base rate plus activity-specific rates’ option will mean in practice that only the base rate can apply for 2021–25.

	No action	Flat rate set up front	Flat base rate plus activity-specific rates	Activity-specific rates only
Supports sustainability of domestic and NDC carbon budgets	0	+ Ensures reduction for all eligible activities. Degree that it supports targets dependent on rates	++ Allows for additional, targeted reductions in industrial allocation volumes, beyond base phase-down	+ Targeted reductions alone may not achieve a broad reduction
Minimises the risk of emission leakage	0	- - Risk for some activities depending on rate; cannot be actively managed once the rate is set	- May be some risk from base rate; allows assessment of activities to minimise risk from further reductions	0 Allows CCC to assess risk and maintain allocation for activities at risk
Minimises the risks of over-allocation	0	+ Reduced risk up to 2025	++ Reduced risk to 2025, and ability to manage risk after that	+ Significant risk of over-allocation before any phase-down can occur
Supports regulatory certainty and predictability	0	+ More certainty, but only as far as the rate used is credible and will not need to be changed by future decisions	++ Signal direction of travel; long term certainty depends on confidence in CCC advice and process	+ Certainty depends on confidence in CCC advice and process
Minimises administrative burden and complexity	0	0 Same as status quo – easily implemented by EPA using existing process	- Requires CCC to carry out analysis, consult, and advise on rates	- Requires CCC to carry out analysis, consult, and advise on rates
Overall assessment		-	++	+

Our overall assessment is that the preferred option is 'flat base rate plus activity-specific rates'. The Government would start a base phase-down from 2021, and provide in the legislation for an activity-specific approach to be applied in addition.

Decision 3: setting the base rate

The base rate will determine how much reduction occurs for the first few years, probably up to the end of 2025. By the following year, additional activity-specific reductions will also become possible.

Some of the criteria are relatively unaffected by this decision. Any non-zero phase-down will go a long way to mitigate the risk of over-allocation, and regulatory certainty is similar for any phase-down set in legislation. The level of administrative burden and complexity is the same for all options.

Essentially, this decision is a trade-off between two considerations:

1. The benefits of getting the EITE sector started on a path to reducing its emissions and/or taking full responsibility for them, in line with the CCB, before 2025. This is important, not because of the relatively small marginal number of units involved in these first five years, but to signal the direction of travel in a credible way to EITE firms and other sectors and to avoid over-allocation.
2. How much risk of emission leakage the Government is prepared to accept. The risk is small for most activities. However, as indicated below, the higher phase-down rate options could result in a significant risk by 2030 for some of the most emission-intensive activities. Actual leakage for even one or two activities could cause economic and social disruption.

As indicated in the 'background information' below, any of the non-zero phase-down options can be consistent with the NDC and future domestic emission budgets – although it must be recognised that if a rate lower than 0.03 is chosen, more rapid phase-down will be needed later. This means that the trade-off can be made on a conservative 'least-regrets' basis in which there is minimal risk of emission leakage.

	No action	0.01	0.02	0.03
Supports sustainability of domestic and NDC carbon budgets	**0**	**++** Signals direction of travel to the market and avoids over-allocation – the most important reasons for early phase-down	**++** Significantly increased contribution, as long as the phase-down is maintained over time	**+** Locks in the sector's contribution to meeting 2050 target, but more than is needed and risks reversal if leakage occurs
Minimises the risk of emission leakage	**0**	**-** Low risk for burnt lime, minimal for all other activities	**- -** Significant risk for burnt lime, some risk for other very EI activities	**- -** Substantial risk for burnt lime, significant risk for some others
Minimises the risks of over-allocation	**0**	**+** Mitigates any risk for most activities	**+** Mitigates this risk quite effectively	**++** Eliminates this risk
Supports regulatory certainty and predictability	**0**	**+** Credible upfront as it is what was signalled a long time ago, but may	**+** May send a stronger signal for future reductions	**-** Only credible if stakeholders really believe it will be

		be seen as late in coming		sustained over time
Minimises administrative burden and complexity	**0**	**0**	**0**	**0**
Overall assessment		+	+	-

Our overall assessment is that the base phase-down rate should be set at 0.01. This is low enough to ensure minimal risk of leakage for any activity, while sending a signal that allocation is on track to be reduced over time.

This view on the risk of emission leakage (see *Background information for Decision 3* below) is based on the simple accounting approach of assuming that any added cost will be a straight reduction in profitability. This is conservative. As indicated in Section 1 above, it is likely that in reality, businesses can pass on costs to some extent, and they can adapt to change.

Background information for Decision 3

Emission budgets

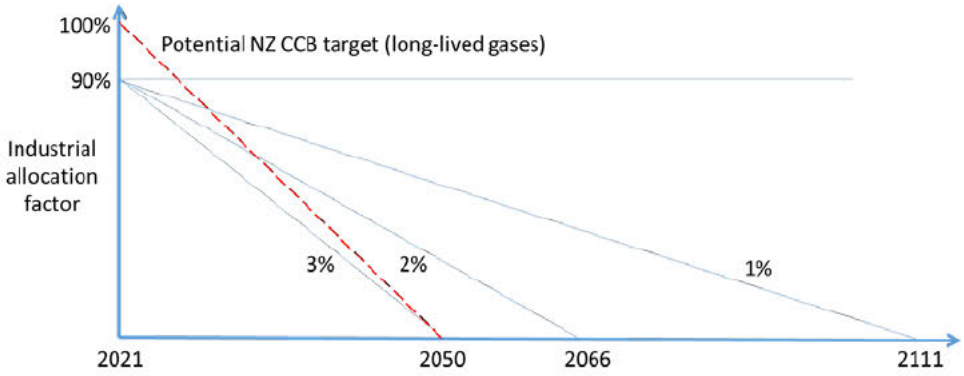
The basis for New Zealand's domestic emission budgets is not yet in legislation, and so we do not yet know how the first two budgets will be set or what level of emissions they will allow. However, the Government has clearly signalled that the longer-term direction will include a 2050 target equivalent to neutrality for CO_2, which is the relevant gas for industrial allocation.

On the assumption that the mix of products for EITE activities stays the same as now, a phase-down at the base rate would reduce the total amount allocated in 2025 and 2030 as shown in the table below.

Allocation in year (percent reduction compared to no phase-down):

Phase-down rate:	0.01	0.02	0.03
2025	5.8%	11.5%	17.2%
2030	11.5%	23.0%	34.5%

The graph below shows a straight-line track to zero net emissions in 2050, along with potential base rates of phase-down for allocation. A phase-down of 0.03 (labelled as 3% in the graph) is consistent with a straight-line track to a point in 2050 at which industry will take responsibility for 100% of its emissions. A lower phase-down rate for 2021–30 can also be consistent with reaching this goal, if it is recognised that additional reductions will be needed in 2030–50. For example, if all allocations were phased down at 0.01 up to 2030, a phase-down at 0.04 from 2031 would reduce all allocations to zero by 2050.



New Zealand's NDC

New Zealand has a provisional NDC budget of 601 Mt CO2-e. Under the status-quo, the forecast volume of industrial allocation in this budget is 143.2 Mt CO2-e. Phasing down allocation will reduce this volume.

New Zealand's NDC and industrial allocation volumes:

NDC budget	Forecast industrial allocation volume under current settings (Mt CO2-e)	Forecast industrial allocation volume under a 0.01 phase-down (Mt CO2-e)	Forecast industrial allocation volume under a 0.02 phase-down (Mt CO2-e)	Forecast industrial allocation volume under a 0.03 phase-down (Mt CO2-e)
601	143.2	134	124.9	115.7

The volume of industrial allocation decreases in proportion to the phase-down rate. This also increases the size of the remaining unallocated volume of the NDC (volume that is not taken up by either industrial allocation or agricultural emissions outside the NZ ETS).

Unallocated volumes of New Zealand's NDC under different industrial allocation rates

Unallocated volume of the NDC under current industrial allocation settings (Mt CO2-e)	Unallocated volume of the NDC under a 0.01 phase-down of industrial allocation (Mt CO2-e)	Unallocated volume of the NDC under a 0.02 phase-down of industrial allocation (Mt CO2-e)	Unallocated volume of the NDC under a 0.03 phase-down of industrial allocation (Mt CO2-e)
44.1	53.4	62.5	71.7

A higher phase-down rate increases the portion of the NDC that is unallocated. The Government will be able to draw from this volume for auctioning.

These projections, however, are uncertain and may be over-estimates, i.e. allocation volumes may be lower in reality for all settings. It is likely that methanol production will come down over time due to the availability of natural gas in the Taranaki region, and that the emission intensity of electricity production will also come down. These changes would reduce the demand for allocation.

Emission leakage – assessing cost versus revenue

The base rate will apply equally to all activities. To apply a least-regrets approach and meet the objective of minimising any risk of emission leakage, the base rate should be assessed against the risk of leakage for the most emission-intensive activities in New Zealand. Clearly, if we mitigate the risk for the most emission-intensive activities, there will be no significant risk for others.

The net cost of the NZ ETS – the gross cost, less the value of allocation – is the cost that would drive any risk of leakage. If the net cost becomes so high that it makes an otherwise commercially viable activity unprofitable, leakage will be a likely outcome.

The table below shows estimated net costs, as a proportion of the revenue earned from the product of the activity, for several of the most highly emission-intensive activities. An emission unit price of $25 is assumed. Aluminium smelting is not included in the table, because its allocations are set by a unique methodology and may vary from year to year.

Eligible activity		% decrease in annual revenue for eligible activities					
	No phase-down	**0.01 phase-down rate**		**0.02 phase-down rate**		**0.03 phase-down rate**	
	2020	2025	2030	2025	2030	2025	2030
Cement	s 9(2)(b)(ii)						
Methanol	s 9(2)(b)(ii)						
Urea	s 9(2)(b)(ii)						
Iron and steel	s 9(2)(b)(ii)						
Burnt lime	s 9(2)(b)(ii)						

The most emission-intensive single activity that receives an allocation is the production of burnt lime. The additional percentage decrease in its revenue is shown below, in comparison to the current situation with no phase-down:

0.01 phase-down rate		**0.02 phase-down rate**		**0.03 phase-down rate**	
2025	2030	2025	2030	2025	2030
s 9(2)(b)(ii)					

The profitability of burnt lime production is not publicly available information. However, it is clear that a phase-down at 0.02 or 0.03 would be sufficiently material that the potential exists for the NZ ETS to have a substantial impact on its viability by 2030. The cost impact of a 0.01 phase-down on burnt lime would be small enough to be managed by firms undertaking this activity.

The table below shows estimated net costs, on the same basis as above, for two moderately emission-intensive activities. The impact of any across-the-board phase-down on such activities will be relatively small and would not materially affect their viability. This demonstrates that there is a range of cost impacts from phasing down industrial allocation for different activities with different emissions intensity.

Eligible activity		% decrease in annual revenue for eligible activities					
	No phase-down	**0.01 phase-down rate**		**0.02 phase-down rate**		**0.03 phase-down rate**	
Wood panels	0.9	1.0	1.1	1.1	1.3	1.2	1.5
Lactose	0.8	0.9	1.0	1.0	1.2	1.1	1.4

The figures used in these tables come from information used for assessing activities when they were made eligible for allocation, including emissions and production data for the financial years 2006/07, 07/08, and 08/09. This information will be, on average, 18 years old at the end of 2025 and 23 years old at the end of 2030. The companies carrying out these activities have had that much time to reduce their emissions and position themselves to manage NZ ETS costs.

Some of them have made progress in emission reduction since 2007 – an example is cement, which uses more alternative fuels today than in 2009. On the other hand, others (such as steel, aluminium and methanol) could find this difficult because they have very long investment horizons, and/or chemical process emissions that cannot be reduced without changing the product.

Profitability varies from time to time and between activities. Achieving a viable commercial return would suggest a gross return, expressed as earnings before interest and taxation (EBIT) of about 10% or more of the revenue generated from sale of the product. EBIT figures are available for those companies that report their results publicly, and have a separate business unit for production of the relevant traded product, separate from any unrelated activities. These vary widely, with losses made in some years but returns of well over 10% of revenue in a more typical year and some returns over 20%.

Over-allocation

Allocations are based on emissions data for the financial years 2006/07, 07/08, and 08/09. This means that by the end of 2025 the data will be 18 years old, on average. Over this length of time, even a very slow rate of progress in reducing emission intensity would mean that over-allocation will occur. We can therefore be generally confident in assuming that over-allocation would occur for some activities by the end of the 2020s under current levels of industrial allocation.

Decision 4: nature of CCC advice and factors to be included in decisions

A legislated process for making future decisions on phasing down allocations for specific activities will need to provide for better information and analysis to inform those decisions over time, with an emphasis on the risk of leakage and consequently on the economics of trade in their products. It will also need to help the NZ ETS to work within New Zealand's emission budgets and Paris Agreement

commitments, and be implemented in the context of broader decision-making processes being established under the CCB.

Emission leakage – more comprehensive analysis

The simple accounting described in Decision 3 above only tells us when costs will be high enough to create conditions in which potentially leakage might occur. It does not recognise that product markets will respond to price changes, or that the firms themselves can innovate and adapt. A more comprehensive economic analysis could indicate the presence – or absence – of any risk of emission leakage more accurately.

The prices of many EITE products are set internationally, limiting the ability of firms to raise their prices for exports or in the domestic market. However, it is not a given that all EITE businesses are simply price takers. They may have significant ability to pass on cost increases to consumers. Pass-through is more likely for the domestic market, but may also occur internationally if a New Zealand producer has significant market share.

Emission pricing and other climate-change mitigation policies that place costs on producers in other countries will reduce the risk of emission leakage over time. Monitoring these policies would be an important input for activity-specific analysis.

New Zealand's commitments and emission pathways

Over the long term, allocations will need to be reduced to assist in meeting New Zealand's emission budgets set under the CCC, as well as international commitments. The process and its outcomes will need to enable a phase-down that meets this requirement, while continuing to manage any risk of emission leakage.

Preferred option

Our preferred option is to establish an activity-specific approach to phasing down industrial allocation, including:

- Establish an ability in legislation for the Minister of Climate Change to make regulations that will set activity-specific phase-down rates from 2026; and
- Task the CCC with assessing the risk of emissions leakage and other relevant factors, as well as advising on rates before such regulations are considered.

Specific phase-down rates would be determined in advance for each five-year CCB budget period, and may apply to any one or more activities that are at lower risk of emission leakage.

The CCC would be tasked with preparing advice on proposed activity-specific rates, and providing the Minister with a report detailing its recommendations. The Government would then implement the phase-down(s) by regulation, in advance for each budget period and with indicative rates for the following budget period. The Minister would be required to table a report on any decisions that differ from the CCC's recommendations.

In making decisions, the Minister would be required to:

- Be satisfied that the overall effect of allocations for an upcoming budget period is consistent with meeting New Zealand's budget for that period
- Consider factors including the following when advising on activity-specific rates:
    - New Zealand's targets and indicative future emission budgets and NDCs
    - The risk of emissions leakage on an activity-specific basis, including:

        - Emission pricing and other climate policies in competing jurisdiction, their cost, any assistance such as allocation, and its phase-out
        - The markets for products traded internationally
        - Any ability of EITE participants carrying out eligible activities in New Zealand to pass on increased costs to customers
    - Any risk of over-allocation
    - Other sources of supply into the NZ ETS, including international units
    - The availability of low-emission technologies related to each activity
    - New Zealand's relevant international obligations

This whole process will have to have timeframes that allow enough time for consultation and making regulations prior to the start of the budget period. It will be important to make decisions as early as possible to provide certainty for EITE participants who receive an allocation. This will mean that the CCC makes its recommendations at least a year before the start of each budget period.

The CCC would consult on activity-specific phase-down rates before making its recommendations. The Minister for Climate Change would consult with affected parties on any decisions that are not in line with the Commission's recommendations or not covered by consultation carried out by the CCC.

Activity-specific phase-downs may be revisited under exceptional circumstances, but only if this is recommended in advice from the CCC. These circumstances would be:

- The relevant budget has been revised, so that decisions made on the basis of the expected budget amount should be revisited; and
- The factors that the Minister had regard to have changed and need urgent reconsideration, for example if there is a substantial and imminent risk of emission leakage or over-allocation.

Possible inclusion of a test

We have not included the 70 per cent of competitors test, or any single bright line test, as a mandatory part of these assessments. A simple test is inconsistent with criteria 2 and 3 as it would encumber the Government and CCC, and potentially prevent a phase-down necessary to ensure a level of assistance that aligns the NZ ETS with New Zealand's emissions budgets, as well as prevent the over-allocation of units.

In addition, a test would risk being too prescriptive and so failing to indicate the risk of leakage. It is simplistic to assume that the percent coverage of competitors is necessarily the best indicator of risk. Rather than mandate such a test, we prefer to allow the CCC the freedom to estimate risk using the best economic measure(s) that it can identify at the time.

Section 5: Conclusions

5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

We recommend that the Government should phase down industrial allocation beginning in 2021.

Our preferred approach to industrial allocation includes:

- An upfront decision to phase down industrial allocation beginning in 2021;
- A base phase-down rate set in the CCRA at 0.01 at least up to 2030;
- An ability in CCRA for the Minister of Climate Change to set activity-specific phase-down rates from 2026, based on the advice and recommendations of the CCC; and
- A five-year cycle of consultation, analysis, and decision-making that will result in activity-specific changes to allocation covering each five-year budget period under the ZCB.

We assess that this approach balances the objectives of meeting emissions reduction targets and reducing over-allocation, with minimising the risk of emissions leakage. A base rate of 0.01 provides a sufficient reduction to meet our targets, while posing little risk to New Zealand's most emissions-intensive activity: burnt lime. This option also realises a sufficient phase-down of industrial allocation to prevent over-allocation. Rates higher than 0.01 will not be needed to either meet our targets or manage the risk of over-allocation. They could, however, create an unacceptable risk of emissions leakage for New Zealand's most emissions-intensive activities. The activity-specific rates will provide additional reductions in levels of industrial allocation (which will help reduce target risk), but in a manner that manages the risk of emissions leakage.

The risk of emission leakage can never be assessed with complete accuracy as it depends on some intractable unknowns: adaptability, technology change, decision-making by firms, ability to pass costs on to customers etc. However, we are confident that the approach to industrial allocation outlined in this RIA – including a 0.01 base rate – will mitigate the risk of emissions leakage, whether that risk is significant or not.

Key EITE stakeholders may disagree with our preferred approach to phasing-down industrial allocation. They have strongly supported the introduction of a test (the 70 per cent of competitors test) that would trigger or set future industrial allocation phase-downs. They see this as a necessary option to manage the risk of emissions leakage from reducing levels of assistance.

5.2 Summary table of costs and benefits of the preferred approach

Affected parties *(identify)*	**Comment**: *nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks*	**Impact** *$m present value, for monetised impacts; high, medium or low for non-monetised impacts*	**Evidence certainty** *(High, medium or low)*
Additional costs of proposed approach, compared to taking no action			
Regulated parties	Additional net surrender cost	High	
Regulators	CCC and any minor costs for EPA	Low	
Wider government			
Other parties			
Total Monetised Cost			
Non-monetised costs		*(High, medium or low)*	
Expected benefits of proposed approach, compared to taking no action			
Regulated parties			
Regulators			
Wider government	Value of additional net surrenders	High	
Other parties			
Total Monetised Benefit			
Non-monetised benefits		*(High, medium or low)*	

5.3 What other impacts is this approach likely to have?

None.

5.4 Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?

The preferred option is compatible with the Government's 'Expectations for the design of regulatory systems'.

Section 6: Implementation and operation

6.1 How will the new arrangements work in practice?

The preferred options do not change the way industrial allocation will be implemented. The proposals initiate a phase-down and prescribe new rates, but do not fundamentally alter the way NZUs are allocated by the Government to EITE participants in the NZ ETS.

There will be ongoing work done by the CCC on activity-specific rates. However, this also will not change the implementation of industrial allocation.

6.2 What are the implementation risks?

We assess that there will be no implementation risks from these proposals.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

The CCC will provide ongoing and detailed assessments of the risk of emissions leakage. A five-year cycle of consultation, analysis, and decision-making will occur that will result in activity-specific changes to allocation covering each five-year budget period under the CCB.

7.2 When and how will the new arrangements be reviewed?

The CCRA contains provision for statutory reviews of the ETS as a whole. The most appropriate setting for a review of the policy around allocation is a broader review of the ETS.

Under our preferred approach, stakeholders will be consulted before activity-specific rates are set. This will occur every five years prior to the start of each new CCB budget period.