



Cabinet Economic Growth and Infrastructure Committee

EGI Min (10) 14/9

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Minute of Decision

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Industrial Allocation Under the New Zealand Emissions Trading Scheme: Group One Activities

Portfolio: Climate Change Issues

On 23 June 2010, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** that on 14 September 2009, Cabinet agreed to the major design parameters for industrial allocation under the New Zealand Emissions Trading Scheme [CAB Min (09) 33/9];
- 2 **agreed** that regulations be made, under section 161A of the Climate Change Response Act 2002, prescribing the following activities as eligible industrial activities:
 - 2.1 production of burnt lime;
 - 2.2 production of carbamide (urea);
 - 2.3 production of cartonboard;
 - 2.4 production of chlorine gas and sodium hydroxide (caustic soda) solution;
 - 2.5 production of high purity ethanol;
 - 2.6 production of hydrogen peroxide;
 - 2.7 production of market pulp;
 - 2.8 production of methanol;
 - 2.9 production of newsprint;
 - 2.10 production of packaging and industrial paper;
 - 2.11 production of tissue paper;
- 3 **approved** the activity descriptions, prescribed products, emissions intensity classifications, and allocative baselines for each of the activities set out above, as set out in Appendices 1 and 3 of the paper under EGI (10) 122;

- 4 **approved** the electricity allocation factor of 1 tCO₂-e/MWh for the purposes of determining eligibility;
- 5 5.1 **approved** the electricity allocation factor of 0.52 tCO₂-e/MWh for the purposes of determining allocative baselines;
- 5.2 **noted** that this electricity allocation factor was proposed in 2008 by the Stationary Energy and Industrial Processes Technical Advisory Group for use until the end of 2012, and that it will need to be periodically updated;
- 6 **approved** the activity description, prescribed product, and emissions intensity classification for aluminium smelting, as set out in the paper under EGI (10) 122;
- 7 **approved** the allocative baseline of 9.687 tCO₂-e/basis of allocation for aluminium smelting not conducted by New Zealand Aluminium Smelters Limited;
- 8 **approved** the following initial allocative baselines for aluminium smelting conducted by New Zealand Aluminium Smelters Limited:
- 8.1 baseline applying to 2010 provisional allocation: 2.556 tCO₂- e/basis of allocation;
- 8.2 baseline applying to 2010 final allocation: 2.556 tCO₂-e/basis of allocation;
- 8.3 baseline applying to 2011 provisional allocation: 2.556 tCO₂-e/basis of allocation;
- 9 **noted** that the Minister for Climate Change Issues intends to seek Cabinet's agreement to an approach for making mechanical annual updates to allocative baselines for New Zealand Aluminium Smelters Limited to reflect the operation of their electricity contracts;
- 10 **noted** that:
- 10.1 the initial per annum fiscal cost of industrial allocation for Group One activities (excluding aluminium) is estimated at \$36 million (for a full year of production);
- 10.2 the overall fiscal cost will depend on eligibility and rates of assistance for further activities that are also being assessed;
- 11 **noted** that:
- 11.1 it is estimated that the overall fiscal cost of industrial allocation will be slightly less than previously estimated;
- 11.2 the precise cost is uncertain, due to its dependence on production volumes for each activity, and the need to annually calculate the allocative baseline for New Zealand Aluminium Smelters to reflect electricity supply arrangements;
- 12 **noted** that changes to the timing of appropriations may need to be made, and that proposals on this matter will be submitted to Cabinet at a later date;
- 13 **noted** that the fiscal cost of allocation for aluminium over the 1 July 2010 to 31 December 2010 period is estimated at [Deleted] (for six months of production);

Next steps

- 14 **invited** the Minister for Climate Change Issues to issue drafting instructions to the Parliamentary Counsel Office to draft regulations to give effect to the above paragraphs;
- 15 **invited** the Minister for Climate Change Issues to present a further paper to the Cabinet Legislation Committee as soon as practicable seeking approval of the regulations prescribing eligible industrial activities under the Climate Change Response Act 2002;
- 16 **noted** that the Minister for Climate Change Issues intends to proactively release the paper under EGI (10) 122, subject to the deletion of any sensitive information consistent with the provisions of the Official Information Act 1982;
- 17 **authorised** the Minister for Climate Change Issues to directly notify firms carrying out eligible industrial activities of their entitlement to apply for industrial allocation, and to undertake any other necessary publicity for this purpose;
- 18 **invited** the Minister for Climate Change Issues to present further papers to EGI seeking agreement to providing industrial allocation to further activities that satisfy emissions intensity and trade exposure tests under the Climate Change Response Act 2002.