



Cabinet Environment, Energy and Climate Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

New Zealand Emissions Trading Scheme: A Review of Industrial Allocation

Portfolio **Climate Change**

On 14 November 2019, the Cabinet Environment, Energy and Climate Committee (ENV):

- 1 **noted** that industrial allocation is provided in the New Zealand Emissions Trading Scheme (NZ ETS) to protect the competitiveness of emissions intensive and trade exposed firms (EITE) firms, and minimise the risk of emissions leakage;
- 2 **noted** that the Climate Change Response Act 2002 (the CCRA) requires that allocative baselines are based on the emissions intensities of eligible activities from the financial years 2006/2007, 2007/2008 and 2008/2009;
- 3 **noted** that it is likely that the emissions intensities of some eligible activities have improved since allocative baselines were set in 2010;
- 4 **noted** that the risk that some EITE firms are likely to be receiving allocations that are greater than what is required to protect their competitiveness and minimise the risk of emissions leakage;
- 5 **noted** that the electricity allocation factor (EAF), a component of some allocative baselines, is an estimate of the pass-through cost of the NZ ETS on electricity prices;
- 6 **noted** that two recent reviews of the EAF indicate that its current value is no longer accurate;
- 7 **noted** that the EAF needs to be urgently reviewed as it is out-of-date and likely over-allocates some participants for their electricity use;
- 8 **noted** that over-allocation caused by the EAF presents a significant and ongoing fiscal risk to the Crown;
- 9 **agreed** to the release of the consultation document *Issues Paper on Modelling the Electricity Allocation Factor*, attached to the paper under ENV-19-SUB-0062 (the consultation document), for public consultation for a period of five weeks from 20 November to 20 December 2019;
- 10 **authorised** the Minister for Climate Change to make minor technical and editorial changes to the consultation document prior to its public release;

- 11 **invited** the Minister for Climate Change to report back to ENV in March 2020 following consultation and stakeholder workshops, on a preferred revised EAF value;
- 12 **noted** that an updated EAF will be in place by 2021 following consultation, policy decisions, and legislative drafting;
- 13 **invited** the Minister for Climate Change, in consultation with the Minister of Energy and Resources and the Minister for the Environment, to report back to ENV on the current and projected effect of carbon pricing on electricity prices that underlie the free allocation for electricity intensive industries;
- 14 **noted** that the Minister for Climate Change will consider options for realigning industrial allocation outcomes with policy objectives over 2020.

Vivien Meek
Committee Secretary

Present:

Hon Dr Megan Woods
Hon David Parker (Chair)
Hon Nanaia Mahuta
Hon Stuart Nash
Hon Shane Jones
Hon James Shaw
Hon Eugenie Sage

Officials present from:

Officials Committee for ENV

Hard-copy distribution:

Minister for Climate Change

Proactively released